

**For discussion on
19 May 2015**

Legislative Council Panel on Commerce and Industry

Progress of the Working Group on Intellectual Property Trading

Purpose

This paper reports the latest progress of the Working Group on Intellectual Property (IP) Trading (Working Group).

Background

2. At the Panel Meeting on 20 May 2014, Members were briefed on the work progress of the Working Group, notably the promulgation of a strategic framework (Framework) in November 2013 as a basis for exploring specific policies and support measures to promote the development of IP trading in Hong Kong.

A 3. The Working Group completed its work and released a report (**Annex A**) in late March 2015 with 28 recommended measures (a summary at Chapter 10 of Annex A). The Government has accepted the recommended measures. Our vision is to position and promote Hong Kong as the premier IP trading hub in Asia.

Recommended Measures

4. The 28 recommended measures fall under four strategic areas of the Framework (Chapter 3 of Annex A), namely (I) enhancing the IP protection regime; (II) supporting IP creation and exploitation; (III) fostering IP intermediary services and manpower capacity; and (IV) pursuing promotion, education and external collaboration efforts. The ensuing paragraphs set out notable progress for Members' reference.

Strategic Area (I): Enhancing the IP protection regime

Build an “Original Grant” patent (OGP) system

5. We are implementing an OGP system, and are drawing up the requisite amendments to the Patents Ordinance to provide for the legal framework. As reported to this Panel on 21 April 2015, we intend to introduce an amendment Bill into the Legislative Council (LegCo) in the current legislative session. Subject to the progress of the legislative exercise and other implementation work, we aim at launching the OGP system in 2016-17 at the earliest.

Review and update the copyright law regularly to ensure that it keeps pace with technological and international developments

6. The Government introduced the Copyright (Amendment) Bill 2014 into LegCo in June 2014, which is being scrutinised by a Bills Committee. We will continue to work closely with LegCo and stakeholders to press for early passage of the Bill. At the same time, we are aware of many new copyright issues emerging and are considering a new round of review as soon as possible after the passage of the Bill.

Pursue the proposed application of the Madrid Protocol to Hong Kong taking into account the consultation outcome

7. We launched a consultation exercise in November 2014 on the proposed application of the Madrid Protocol to Hong Kong¹, which ended in February 2015. We shall brief this Panel on the outcome of the consultation to this Panel on 19 May 2015. We are considering the way forward having regard to the views received.

¹ The Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol) is an international arrangement which seeks to facilitate the registration and management of trade marks in different jurisdictions by simplifying the process of seeking trade mark protection. Application of the Madrid Protocol may bring benefits to Hong Kong, including enabling a more efficient trade mark registration and management system so that trade mark owners can enjoy the convenience of one-stop service in seeking trade mark protection in multiple countries and manage their trade mark portfolio in different designated contracting parties, enhancing our competitiveness as a place for setting up and doing business.

Strategic Area (II): Supporting IP creation and exploitation

Launch an IP Consultation Service Scheme to provide free initial IP consultation services to small and medium-sized enterprises (SMEs)

8. The Intellectual Property Department (IPD), in collaboration with the IP Committee of the Law Society of Hong Kong (Law Society), launched a six-month pilot scheme to provide free initial IP consultation services to SMEs in December 2014. IPD and the Law Society will review the scheme taking into account the experience gained during the pilot period, and consider the feasibility of formally launching the service.

9. The Hong Kong Trade Development Council (HKTDC) has also broadened the scope of its existing advisory services at its SME Centre to dedicatedly cover IP related issues for helping Hong Kong companies make better use of their IP. HKTDC will work with IP experts and industry associations to provide free basic consultation service on IP business, covering a wide spectrum of areas such as IP rights (IPRs) protection, trading, licensing, franchising and marketing.

Keep under review the Government's support for research and development (R&D) activities as well as technology transfer, application and commercialisation of R&D outcomes and seek enhancement where appropriate

10. With the support of this Panel, the Innovation and Technology Commission (ITC) has launched new improvement measures to the Innovation and Technology Fund (ITF) since 2014 to better promote private sector R&D and realisation and commercialisation of R&D results, including the new Enterprise Support Scheme which was launched on 28 April 2015. With the additional \$5 billion of injection into the ITF approved by the Finance Committee of LegCo on 27 February 2015, ITC will continue to make good use of these resources to provide sustained and comprehensive support for the development of innovation and technology in Hong Kong.

Sustain Government's support for the creative industries through various dedicated agencies and engagement in licensing and franchising arrangements

11. As the dedicated Government agency to drive the development of the creative economy in Hong Kong, Create Hong Kong will continue to provide financial support to the creative industries through the CreateSmart

Initiative (CSI) and the Film Development Fund (FDF). It was proposed in the 2015-16 Budget to inject an additional \$400 million to the CSI to support different sectors of the creative industries². It was also proposed to inject \$200 million into the FDF to enhance its funding arrangements, and introduce a subsidy scheme for film productions to boost the volume of local film production and nurture film talents³.

12. HKTDC will continue to hold the annual Hong Kong International Licensing Show and the Asian Licensing Conference which have been well received, set up Business of IP Zones in its various trade fairs such as the HKTDC Hong Kong International Film & TV Market, Fashion Week of Spring/Summer and Fall/Winter, and etc. To help Hong Kong's new start-ups seize the franchising business opportunities, the "Franchising Hall" at the annual World SME Expo will also be further developed and marketed as a standalone event.

Consider tax incentives for IP trading

13. Tax incentives may encourage the industrial and R&D sectors, creative industries and IP users to engage in IP trading activities in order to meet their strategic needs of upgrading and moving up the value chain. In response to the Working Group's recommendations, the Government will, among other things, consider extending the scope of tax deduction for capital expenditure incurred on the purchase of IPRs to cover more types of IPRs under the Inland Revenue Ordinance.

Strategic Area (III) – Fostering IP intermediary services and manpower capacity

Enhance and promote the use of the Asia IP Exchange (AsiaIPEX) launched by HKTDC

14. As of March 2015, AsiaIPEX (www.asiaipex.com) has registered over 12 000 users, formed alliances with 28 strategic partners local and overseas, and covered over 25 000 entries of tradable IPRs. HKTDC will continue to launch regular e-newsletters, advertisements and outdoor publicity promotion for sustaining the awareness and a steady growth of registered users. A campaign will also be organised to encourage users to

² See paragraph 53 of the 2015-16 Budget Speech.

³ See paragraph 57 of the 2015-16 Budget Speech.

submit success stories and share their experience in using AsiaIPEX, with a view to promoting more frequent usage of the online platform.

Launch an IP Manager Scheme (“Scheme”) to support SMEs to build up their manpower capacity

15. IPD ran a pilot IP management training programme in early 2015 to ascertain the need of such training for businesses, in particular SMEs, in Hong Kong. Taking participants’ feedback into account, IPD has firmed up details of the formal implementation of the Scheme. Major trade associations and SME associations, the Hong Kong Science Park and Cyberport have joined as partnering associations. The official Scheme will be launched on 21 May 2015 and training courses are scheduled for June and December 2015.

Consider sponsoring and promoting training courses to facilitate the development of IP related services among professionals and nurture talents

16. IPD is liaising with relevant professional bodies in organising or sponsoring training courses on IP related subjects in order to build up the manpower capacity and also nurture talents in support of IP trading activities in Hong Kong.

Complete the first Survey on IP trading activities (Survey) in 2015, and review the results for the purpose of refining future surveys and exploring the feasibility of launching a dedicated survey on the manpower situation of the IP trading industry

17. IPD commissioned a consultant to conduct the Survey in June 2014 with a view to collecting more information on the IP trading activities conducted in Hong Kong. Preliminary findings of the Survey are set out in **Annex B**. Our target is to finalise the report on the Survey and release it to the public in June 2015. We have also looked into overseas experiences. It appears that similar studies overseas might entail a different scope of methodology and direct comparison with Hong Kong might not be appropriate.

18. With the experience of this inaugural survey, IPD plans to consider improvements for launching another round in 2016-17, and explore the feasibility of conducting a dedicated manpower survey to take stock of the IP manpower situation and the needs of Hong Kong’s IP intermediary services sector.

Support the development of “IP valuation reporting standards” for first-mover use in Hong Kong

19. The Hong Kong Business Valuation Forum (HKBVF)⁴ released on 23 March 2015 a pioneering Statement of Standard on the reporting of IP valuation for its Registered Business Valuers (RBVs)⁵ to follow, in support of the Government’s efforts to promote IP trading. IP professionals might also make use of the tool to facilitate IP commercialisation. The reporting standards are available at HKBVF’s official webpage, as well as the “Hong Kong - The IP Trading Hub” website launched by IPD (see paragraph 24 below.) We are exploring with HKBVF means to further promulgate the reporting standards and maximise its impact.

Seek collaboration with professional bodies to compile an IP due diligence checklist

20. IPD is working with the Law Society to compile and publish a checklist containing basic practical guidelines on two areas, namely “IP audit” (management for day-to-day business) and “IP due diligence” (due diligence for IP transactions), which is expected to be made available in 2015.

Promote the development of IP arbitration and mediation in Hong Kong and related issues

21. The Department of Justice (DoJ) is working to develop and promote Hong Kong as an international legal and dispute resolution services centre. IPD will work closely with DoJ to feature IP as a specialised area in alternative dispute resolution, notably arbitration and mediation.

22. The consultancy study on the development of arbitration in Hong Kong commissioned by DoJ is underway, and one area of examination is IP arbitration. The result of the study is expected to be made available in the latter half of 2015.

⁴ HKBVF is an alliance formed in 2005 by three professional institutes, namely the Royal Institution of Chartered Surveyors, the Hong Kong Institute of Surveyors and the Hong Kong Society of Financial Analysts, by way of a Memorandum of Understanding with the aim of addressing the increasing need for business valuation services in Hong Kong. See www.hkbvf.org.

⁵ Members of any one of the three member institutes of the HKBVF who met the specified criteria, including an annual Continuing Professional Development requirement, might apply as RBVs. As of March 2015, there are 139 RBVs, with an average of four to five new applications received every year.

23. IPD will collaborate with DoJ and relevant stakeholders in organising an IP mediation workshop on 23 May 2015 to promote the wider use of mediation in resolving IP disputes.

Strategic Area (IV) – Pursuing promotion, education and external collaboration efforts

Launch a dedicated website “Hong Kong – The IP Trading Hub”

24. IPD launched the dedicated website “Hong Kong – The IP Trading Hub” (www.ip.gov.hk) on 24 March 2015, which provides a one-stop shop for disseminating information relating to Hong Kong as an IP trading hub for different target audience such as SMEs, IP professionals and intermediaries, overseas and Mainland Chinese companies interested in conducting IP trading in Hong Kong, general public and the international community.

Continue to co-organise the Business of Intellectual Property (BIP) Asia Forum

25. The 2014 edition of the BIP Asia Forum featured over 80 internationally renowned speakers, and attracted more than 2 000 IP professionals and industry players from 36 countries and regions to participate, which has almost tripled the attendee number of the inaugural year in 2011. Building on past success, the Government will continue to co-organise this year’s event with HKTDC and the Hong Kong Design Centre. We will make use of the event to boost Hong Kong’s image as an IP hub in the region.

Way Forward

26. The Government is working in full swing with public sector and professional bodies, industry players and other stakeholders to implement the recommended measures⁶. We will leave no stones unturned as we support enterprises to make the most of IP as a core business asset, help build industry clusters in IP to leverage Hong Kong’ advantages, and develop a knowledge-based economy through IP creation, protection, exploitation, management and trading.

⁶ As announced in the 2015-16 Budget, we have set aside \$23 million in the coming three years to support new commitments.

Advice Sought

27. Members are invited to note the progress and give views.

Commerce and Economic Development Bureau
Commerce, Industry and Tourism Branch
May 2015

Report of the Working Group on **Intellectual Property Trading**



Foreword by the Chairman	1
Foreword by the Vice-Chairman	2
1 Introduction	3
Background	3
Promotion of Hong Kong as an IP trading hub	3
Deliberations of the Working Group	5
2 IP trading – the world trend and position of Hong Kong	7
International developments and world trend	7
Hong Kong’s situation	8
Our advantages	10
Potential benefits of IP trading	12
3 The Strategic Framework	14
Vision	14
Mission	14
Strategic areas and focus strategies	14
Focus strategies	15
4 Strategic Area (I): Enhancing the IP protection regime	17
Focus strategies	17
Develop an OGP system in Hong Kong	17
Enhance other components of our IP regime	19
5 Strategic Area (II): Supporting IP creation and exploitation	24
Focus strategies	24
Support industries through creation, acquisition and management of IP	24
Support R&D, technology transfer, and acquisition and commercialisation of IP	26
Support creative industries in engaging in licensing and franchising arrangements	27
Possible tax initiatives in support of Strategic Area (II)	31

Table of Contents

6	Strategic Area (III): Fostering IP intermediary services and manpower capacity - IP matching services and building up manpower capacity	35
	Focus strategies	35
	IP matching services	35
	IP Manager Scheme	36
	Sponsor and promote training courses	38
	Developing a regulatory regime for patent practitioners	38
	Survey on IP trading activities	40
7	Strategic Area (III): Fostering IP intermediary services and manpower capacity - valuation, due diligence, financing and insurance	42
	Focus strategies	42
	What is IP valuation	42
	Application of IP valuation	42
	Methodologies for valuing IP	44
	International development	44
	Ideas for Hong Kong	45
	IP due diligence	47
	IP financing and insurance	48
8	Strategic Area (III): Fostering IP intermediary services and manpower capacity – IP arbitration and mediation	51
	Focus strategies	51
	Alternative Dispute Resolution in Hong Kong	51
	ADR in IP trading	52
	Major issues explored	53

9	Strategic Area (IV): Pursuing promotion, education and external collaboration efforts	58
	Focus strategies	58
	Brand Hong Kong	58
	IP awareness	60
	IPRs education in schools	61
	External collaboration	63
10	Summary of Recommendations	66
Annexes		
I	Membership list of the Working Group on IP Trading	71
II	List of organisations engaged to discuss IP valuation and related matters	76
III	List of organisations engaged to discuss IP arbitration and mediation	77
	List of Abbreviations	78

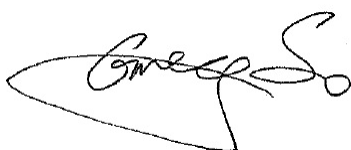
FOREWORD

In a knowledge-based economy, ideas and innovations are the driving forces moving the world forward faster than ever before. Intellectual property (IP), being the fruits of ideas and innovations, is changing the rules of competition and survival of today's commercial world. Businesses worldwide are proactively trading intangible knowledge across economies to drive growth, and this trend is dramatically shifting towards Asia and particularly China.

Hong Kong has a distinguished history of being the "super-connector" between Mainland China and the rest of the world. With our sound financial and legal systems, a low-tax regime and world-class service industries, Hong Kong is well poised to embrace the immense business opportunities brought about by IP. The Government is committed to developing Hong Kong into a premier IP trading hub, just as we have gone a long way flourishing in trade in goods and trade in services.

The recommendations in this Report are a series of comprehensive and inter-related action plans, which would serve as a blueprint to bring our offerings in the IP realm to a new height, our vision to fruition. I would like to thank the Vice-Chairman and Members of the Working Group for their professional knowledge, insightful advice and dedication over the last two years. Their sterling efforts are testimony to what drives the success of Hong Kong.

Hong Kong will embrace the countless opportunities and new possibilities brought by the IP age. We will spare no efforts in empowering businesses, intermediaries, and society as a whole, to reap the full benefits. Let us all work together in this "game-changer" to stay ahead of the competitive curve.

A handwritten signature in black ink, appearing to read 'Gregory SO', enclosed within a large, stylized, handwritten loop that forms a signature mark.

Gregory SO, GBS, JP

Secretary for Commerce and Economic Development
Chairman of the Working Group on IP Trading

FOREWORD

With the growing importance of IP and its commercialisation, Hong Kong as an international trading and financial centre with all its attendant strengths has unique and un-rivalled edges to develop into a premier IP trading hub in the region. Enterprises around the world would be attracted here to transact their IP business; specialised professional services would cluster and flourish in support.

The setting up of the Working Group on IP Trading in 2013 by the Government to examine the overall strategy for propelling Hong Kong's development on the IP front is a timely and strategic move. I am pleased to have served as Vice-Chairman, and worked with experts and stakeholders from various sectors in furthering this important mission.

As a practitioner in professional services for long, one thing close to my heart is the development of intermediary services that would lower business risks and facilitate commercial transactions. Hong Kong's established position in international trade and finance today owes much to its premier service industries underpinned by a deep pool of talents, in such areas as finance, accounting, human resource management, business management, legal and dispute resolution service.

As IP trading takes off, the evolving ecosystem would need new intermediary clusters with equal sophistication. In this regard, we are pleased to have formed two sub-groups to undertake in-depth study and make recommendations on the highly specialised subjects of IP valuation and due diligence, and IP arbitration and mediation respectively.

This Report has laid down the blueprint for forging ahead the development of IP trading in Hong Kong. With the wisdom and concerted efforts of the Government, stakeholders and IP players, I am confident that Hong Kong can meet the challenges ahead and seize the day in a knowledge economy.



The Hon Andrew LIAO Cheung-sing, GBS, SC, JP
Vice-Chairman of the Working Group on IP Trading

Background

1.1 Intellectual Property (IP) trading generally refers to transactions involving IP rights (IPRs), such as patents, copyright, industrial designs, trade marks, integrated circuit layout-designs, trade secrets and even plant varieties. In this connection, IP trading may take different forms, such as sales and acquisitions, licensing, franchising, etc¹.

1.2 IP trading may simply take place directly between IP owners and IP users. But it may involve a variety of supporting services that IP

intermediaries can provide. A sophisticated version may involve a network model which involves many-to-many relationships, as illustrated in Figure 1 below.

Promotion of Hong Kong as an IP trading hub

1.3 The trading, holding and management of IPRs in Hong Kong would contribute to the upgrading of our economy, and create jobs in various high end business sectors. It can enhance our local research and development (R&D) capacity and facilitate technology

Figure 1



¹ Examples of IP trading may include the sale and purchase or licensing of:

- a new and inventive energy-saving technology protected by patents in one or more jurisdictions;
- a new furniture design protected in one or more jurisdictions by industrial design registrations;
- an original integrated circuit protected in one or more jurisdictions by layout-designs;
- an original film protected in one or more jurisdictions by copyright; and
- a distinctive trade mark for fashion and accessories which is being protected in one or more jurisdictions by trade mark registrations, as well-known trade marks and/or by goodwill.

transfer, and complement the efforts of Hong Kong to become an innovation and technology hub. Likewise, IP trading will help us drive the development of the creative economy. Hong Kong businesses, including small and medium-sized enterprises (SMEs), will, through IP trading, tap on a great IP pool and grasp the opportunities presented to increase their competitiveness and move up the value chain. IP trading also stimulates demand for high value-added intermediary services, in such areas as IP agencies, IP management and consulting, legal services, dispute resolution such as arbitration and mediation, accounting, valuation, financing and insurance services, boosting the development of these sectors and contributing to the overall growth of the local economy.

1.4 As mentioned by the Chief Executive (CE) in his Policy Address 2013, a Working Group on IP Trading (Working Group) was set up in March 2013 with the following terms of reference:

- (a) advising on the overall strategies to promote the development of Hong Kong as an IP trading hub, and
- (b) identifying possible policy and other support measures to facilitate IP trading in Hong Kong.

1.5 The initiative of promoting IP trading and the progress of the Working Group were also highlighted in the Financial Secretary's Budget Speeches in 2013-14² and 2014-15³.

1.6 The Working Group, led by the Secretary for Commerce and Economic Development (SCED), comprises Government representatives, industry stakeholders and experts from different fields. Its membership list is at Annex I.

² Paragraph 69 of the 2013-14 Budget Speech read,
"Technology and product R&D will stimulate the development of intellectual property trading. Hong Kong has a sound regime for the protection of IP rights, and is well-equipped to develop into a regional IP trading hub. SCED will lead a working group to study the overall strategy for promoting Hong Kong as a hub for IP trading."

³ Paragraph 99 of the 2014-15 Budget Speech read,
"Trade in IP has great development potential. SCED will continue to lead the relevant working group to devise measures to develop Hong Kong as an IP trading hub in the region. The objectives are to provide more financing and trading channels for enterprises, and promote the development of the creative and technology industries."



Deliberations of the Working Group

1.7 The Working Group held a total of seven meetings between April 2013 and November 2014. Various briefing sessions were held to

gauge the views of relevant stakeholders, including a general one hosted by SCED⁴, and specific briefings to the Trade and Industry Advisory Board (TIAB)⁵ and the Small and Medium Enterprises Committee (SMEC)⁶.

⁴ Over 80 representatives from 53 organisations including IP owners and creators; intermediaries and users; relevant professional bodies; trade and industrial organisations (including SMEs); local and overseas chambers of commerce and government departments attended the briefing session held on 18 September 2013.

⁵ TIAB is to advise SCED on matters affecting Hong Kong's trade and industry, other than trade in textiles and garments.

⁶ SMEC is to advise the CE on issues affecting the small and medium enterprises in Hong Kong and to suggest measure to support and facilitate their development and growth.

1.8 The Working Group first focused on devising a strategic framework (Framework) for driving the development of Hong Kong as an IP trading hub. Details of the Framework are set out in Chapter 3. On this basis, the Working Group explored specific policies and support measures to forge ahead.

1.9 Recognising the importance of providing highly specialised IP intermediary services in Hong Kong, two sub-groups were formed under the Working Group to facilitate dedicated discussion on the specialised subjects of IP valuation, and IP arbitration

and mediation respectively⁷, which were two important areas under Strategic Area (III) of the Framework as regards fostering IP intermediary services. The two sub-groups engaged stakeholders (relevant organisations at Annexes II and III respectively) to explore specific issues relevant to their respective fields of study.

1.10 Following the above deliberations, the actions recommended under specific focus strategies are elaborated in Chapters 4 to 9, and summarised in Chapter 10.



⁷ Two Working Group Members, namely Mr Nicholas Brooke and Mr KWONG Chi-keung, served as the respective convenors of the Sub-Group on IP valuation, and Sub-Group on IP arbitration and mediation.

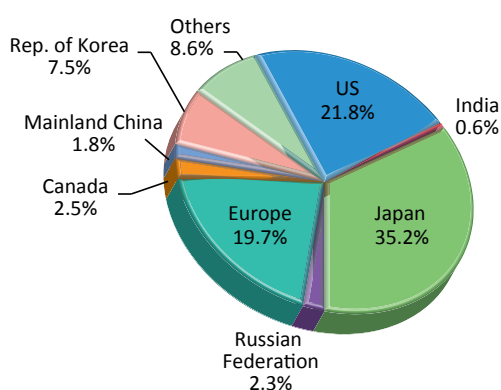
International developments and world trend

2.1 In the globalised economy today, innovation is the driver of economic growth and development. Firms and economies are competing on the strength of open innovation. The innovative process has set a sea of change to the world IP landscape⁸. The first manifestation is the intensified use of the IP system to unprecedented levels over the last two decades. According to the World Intellectual Property Organization (WIPO), world demand for patents has risen from 800 000 applications in the early 1980s to around 2.57 million in 2013. Trade mark applications worldwide jumped from 1 million a year in the mid-1980s to about 4.87 million in 2013⁹.

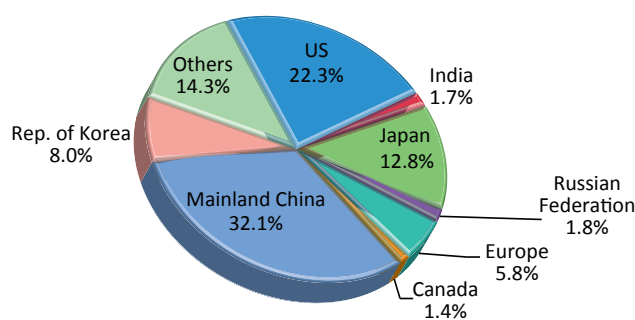
2.2 Another sign is the change in geographic balance in the demands for IPRs. With the trend of the use and creation of IP shifting towards Asia, particularly in view of the rapid development in Mainland China, the related economic growth has created tremendous demand for IP (see Figures 2 and 3 below). According to WIPO, Mainland China overtook the United States in terms of the number of patent applications received in 2011¹⁰. Before then, Mainland China had already topped the league in terms of applications in trade marks and industrial designs¹¹. The leadership position which Mainland China has maintained in these three most prominent types of IPRs is a remarkable reflection on the economic path it has gone down since joining WIPO only in 1980.

Figures 2 & 3 Patent applications shift towards Asian countries

Share of IP offices in world patent applications, in percentage, 1995



Share of IP offices in world patent applications, in percentage, 2013



Source: WIPO IP Statistics Data Center

⁸ See generally "The Changing Face of Innovation", World Intellectual Property Organization's World Intellectual Property Report 2011.

⁹ See WIPO World IP Indicators – 2014 Edition (pp. 12 and 58) at http://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2014.pdf.

¹⁰ In 2013, Mainland China accounted for more than a quarter of the global total in respect of patent filing applications. Ibid (pp. 3).

¹¹ Mainland China also recorded a 14% growth in regard to trade mark filing activity, and accounted for half of global design filing activity in 2013, both of which were atop the world's tally. Ibid.

2.3 A further observation is the increased tradability of IP across borders. Take international royalty and licensing fees as an example. In nominal terms receipts increased from US\$ 2.8 billion in 1970 to some US\$ 242 billion in 2012¹². IP intermediaries such as IP brokerages, auctions, clearinghouses and exchange are emerging to support cross-border IP trading and add value to the transactions (especially exploitation of certain types of IP whose value might have otherwise remained untapped), some taking advantage of novel information and communications technologies and business models for matching IP buyers and sellers and monetising IPRs.

Hong Kong's situation

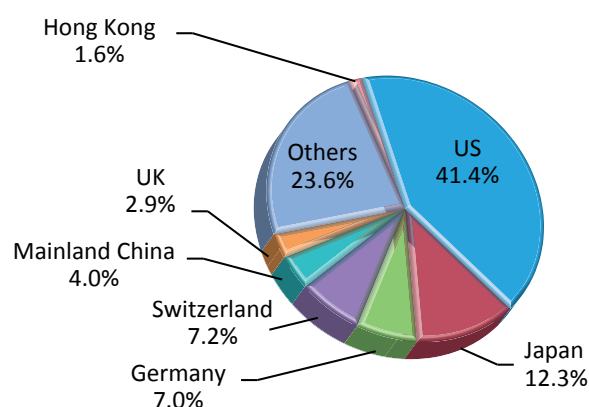
2.4 In Hong Kong, significant IP trading activities driven by the market are already taking place. As a regional platform for technology transfer, Hong Kong exported US\$1.4 billion in technology to Mainland China in 2012. That put Hong Kong the sixth in the world in taking technology to Mainland China¹³.

2.5 In fact, Hong Kong plays an important role in facilitating IP trading across Asia. Recent statistics indicated that Hong Kong ranks among the world's top 25 IP application centres for patents, trade marks and industrial

designs¹⁴. For patent applications in Hong Kong, almost all of them are of overseas origins, with non-resident patent applications accounting for close to 99% of the total in 2013 (see Figure 4). This is far higher than Asia's average of about 21% and the world average of 34% (see Figure 5). While Hong Kong may yet to be a serious contender in terms of high level of patent creation, continuous efforts are made on that front, as demonstrated by the proposed establishment of the "Original Grant" patent (OGP) system (see Chapter 4 for details) and the various initiatives the Government has been undertaking to promote Hong Kong as an innovation and technology hub (see Chapter 5 for details). On this basis, Hong Kong could comfortably position itself as a key trading platform for patents.

Figure 4

Patent applications in Hong Kong (2013) by origin (% share)

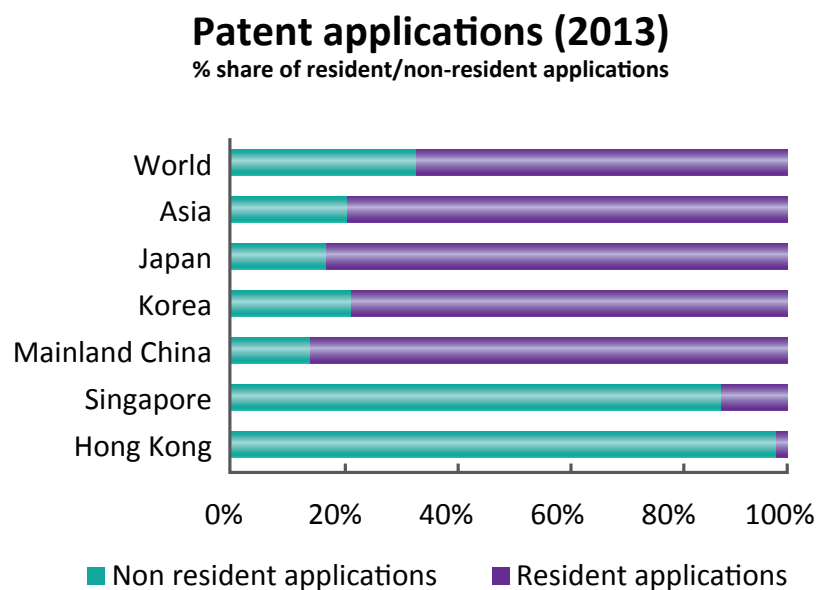


¹² See <http://wdi.worldbank.org/table/5.13>.

¹³ See China Statistical Yearbook on Science and Technology – 2013 (pp. 223 and 224).

¹⁴ See WIPO World IP Indicators – 2014 Edition (pp. 8) at http://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2014.pdf.

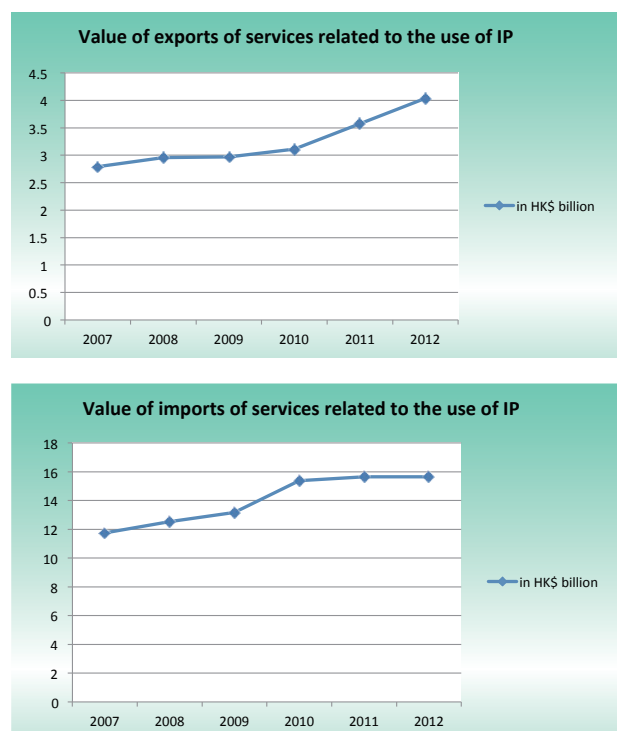
Figure 5



Source: WIPO IP Statistics Data Center

2.6 Hong Kong's IP trading activities appears to be vibrant. Statistics compiled by the Census and Statistics Department (C&SD) indicated that the value of exports of services related to the use of IP¹⁵ grew from about \$2.8 billion in 2007 to around \$4.0 billion in 2012. The average annual growth rate over the period 2007 – 2012 was 8%. The value of imports of services related to the use of IP¹⁶ grew from about \$11.7 billion in 2007 to around \$15.7 billion in 2012. The average annual growth rate over the period 2007 – 2012 was 6% (see Figures 6 and 7).

Figures 6 & 7



Source: Trade in services statistics compiled by C&SD

¹⁵ Include royalty receipts related to the use of patents, trade marks, copyrights and franchises.

¹⁶ Include royalty payments related to the use of patents, trade marks, copyrights and franchises.

2.7 To collect more information on the IP trading activities conducted by IP creators, owners and users in Hong Kong, the Intellectual Property Department (IPD) commissioned a Survey on Intellectual Property Trading (Survey) in June 2014. Details of the Survey are set out in Chapter 6.

2.8 Many companies are already providing various IP intermediary services in Hong Kong. There are also private sector initiatives in setting up a few online IP trading platforms based in Hong Kong to offer trading and matching services.

2.9 Into the 21st century, Hong Kong has set itself to become the pre-eminent innovation and technology hub for the region and been investing in various infrastructure and public funding initiatives to boost applied R&D efforts locally, among other things. Apart from IP creation, commercialisation and exploitation of IP, whether indigenously generated or otherwise, is an important part of the quest. More recently, we have also set out to lead, champion and drive the development of the creative economy in Hong Kong, with various types of institutional and public funding

support for the creative industries. It is important to turn the IP contents created into economic benefits.

Our advantages

2.10 As a metropolis and an international financial centre with Mainland China as the hinterland, Hong Kong casts itself as the business, trading and services hub for Mainland China and the region as a whole, and functions as a springboard for foreign investors seeking to tap the Mainland China market.

2.11 The rise of Mainland China as a major IP creator and consumer has created tremendous opportunities. Amongst the top 20 patent offices worldwide, the State Intellectual Property Office (SIPO) was one of the two offices posting a double-digit growth in 2013¹⁷. With spectacular economic growth in Mainland China's consumer market in recent years, the country's licensed merchandise market was worth about US\$5.5 billion in 2013, accounting for some 29% of the entire Asian market¹⁸, following Japan¹⁹. There are enormous opportunities for IP professionals

¹⁷ IP Australia was the other office posting double-digit growth in 2013. See WIPO World IP Indicators – 2014 Edition (pp. 12) at http://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2014.pdf.

¹⁸ See Hong Kong Trade Development Council Research article "Asia's Licensing Hub Reaches Out to China's Booming Market" dated 30 October 2014 at <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Asia-s-Licensing-Hub-Reaches-Out-to-China-s-Booming-Market/rp/en/1/1X000000/1X09ZVHY.htm>.

¹⁹ See Hong Kong Trade Development Council Research article "China's Booming Licensing Market: The Licensees' View" dated 21 November 2014 at <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/China-s-Booming-Licensing-Market-The-Licensees-View/rp/en/1/1X000000/1X0A09BY.htm>.

from overseas and Hong Kong to provide intermediary services for the expanding IP market in Mainland China.

2.12 In addition, Hong Kong has a long tradition of upholding the rule of law, a sound IPRs protection system in full compliance with the requirements of international IP treaties,

a simple and low tax regime, as well as a pool of bi-literate and tri-lingual professionals with Mainland China and international perspectives. Given also Hong Kong's experience in areas such as R&D, design, trading and business services in support of industrial production, Hong Kong has the potential to develop into a regional IP trading hub.



2.13 In fact, Hong Kong has been playing the following roles to facilitate IP trading within the region:

- (a) An IP middleman: Hong Kong is a true metropolis and an international business and financial centre with Mainland China as its hinterland. We have unparalleled experience in connecting overseas buyers and sellers to partners in Mainland China and across Asia.
- (b) A sourcing platform: Hong Kong stages an impressive string of international trade shows every year, and many of them involve the IP trade. These shows provide a ready and proven platform for business-matching and trading in the IP realm.
- (c) An intermediary service provider: Hong Kong supplies one-stop service in IP trading. We are endowed with traditional market intermediaries such as IP practitioners, lawyers and accountants. We also cultivate and boost new collaborators that can provide services ranging from IP management, trading mechanisms and portfolio-building to IP licensing, financing, valuation and arbitration.
- (d) An IP modifier or customiser: Hong Kong serves an important role in facilitating the import of overseas IP into Mainland China. Via Hong Kong, IP can be modified and customised to suit special needs of Mainland

Chinese buyers. With Mainland China accumulating a rich pool of indigenous IP, we are taking up an increasing role in the reverse direction as well.

Potential benefits of IP trading

2.14 IP has become increasingly important in a knowledge-based economy. Hong Kong excels in trading and related services, and the strategic positioning of Hong Kong as the gateway to Mainland China provides lots of opportunities in IP trading, which in turn would contribute to the upgrading of our economy, and create jobs in various high end business sectors.

2.15 IP trading can enhance our local R&D capacity and facilitate technology transfer. It can complement the efforts of Hong Kong to become an innovation and technology hub. Likewise, IP trading will help us drive the development of the creative economy by making the most of the creative contents in the commercial world.

2.16 Hong Kong businesses, including SMEs, may grasp the opportunities presented by IP trading to increase their competitiveness by branding and upgrading. Intangible IP assets can be as valuable as tangible assets, and businesses may look for innovative ways to build, manage, value and leverage them strategically to drive growth.

2.17 IP trading creates an increasing need of high value-added intermediary services,

such as IP agency, IP management and consulting, legal services, dispute resolution such as arbitration and mediation, accounting, valuation, financing, insurance etc. It also boosts the development of these various service sectors.

2.18 The growing demand for IP talents may create career openings for our younger generation as well as foster the development of local education and training providers.



3.1 A Framework has been promulgated for driving the development of Hong Kong as an IP trading hub.

Vision

3.2 The vision of the Framework is to “Position and promote Hong Kong as the premier IP trading hub in Asia”. This sets out the long term view of what the Government wants to become, both to inspire actions within Government and to communicate with the stakeholders outside.

Mission

3.3 The Framework sets out the following three missions as high-level representations of what the Government wants and does now to achieve the vision:

- (a) *leverage and further Hong Kong’s advantages in financial, legal and physical infrastructure, IP regime, professional services and specific role as “gateway to Mainland China”, in attracting international IP trading and management activities to take place in Hong Kong;*
- (b) *build up the necessary clusters conducive to the overall development of Hong Kong as a knowledge-based economy that spearheads exploitation and commercialisation of IP and supports enterprises to make the most of IP as a core business asset that should be*

built, managed, valued and leveraged strategically to drive innovation and growth; and

- (c) *explore means to promote Hong Kong’s creative industries, innovative technologies and IP economies through IP creation, protection, exploitation, management and trading.*

Strategic areas and focus strategies

3.4 The Framework covers the following four strategic areas, underpinning the three missions set out above, that would be instrumental to the successful development of Hong Kong as an IP trading nexus in the region:

(I) Enhancing the IP protection regime

3.5 A robust IP protection regime can encourage innovation, technological development and creativity, and is a prerequisite to any aspiration or credible bid to promote IP trading in the competitive environment of the global economy.

(II) Supporting IP creation and exploitation

3.6 In a knowledge based economy, IP, although intangible, has become an essential form of capital for companies. Supporting the industrial and R&D sectors, creative industries and IP users can encourage the creation and exploitation of IP and stimulate the development of IP trading. In turn, enhanced trading of IP can lead to more creation and

exploitation of IP through, for example, acquisition of background or upstream IP from untapped stock outside for local downstream R&D and product development.

(III) Fostering IP intermediary services and manpower capacity

3.7 Unlike the trading of normal commodities, IP trading requires highly specialised services to be provided by IP related intermediaries. Some of these may be under-developed in Hong Kong and even worldwide but remain critical in IP transactions. The availability of such highly specialised services would encourage IP trading through lowering transaction costs and the risks involved, maximising the benefits and potentials of IP transactions and providing a clustering effect for the development of an IP trading hub. Given the diverse and professional expertise involved, attracting talents and training people for IP intermediary services to create the desired clusters is also an important part to promote IP trading.

(IV) Pursuing promotion, education and external collaboration efforts

3.8 Branding Hong Kong as a premier IP trading hub is important to educate and focus market players both internally and externally on the benefits and opportunities offered by Hong Kong in this area, as well as to attract overseas and Mainland China IP creators and users, and IP intermediaries to use Hong Kong as a marketplace. Locally, promotion and public education can enhance the awareness of society on the benefits and opportunities brought by IP, and encourage companies, professionals, the younger generation, etc. to be fully equipped to grasp the new opportunities offered. It is also important to seek collaboration and partnership with the relevant authorities of the international community to encourage transactions, overcome hurdles and enhance the rules of the game.

Focus strategies

3.9 Focus strategies are devised under each strategic area to set out the key directions for drawing up support measures in the form of recommended actions, as set out in Chapters 4 to 9. Summary of the focus strategies in the four strategic areas is as follows:

Strategic Area (I): Enhancing the IP protection regime	
Focus Strategy	
(a)	Develop an OGP system in Hong Kong in parallel with the existing re-registration system, and encourage quality filings from local, Mainland China and overseas
(b)	Keep the other components of our IP regime (copyright, registered design, trade marks, etc.) under constant review to ensure that the system follows international norms, on par with IP regimes of advanced economies, and conducive to IP trading

Strategic Area (II): Supporting IP creation and exploitation	
Focus Strategy	
(a)	Support industries in meeting strategic needs through creation, acquisition and management of IP
(b)	Support R&D, technology transfer, and acquisition and commercialisation of IP
(c)	Support creative industries in engaging in licensing and franchising arrangements

Strategic Area (III): Fostering IP intermediary services and manpower capacity	
Focus Strategy	
(a)	Facilitate the provision of highly specialised professional services in IP trading, e.g. – IP valuation; IP financing; IP insurance; IP arbitration and mediation; IP due diligence; and IP matching services
(b)	Attract and nurture talents in IP activities, and support the building of strong IP related professions

Strategic Area (IV): Pursuing promotion, education and external collaboration efforts	
Focus Strategy	
(a)	Brand and market Hong Kong as a premier IP trading hub to attract overseas and Mainland China IP owners and users, as well as intermediaries
(b)	Foster an IP awareness culture in society especially among SMEs and the younger generation, and promote the importance and opportunities brought by IP management and trading
(c)	Collaborate with Mainland China, overseas and international IP authorities in fostering the development of IP trading internationally and in the region

Focus strategies

4.1 The Framework sets out the following focus strategies under Strategic Area (I):

- (a) *Develop an OGP system in Hong Kong in parallel with the existing re-registration system, and encourage quality filings from local, Mainland China and overseas.*
- (b) *Keep the other components of our IP regime (copyright, registered design, trade marks, etc.) under constant review to ensure that the system follows international norms, on par with IP regimes of advanced economies, and conducive to IP trading.*

Develop an OGP system in Hong Kong

4.2 Endorsing the strategic recommendations made by the Advisory Committee on Review of the Patent System in Hong Kong (Advisory Committee)²⁰ on the positioning of Hong Kong's patent system, the Government announced its policy decision in February 2013 on, amongst others, the introduction of an OGP system with substantive examination conducted by other patent office(s), while retaining the current

re-registration system for grant of standard patents²¹. The proposed introduction of an OGP system bears strategic significance in facilitating the development of Hong Kong into a regional innovation and technology hub, as well as a premier IP trading hub.

4.3 While substantive examination will be carried out by enlisting assistance of other patent office(s) in the short to medium term upon implementation of the new patent system, we would not lose sight of the important need for continuous enhancement of the system to ensure that it is on par with international standards, user-friendly and attractive to quality filings. To this end, the Government may plan next to explore the medium-to-long term development of indigenous capability in conducting substantive examination in niche areas where Hong Kong should have the expertise to do so. This will tie in with our edge in selected R&D areas and help align public resources and priorities to maximise impact.

4.4 In addition, the Government may explore co-operation with other patent authorities by making reference to international developments such as the setting up of the patent prosecution highway (PPH), which will

²⁰ The Advisory Committee was appointed by SCED in October 2011, with Hon Andrew Liao as Chairman. Its members comprise government officials and non-official members who were drawn from a wide cross section of the patent-related fields, including legal professionals, patent practitioners, as well as members of the academic, research and development, and industrial sectors.

²¹ The other key recommendations of the Advisory Committee, endorsed by the Government, included retaining the short-term patent system with suitable refinements, and developing a full-fledged regulatory regime on patent agency services in the long run, which has to be achieved in stages, with possible interim measures.

further enhance the attractiveness of the new patent system. A PPH is a bilateral agreement between two patent offices, under which a patent applicant can request accelerated processing of the patent application at the patent office of second filing (OSF), when the patent office of first filing (OFF) has already found corresponding patent claims allowable²².

The IP5 Offices²³ have launched a PPH pilot programme amongst themselves based either on the latest work product under the Patent Cooperation Treaty (PCT) or the national work product established during the processing of a national application or a PCT application that has entered the national phase before one of the IP5 Offices.

Recommended actions

4.5

- (a) Build an OGP system which is up to international standards and is user-friendly, through cooperation with reputable patent examination office(s);
- (b) Explore the feasibility of building up substantive examination capability on niche areas where Hong Kong has an edge in R&D in the longer run; and
- (c) Explore cooperation with other patent authorities by making reference to international developments such as the setting up of PPH.

²² A PPH establishes a process whereby the OSF makes use of the work already carried out by the OFF in relation to the same invention. The OSF can process the patent application quicker because the examination process begins at a more informed level. However, the OSF is not compelled to follow the opinion of the OFF and may make its own decision on whether to grant a patent.

²³ The IP5 Offices comprise SIPO, the European Patent Office, the Japan Patent Office, the Korean Intellectual Property Office and the United States Patent and Trademark Office. They handle about 80% of patent applications filed worldwide, and 95% of all work carried out under PCT.

Actions taken so far and way forward

4.6 The Government announced its policy decision in February 2013 on the introduction of an OGP system. Since then, IPD has been intensively undertaking various critical tasks for implementing the OGP system. Subject to the progress of the implementation tasks, the target is to launch the new patent system in 2016-17 at the earliest.

4.7 To ensure the system is on par with international standards, user-friendly

and attractive to quality filings, IPD plans next to explore the medium-to-long term development of indigenous capability in conducting substantive examination in niche areas where Hong Kong should have the expertise to do so. In addition, IPD will explore with other patent authorities by making reference to international developments such as the setting up of PPH, which will further enhance the attractiveness of the new patent system.

Enhance other components of our IP regime

4.8 Without a modern, robust regime on par with international norms and overseas counterparts, it would be difficult to attract IP trading activities. The Government is committed to keeping the local protection regime for different IPRs under constant review, and the details are set out in the following paragraphs.

Copyright – Updating the regime and beyond

4.9 To strengthen copyright protection in the digital environment, the Government continues to update the copyright law to ensure that it keeps pace with technological and international developments²⁴. The current round started with a consultation exercise launched in 2006, which led to the introduction of the Copyright (Amendment) Bill 2011, but it eventually lapsed. One issue left unresolved during the scrutiny of the 2011 Bill was parody. A public consultation exercise was then conducted from July to November 2013 to

²⁴ Rapid technological developments (notably the Internet) have been reshaping the information society. WIPO's Copyright Treaty and the WIPO Performances and Phonograms Treaty, commonly known as the "Internet treaties", were adopted in 1996 to address the challenges of the new digital technologies. In response, and given rapid changes in user behaviours, many overseas jurisdictions including the United States (1998), the European Union (2001), Australia (2001), the United Kingdom (2003), Singapore (2005), New Zealand (2008) and Canada (2012) have updated their copyright regimes.

explore how parody should be taken care of as appropriate under the copyright regime having due regard to present day circumstances.

4.10 On 18 June 2014, the Government introduced the Copyright (Amendment) Bill 2014 (the Bill) into the Legislative Council (LegCo). Key proposals under the Bill include:

- (a) introducing a technology-neutral communication right and corresponding criminal sanctions;
- (b) expanding the scope of copyright exceptions under the existing law for the following purposes in appropriate circumstances:
 - (i) parody, satire, caricature and pastiche;
 - (ii) commenting on current events;
 - (iii) quotation;
 - (iv) temporary reproduction of copyright works by Online Service Providers (OSPs);
 - (v) media shifting of sound recordings; and
 - (vi) giving educational instructions (especially for distance learning) and facilitating daily operations of libraries, archives and museums;
- (c) establishing a statutory “safe harbour” for OSPs so that their liabilities for copyright infringement occurring on their service platforms could be limited, provided that the OSPs meet certain prescribed conditions; and

- (d) introducing additional factors for the court to consider in assessing damages in civil cases in which infringement has been established.

4.11 Legislative proposals contained in the Bill will help maintain a robust copyright regime which is conducive to the development of the creative industries. It will also contribute to the vibrancy of Hong Kong’s economy. A clear legal framework will help remove uncertainties and risks of the copyright regime, which would be important in promoting freedom of creation and expression, enhancing the business environment and protecting IP.

Recommended actions

4.12 Review and update the copyright law regularly to ensure that it keeps pace with technological and international developments to meet our economic needs.

Actions taken so far and way forward

4.13 The LegCo Bills Committee is working in full swing to scrutinise the Bill. The Government will continue to assist its work and engage various stakeholders to push through the Bill.

4.14 Further to the Bill, there are a number of other copyright issues in the pipeline concerning the Government's ongoing efforts to update the copyright protection regime, such as the updates to the Copyright (Libraries) Regulations and the treatment of orphan works. The Government will also need to consider the application of the Beijing Treaty on Audiovisual Performances and the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who are Blind, Visually Impaired or Otherwise Print Disabled to Hong Kong, and also the necessary consequential amendments to the Copyright Ordinance. The next round of updates following passage of the present Bill may be no less challenging given the rapid developments worldwide and the wide-ranging demands of many different stakeholders.

Trade mark – Proposed application of the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol) to Hong Kong

4.15 Trade mark rights are territorial in nature and are granted in each jurisdiction independently according to its own laws and practice. In other words, trade mark owners need to apply for registration in each jurisdiction separately if they wish to obtain protection by registration locally.

4.16 The Madrid Protocol is an international arrangement which seeks to facilitate the registration and management of trade marks in different jurisdictions by simplifying the process of seeking trade mark protection. Under the Madrid Protocol, an applicant²⁵ can simply file a single international application with the trade mark office of the contracting party where the basic mark²⁶ is held (Office of Origin), pay one set of fees and designate one or more contracting parties in which he/she wishes to register his/her mark. The holder of the international registration can also manage his/her trade mark portfolio in different designating contracting parties (such as renewal of trade mark registrations and registration of assignments of trade marks) through a single procedure with the International Bureau of WIPO and the payment of one set of fees.

²⁵ An international application under the Madrid Protocol can be filed by a natural person or a legal entity that has a real and effective industrial or commercial establishment in, or is domiciled in, or is a national of, a contracting party to the Madrid Protocol.

²⁶ Under the Madrid Protocol, a basic mark may refer to the mark of a basic registration or a pending basic application at the trade mark office of a contracting party in which the applicant is qualified to apply for an international application.

4.17 Only sovereign states or qualified inter-governmental organisations (e.g. the European Union) may become contracting parties to the Madrid System. China is a contracting party to both the Madrid Agreement and the Madrid Protocol. In respect of Hong Kong, China gave notice to WIPO in 1997 that the Madrid System be deferred to be applied to Hong Kong.

4.18 The application of the Madrid Protocol to Hong Kong might bring the following benefits:

- (a) enabling a more efficient trade mark registration and management system so that trade mark owners can enjoy the convenience of the one-stop service in seeking trade mark protection in multiple countries and manage their trade mark portfolio in different designated contracting parties (including recordal of changes and renewal of registration, etc.) through a single procedure;
- (b) enhancing competitiveness of Hong Kong as a place for setting up and doing business as the streamlined procedures offered by the Madrid Protocol could save costs for both businesses operating in Hong Kong and overseas companies in protecting and managing their trade marks in Hong Kong;

- (c) facilitating local businesses to explore global business opportunities by providing an efficient and cost-effective one-stop service for protecting and managing trade marks overseas;
- (d) promoting the Government's policy on establishing Hong Kong as an IP trading hub as the offering of a one-stop trade mark registration and management system, which is particularly important to the growing local licensing business, is conducive to attracting more trade mark owners to choose Hong Kong as a centre for commercial transactions of trade marks; and
- (e) enhancing the credibility of the trade mark regime and reinforcing Hong Kong's reputation as an international city and a knowledge-based economy²⁷.

4.19 In view of the above possible benefits, the Government launched a consultation exercise in November 2014 on the proposed application of the Madrid Protocol to Hong Kong.

²⁷ With the adoption of the ASEAN IPR Strategic Plan 2011-2015, the remaining ASEAN member states which are not yet parties to the Madrid Protocol, e.g. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar and Thailand have committed themselves to joining by 2015.

Recommended actions

4.20 Pursue the proposed application of the Madrid Protocol to Hong Kong taking into account the consultation outcome.

Actions taken so far and way forward

4.21 The three-month consultation exercise ended in February 2015. On the basis of the views and suggestions received, the Government will discuss and liaise with the relevant authorities, including the Central People's Government, on the best way forward.

Focus strategies

5.1 The Framework sets out the following focus strategies under Strategic Area (II):

- (a) *Support industries in meeting strategic needs through creation, acquisition and management of IP.*
- (b) *Support R&D, technology transfer, and acquisition and commercialisation of IP.*
- (c) *Support creative industries in engaging in licensing and franchising arrangements.*

Support industries through creation, acquisition and management of IP

5.2 In Hong Kong, the industrial sector has long been evolving to meet the challenges and take on new opportunities. Many have moved their production base to Mainland China to take advantage of the lower costs across the boundary. The strategic needs for upgrading to add value through IP activities are increasing in view of global competition.

5.3 Currently, there are several major schemes providing free and general advisory services to SMEs which are administered by the Government and statutory bodies²⁸. The advisory services provided range from general business operations to more specific subjects such as legal matters.

5.4 It is noted that the IP issues are usually covered as one of the many advisory areas in the existing schemes, with limited time of consultation (generally one hour). Insofar as advisory service on specialised IP issues are concerned, in general, there is less dedicated and focused service provision, nor highlight of the importance of IP to users. Under the circumstances, SMEs may not even be aware of IP as a fundamental issue that they should focus on, not to mention making use of IP to drive business growth.

5.5 Against this background, there is room for consolidating and strengthening the advisory services currently under provision, through launching a scheme for IP Advisory Service to provide free preliminary advisory services to SMEs. The expected benefits of the IP advisory service are as follows:

- (a) raise awareness of IP as a business asset that should be better protected, managed and exploited to drive growth;
- (b) assist SMEs to systematically identify and understand the IP they possess, to communicate the IP value with business partners and financiers and to focus on selected IP assets with potentials for exploitation;

²⁸ They include the Support and Consultation Centre for SMEs of the Trade and Industry Department, the Hong Kong Trade Development Council SME Centre, and the SME One and IP Services Centre of the Hong Kong Productivity Council.

- (c) assist SMEs to upgrade their business through IP trading activities by adopting appropriate IP management and commercialisation strategies; and
- (d) strengthen the promotion of convenient and accessible channels for SMEs to seek advisory service on IP issues.

Recommended actions

5.6 Launch a scheme for IP Advisory Service to provide free preliminary advisory services to SMEs.

Actions taken so far and way forward

5.7 IPD, in collaboration with the IP Committee of the Law Society of Hong Kong (Law Society), has launched a 6-month pilot scheme, known as IP Consultation Service since December 2014, to gauge a better understanding of the needs of SMEs vis-a-vis advisory services and refine the plan for the formal implementation of the IP Consultation Service. IPD will also explore collaboration opportunities with other professional, trade and business organisations as appropriate.

5.8 The Hong Kong Trade Development Council (HKTDC) will broaden the scope of its existing advisory services at its SME Centre to dedicatedly cover IP-related issues for helping Hong Kong companies make better use of their IPs. HKTDC will also work with IP experts and industry associations such as the Licensing Executives Society China-Hong Kong Sub-Chapter, and the Asian Licensing Association, the Hong Kong Franchise Development Association, the Federation of Hong Kong Industries, to provide free basic consultation service on IP business, covering a wide spectrum of areas such as IPRs protection, trading, licensing, franchising and marketing.

Support R&D, technology transfer, and acquisition and commercialisation of IP

5.9 The Government attaches great importance to fostering the innovation and technology (I&T) industries, including supporting R&D activities, transfer of technologies and commercialisation of R&D outcomes. Software and hardware support is given to enterprises and start-ups, financial assistance provided for universities and research institutions, and efforts made to help in the realisation/commercialisation of R&D results. In addition, the Government seeks to create an atmosphere that is conducive to the development of I&T, and encourages investment in this area by enhancing co-operation among the Government, industry, academia and research sectors. Government support efforts may facilitate acquisition of upstream technologies for product development and help reap the rewards of R&D investments through IP trading activities in various forms, bringing out the financial and strategic value of IP.

Recommended actions

5.10 Keep under review Government's support for R&D activities as well as technology transfer, application and commercialisation of R&D outcomes and seek enhancement where appropriate.

Actions taken so far and way forward

5.11 Arising from a comprehensive review of the Innovation and Technology Fund (ITF) (ITF Review) which was completed in November 2014, the Innovation and Technology Commission (ITC) had launched new improvement measures in 2014 to promote private sector R&D and commercialisation of R&D outcomes and the application of R&D outcomes in the public sector. Key measures include:

- (a) setting up an Enterprise Support Scheme to replace the Small Entrepreneur Research Assistance Programme under the ITF to better support private sector R&D;
- (b) extending the funding scope of the ITF to downstream R&D and commercialisation activities, allowing full exploitation of the technological edge of local industries;
- (c) setting up the Technology Start-up Support Scheme for Universities to provide funding support to universities to encourage their students and professors to start technology business and commercialise R&D outcomes;

- (d) waiving the industry sponsorship requirement for the Innovation and Support Technology Programme platform projects initiated by Government departments or statutory bodies and relaxing the sponsorship requirement;
- (e) raising the funding ceiling for the Public Sector Trial Scheme to up to 100% of the actual cost of the original R&D project supported by the ITF to promote the application of R&D outcomes in the public sector; and

- (f) increasing the funding ceiling of the Patent Application Grant and the budget for patent application in ITF-funded R&D projects from \$150,000 to \$250,000.

5.12 The ITC submitted a Final Report of the ITF Review to the LegCo Panel on Commerce and Industry in November 2014 including recommendations for further improvement measures. The recommendations were supported by Panel Members and are being implemented in stages.

Support creative industries in engaging in licensing and franchising arrangements

5.13 In recent years, the creative industries have emerged as a new forerunner in driving economic growth. Licensing and franchising arrangements are important vehicles to facilitate the exploitation of IPRs such as copyright and trademarks as IP inputs/outputs in the process.

5.14 In Hong Kong, the licensing market began to flourish in the early 1990s. Through these years, Hong Kong has become a highly developed licensing market and

has successfully attracted many world class international licensors to set up their offices in Hong Kong. Moreover, with highly open markets and a deep pool of professional IP intermediaries, many famous overseas licensors have entrusted the exclusive IPRs to Hong Kong licensing agents to develop their business in Asia and Mainland China.

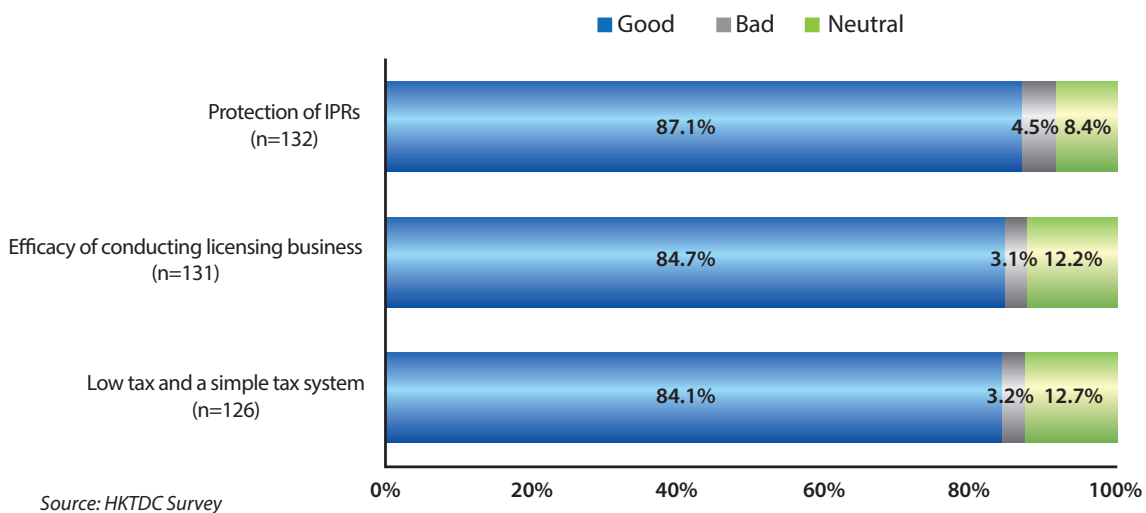


5.15 According to a recent survey conducted by HKTDC covering 10 countries and regions in Asia, respondents held high regard to the licensing business environment, availability of quality expertise and business networking of

Hong Kong (see Figures 8 - 10). Moreover, 90% of the respondents recognised Hong Kong as an important base to develop their licensing business in Mainland China²⁹.

Figure 8

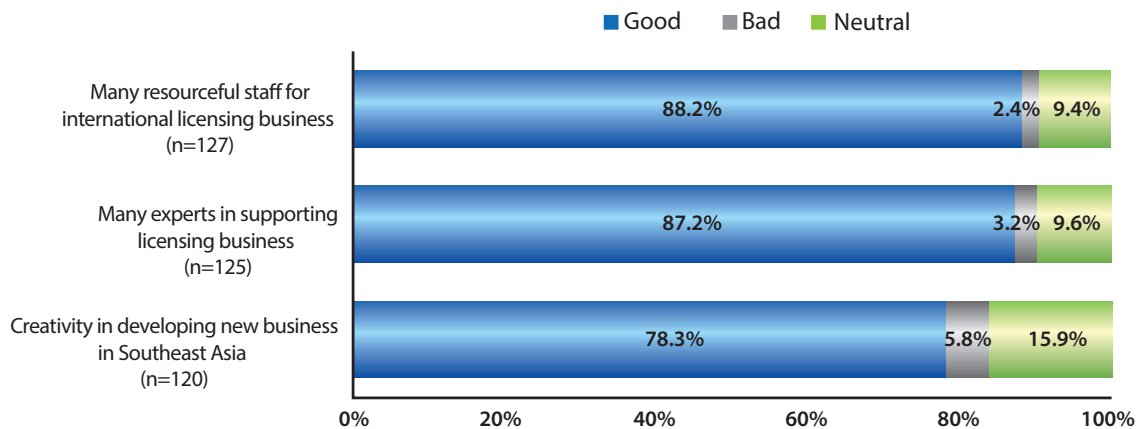
Hong Kong as a licensing gateway: business environment



²⁹ See HKTDC Research article “Capitalising on Licensing Opportunities in Asia via HK” dated 9 October 2014 at <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Capitalising-on-Licensing-Opportunities-in-Asia-via-Hong-Kong/rp/en/1/1X000000/1X09ZHG5.htm>.

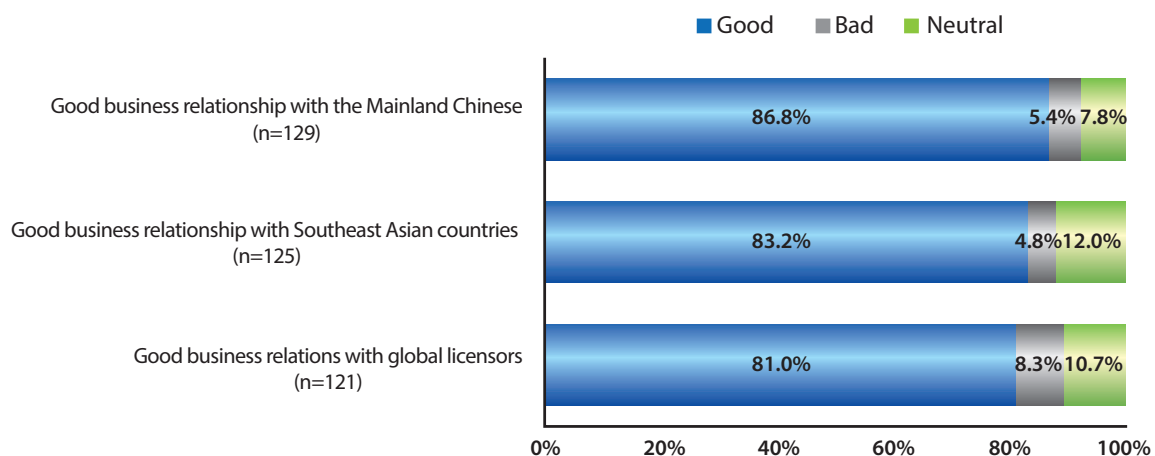
Figures 9 - 10

Hong Kong as a licensing gateway: quality and expertise of licensing firms



Source: HKTDC Survey

Hong Kong as a licensing gateway: business networks



Source: HKTDC Survey

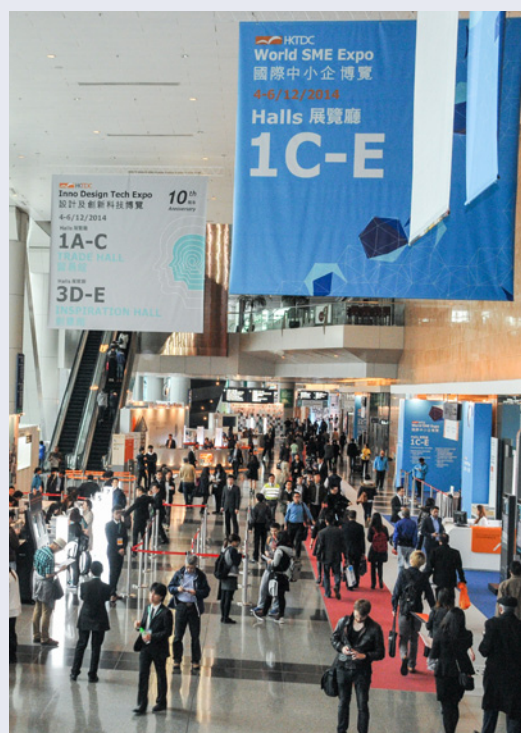
Recommended actions

5.16 Sustain Government's support for the creative industries through various dedicated agencies and engagement in licensing and franchising arrangements.

Actions taken so far and way forward

5.17 As the dedicated agency within the Government to drive the development of the creative economy in Hong Kong, Create Hong Kong will continue to work closely with the trade to boost the development of various creative sectors which cover advertising, architecture, design, digital entertainment, film, printing and publishing, television and music. It will also continue to provide financial support to the creative industries through the administration of Government funding schemes, namely the CreateSmart Initiative and the Film Development Fund.

5.18 HKTDC will continue to hold the annual Hong Kong International Licensing Show and the Asian Licensing Conference, and set up Business of IP Zones in its various trade fairs such as the HKTDC Hong Kong International Film & TV Market, Fashion Week of Spring/Summer and Fall/Winter, and etc. To help Hong Kong's new start-ups seize the franchising business opportunities, the "Franchising Hall" at the annual World SME Expo will also be further developed and marketed as a standalone event.



Possible tax initiatives in support of Strategic Area (II)

5.19 Tax incentives may encourage the industrial and R&D sectors, creative industries and IP users to engage in IP trading activities in order to meet their strategic needs of upgrading and moving up the value chain. Enhanced trading of IP may lead to more creation and exploitation of IP through, for example, acquisition of background or upstream IP from untapped stock outside for local downstream R&D and product development, or the licensing of IP for derivative use and commercialisation.

Hong Kong's current IP-related tax incentives

5.20 Under Hong Kong's tax regime, an enterprise's revenue expenditure is generally deductible under profits tax. As such, an enterprise's revenue expenditure for the use of IPRs (e.g. royalties, licence fees and other forms of regular payments which are revenue in nature) is deductible for determining profits tax liability. If an enterprise develops its IPRs in the ordinary course of business, the revenue expenditure so incurred, such as rent, salaries and promotion cost, is also deductible as ordinary business expenditure.

5.21 It has long been the Government's taxation policy and principle that it does not

tax capital receipts, and that by symmetry does not allow deduction of capital expenditure³⁰. However, exceptions have been provided under the Inland Revenue Ordinance (Cap. 112) (IRO) for deduction of certain capital expenditure. At present, the following capital expenditures on prescribed IPRs are deductible under specific provisions of the IRO:

- (a) registration expenditure on patents, designs and trade marks (section 16(1)(g));
- (b) R&D expenditure of capital in nature (section 16B); and
- (c) purchase cost of patent rights and know-how (section 16E) and copyrights, registered trade marks and registered designs (section 16EA).

5.22 The extension of profits tax deduction to cover capital expenditure incurred on the purchase of three types of commonly-used IPRs, namely, copyrights, registered designs and registered trade marks (as mentioned in paragraph 5.21(c) above) stemmed from an initiative in the 2010-11 Budget to promote wider application of IPRs by local enterprises and to facilitate the development of creative industries in Hong Kong. In December 2011, the Inland Revenue (Amendment) (No. 3) Ordinance 2011 was passed to implement the above budget proposal and other enhancement measures. During the scrutiny by the LegCo Bills Committee, the Government was asked

³⁰ Section 14(1) of the IRO excludes any capital receipts as assessable profits, whereas section 17(1)(c) of the IRO specifically disallows deduction of any expenditure of a capital nature unless it is otherwise explicitly provided in other sections of the IRO.

to look into the case of further extending the scope to cover more types of IPRs.

Tax-related initiatives for facilitating IP trading

5.23 Taking into account Hong Kong's situation and the experience of overseas jurisdictions, the Government should consider the following tax related initiatives to facilitate the long-term development of IP trading in Hong Kong.

Expansion of Hong Kong's Network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs)

5.24 It is the Government's policy priority to expand Hong Kong's CDTA network with its major trading and investment partners, so as to enhance Hong Kong's position as an international business and financial centre while providing relief for double taxation. This is conducive to the flows of trade, investment and talent between Hong Kong and the rest of the world. As CDTAs set out clearly the allocation of taxing rights between the contracting parties, they will provide enhanced certainty and predictability over tax liabilities arising from cross-border economic activities. They also serve to minimise the incidence of

double taxation, thus reducing tax burdens on individuals and enterprises. A network of CDTAs can therefore help enhance the attractiveness of Hong Kong as a place for work as well as for business and investment.

5.25 Furthermore, CDTAs usually bring about lower withholding tax rates on passive income, including dividends, interest and royalties³¹. Therefore, CDTAs are particularly important in reducing the cost of the licensing business, an important and fast growing aspect of IP trading³², and can raise the attractiveness of Hong Kong for conducting IP-related licensing businesses.

Recommended actions

5.26 Continue expansion of Hong Kong's network of CDTAs with its major trading and investment partners so as to enhance Hong Kong's position as an international business and financial centre while providing relief for double taxation.

³¹ Under the Article on Royalties of the CDTAs that Hong Kong concluded with other jurisdictions, Hong Kong residents usually enjoy lower rates for withholding tax imposed by the source state on the royalties received by Hong Kong residents from the enterprises of the source state.

³² According to the Hong Kong Trade in Services Statistics in 2012 compiled by C&SD, Hong Kong's export of "charges for the use of IP", which include trade mark and franchise licensing fees and charges for the use of other IPRs, reached \$4.03 billion in 2012, having increased by 13% from the figure of \$3.58 billion in 2011. The figure had already increased by 15% from \$3.11 billion in 2010, making double-digit growth in two consecutively years.

Actions taken so far and way forward

5.27 Up to end-December 2014, Hong Kong has signed a total of 32 CDTAs³³, covering 12 of Hong Kong's top 20 trading partners. The Government is currently having CDTA negotiations at various stages with a number of other jurisdictions, and will continue to make its best endeavour to expand Hong Kong's CDTA network.

innovation and technology, which are widely recognised as central economic drivers in a knowledge-based economy. Tax deductions and tax credits are commonly provided for R&D activities³⁴.

5.29 As for initiatives specifically targeting IP, similar to Hong Kong, some overseas jurisdictions offer deduction for copyright, registered designs, registered trade marks, patents and know-how. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) under the World Trade Organization (WTO) also set out the categories of IP that should be protected by each WTO member³⁵.

Tax incentives for IP trading

5.28 Many overseas jurisdictions provide tax incentives for R&D activities in order to promote

³³ The 32 CDTA partners include Belgium (2003), Thailand (2005), Mainland China (2006), Luxembourg (2007), Vietnam (2008), Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland, Liechtenstein, France, Japan, New Zealand (2010), Portugal, Spain, the Czech Republic, Switzerland, Malta (2011), Jersey, Malaysia, Mexico, Canada (2012), Italy, Guernsey, Qatar (2013), Korea, South Africa and the United Arab Emirates (2014). (Note: The years in brackets denote the years in which the relevant CDTAs were signed.)

³⁴ Some jurisdictions have introduced progressive tax incentive measures to enhance their attractiveness as an international IP holding location, e.g. Singapore rolled out the Productivity and Innovation Credit Scheme in 2010, providing 400% tax deduction of up to SG\$400,000 (or alternatively a non-taxable cash payout of 60% of the expenditure, capped at SG\$100,000) in productivity improvements and innovation. See http://www.iras.gov.sg/irashome/Plcredit.aspx%23About_Productivity_and_Innovation_Credit.

³⁵ In the TRIPS Agreement, "IP" refers to all categories of IP that are the subject of Sections 1 through 7 of Part II, namely:

- copyright and related rights (rights in performances also fall under the scope of copyright and related rights under the TRIPS Agreement. Article 14 of the TRIPS Agreement sets out provisions on "Protection of Performers, Producers of Phonograms (Sound Recordings) and Broadcasting Organizations");
- trade marks;
- geographical indications;
- industrial designs;
- patents (protection of plant varieties also falls under the scope of patent under the TRIPS Agreement. Article 27(3) (b) provides that "Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof");
- layout-designs (topographies) of integrated circuits; and
- protection of undisclosed information.

See Article 1(2) of the TRIPS Agreement, available at http://www.wto.org/english/tratop_e/trips_e/t_agm2_e.htm.

5.30 It is worthwhile to consider whether there is a case to include more types of IPRs in the scope of tax deduction provided under the IRO. Expanding the scope of tax deduction would send a strong signal to the market about the determination of Hong Kong in leaving no stone unturned as the Government takes forward a total package to push the policy of promoting IP trading.

5.31 Other tax incentives used in overseas jurisdictions include patent or IP box³⁶ which is adopted by the United Kingdom (UK) and some other countries to provide for a reduced tax rate on patent-related income, mainly to promote the development of innovation and technology. However, the Government is mindful that the international community is increasingly concerned about base erosion and profit shifting (BEPS), as evidenced by the Organisation for Economic Co-operation and Development (OECD)'s release of an Action Plan on BEPS³⁷ in mid-2013. The OECD is now reviewing a number of intangible tax regimes (including those for IP) adopted by its member countries in the context of BEPS.

Recommended actions

5.32 Consider tax incentives for IP trading taking into account international practices and concerns, notably expansion of the present tax deduction for capital expenditure incurred on the purchase of IPRs under the IRO.

³⁶ Patent box, or IP box, is a tax incentive which provides relief from corporate tax on income generated from certain types of qualifying IPRs, particularly patents. The major objective, apart from promoting innovation and technology, is to encourage businesses to hold IPRs within the jurisdiction.

³⁷ In the current context of concessionary tax rate regime, the BEPS issue relates to arrangements that achieve no or low taxation by shifting profits away from overseas jurisdictions (where the activities creating those profits take place) to Hong Kong (where the IP company's functions, assets and risks are not located).

Focus strategies

6.1 The Framework sets out the following focus strategies under Strategic Area (III):

- (a) *Facilitate the provision of highly specialised professional services in IP trading, e.g.:*
 - (i) *IP valuation;*
 - (ii) *IP financing;*
 - (iii) *IP insurance;*
 - (iv) *IP arbitration and mediation;*
 - (v) *IP due diligence; and*
 - (vi) *IP matching services.*
- (b) *Attract and nurture talents in IP activities, and support the building of strong IP related professions.*

This chapter focuses on IP matching services and the building up of IP manpower capacity under Strategic Area (III).

IP matching services

6.2 As IP trading becomes increasingly globalised and as supply and demand for IP increase incessantly especially in Asia, the market direly needs a regional IP trading platform and the necessary infrastructure to serve the multiple role of an efficient and reliable IP management hub, a marketing and sourcing centre, as well as a supporting services provider that would help link up potential buyers and sellers of IP at the tip of their fingers. It is particularly important in this ever-changing and fast-paced international IP landscape.

6.3 On matching services, HKTDC launched in December 2013 the Asia IP Exchange (AsialPEX), a free online platform and database aiming to facilitate international IP trading and connection to global IP players. As at December 2014, AsialPEX has formed alliances with 28 strategic partners local and overseas and covers over 25 000 entries of tradable IPRs (including copyright, patents, registered design and trade marks) sourced from around the globe in the biotech, nanotech, medical, electronics, textile, film, publishing and other sectors. The number of registered AsialPEX members exceeded 10 000 by December 2014, including IP owners, users or service providers.



Recommended actions

6.4 Enhance and promote the use of AsialPEX launched by HKTDC, for example to encourage IP exchange, licensing and other trading activities.

Actions taken so far and way forward

6.5 HKTDC has been actively identifying new partners for AsialPEX to enrich the IP listing profile and sustain the resourcefulness of the website content. A total of 7 new local and overseas partnerships have been established in 2014 to cover more diversified IPs such as film copyrights, brands and trade marks. HKTDC will continue to forge alliance with other targeted world-renowned IP related organisations to strengthen areas such as trade marks and registered designs.

6.6 To arouse interest of global IP players on utilising AsialPEX, HKTDC has mounted promotional booths at over 30 local and overseas prominent IP events in 2014/15 such as the Association of University Technology Managers Annual Meeting, Licensing Executives Society Annual Meeting and IP Business Congress. More networking events, year-round promotions, inbound and outbound missions to tech savvy countries will be organised with Hong Kong companies and local R&D centres to promote commercialisation of our home-grown technologies. HKTDC will also leverage AsialPEX's overseas partners' extensive networks to open new doors and enhance the business matching elements.

6.7 HKTDC will continue to launch regular e-newsletter, advertisements and outdoor publicity promotion for sustaining the awareness and ensuring a steady growth of registered users. In addition, success story submission campaign will also be organised to encourage members to share their experience of using AsialPEX, which could be used for promoting more frequent usage of AsialPEX.

IP Manager Scheme

6.8 In addition to enhancing the hardware for the promotion of IP trading in Hong Kong, it is equally important to strengthen the software in support. To this end, it is suggested to launch an IP Manager Scheme which seeks to support SMEs to build up their manpower capacity on IP management and commercialisation by encouraging them to appoint in-house IP Managers, who will be provided with relevant training and resources on IP management.

6.9 The IP Manager Scheme will encourage enterprises to appoint a staff member in managerial position as their own in-house IP Manager, who will be responsible for overseeing the compliance, management, exploitation and commercialisation of IP assets. To ensure that IP Managers have

the knowledge to carry out their duties competently, appointees will receive training to be conducted by IP professionals. Participants of the training programmes will receive a “Certificate of Attendance” upon completion of the training.

6.10 The expected benefits of the IP Manager Scheme are as follows:

- (a) raise IP awareness in the SME community and start culture building through in-house champions;
- (b) support the building of manpower capacity in SMEs and the wider community to adopt good IP management, commercialisation and trading practices, integrate IP assets into their overall business strategy, and communicate the IP value with business partners and financiers;
- (c) lower the costs of IP management by providing basic IP Manager training; and
- (d) nurture talents in IP activities to enrich our human capital.

Recommended actions

6.11 Launch an IP Manager Scheme to support SMEs to build up their manpower capacity.

Actions taken so far and way forward

6.12 To expedite the building up of local IP manpower capacity, IPD had run a pilot 2-day IP management training programme in January to February 2015. Taking the experience gained and participants’ feedback into consideration, IPD is working with relevant government departments, business, trade and professional associations on the formal implementation details of the IP Manager Scheme, including promoting it to SMEs for encouraging their active participation.

Sponsor and promote training courses

6.13 Taking into account the importance of manpower training and development, the Government may also consider sponsoring and promoting training courses in IP related subjects organised by professional bodies as appropriate, so as to promote the development of IP related services among professionals and nurture talents.

Recommended actions

6.14 Consider sponsoring and promoting training courses in IP related subjects for facilitating the development of IP related services among professionals and nurturing talents.

Actions taken so far and way forward

6.15 IPD is liaising with relevant professional bodies in organising or sponsoring their existing training courses on IP related subjects in order to build up the manpower capacity and also nurture talents for future engagement for developing and promoting IP trading activities in Hong Kong.

Developing a regulatory regime for patent practitioners

6.16 On regulation of patent practitioners, the Report of the Advisory Committee on Review of the Patent System in Hong Kong has recommended that:

- (a) a full-fledged regulatory regime (with both regulation of service and limitation of use of titles) on local patent agency services should be set as the ultimate goal in the long run, which has to be achieved in stages, with possible interim measures;
- (b) for regulation of service, it is preferable to regulate only services that involve technical expertise in the first instance, given the retention of the re-registration system in parallel to the new OGP route. The need for regulation of all patent-related services may be reviewed in the longer term subject to the future development of the patent system in Hong Kong; and
- (c) interim measures to be developed should have regard to the existing patent agency services being provided on the one hand and the early building and recognition of a regulated patent agency profession on the other.

6.17 Following the recommendations of the Advisory Committee, the Government intends to introduce a regulatory regime in the long run for patent practitioners as a

complementary component of the future OGP system. The Government is working with the Advisory Committee to look into the pertinent issues identified and the possible way forward, including any interim regulatory measure that has to be launched along with the OGP system. One issue is whether there is any essential interim measure regarding the regulation of patent practitioners that must be incorporated into the amendment bill to tie in with the implementation of the OGP system, given that the desirable full-fledged regime would take a longer time to develop and put in place. Any such measure, apart from being absolutely necessary to enable the implementation of the OGP system, should facilitate the development of the ultimate regulatory regime without pre-empting the final outcome.

Recommended actions

6.18 Introduce a regulatory regime in the long run for patent practitioners as a complementary component of the future OGP system, and explore interim regulatory measures to be launched along with the OGP system.

Actions taken so far and way forward

6.19 The current target is to introduce a bill in 2015 to amend the Patent Ordinance to introduce the OGP system (and the refined short term patent system). Intensive work is underway in the preparation of the amendment bill.

6.20 The Advisory Committee has set up a working group as a platform

for engaging the relevant industry players direct in order to seek their views on the proposed reservation of certain professional titles as the interim regulatory measure on local patent practitioners, and a decision on the way forward having regard to the views and recommendations of the working group of the Advisory Committee will be made in due course.

Survey on IP trading activities

6.21 The promotion of IP trading is a relatively new concept fuelled by the intensified use of the IP system to unprecedented levels over the last two decades. However, apart from application and registration figures, the availability of IP statistics, particularly on the trading aspect of IP, appears to be rather limited both in Hong Kong and worldwide³⁸.

6.22 In Hong Kong, existing statistics on IP include statistics on the number of applications and registrations of IPRs compiled by IPD, and broad statistics on IP trading collected in economic surveys³⁹ conducted by C&SD, such as royalty receipts and royalty payments related to the use of patents, copyrights, trade marks and franchises. Data of Hong Kong's IP trading is set out in paragraphs 2.4 to 2.6. In sum, there is a growing trend in terms of value of imports and exports of services related to the use of IP (average growth rate of 6% and 8% respectively for the period from 2007 to 2012).

6.23 In spite of the above observation, there are currently gaps in the information on the IP trading activities conducted by IP creators, owners and users in Hong Kong. For example, there is no available information about the

amount of business receipts and payments directly related to IP trading and the number of employees engaged in IP trading activities. Similarly, statistics on IP related activities conducted by intermediary service providers are also limited.

6.24 Accordingly, in June 2014, IPD commissioned the Survey as an attempt to collect relevant information for compiling IP trading statistics such as the above. Relevant statistical data and other information gathered from the market may be used to estimate the contribution of IP trading activities to the Hong Kong economy. The Survey may also be used as a basis for benchmarking against other advanced economies, and monitoring the development of IP trading in Hong Kong over time. More detailed information on IP trading and intermediary service activities may also assist in identifying suitable support measures for promoting relevant businesses and enhancing our manpower capacity.

6.25 The Survey is targeted for completion in the first half of 2015. Subject to the survey results, the Government may explore the feasibility of carrying out a dedicated survey on the manpower situation of the IP trading industry to facilitate implementation of related

³⁸ As background, a few examples of overseas efforts may be given. WIPO issued the Guide on Surveying the Economic Contribution of the Copyright-Based Industries in 2003, which provided a list of copyright-based industries to be used by member countries as the sampling frame when carrying out their own surveys. A number of economies, such as Australia, Mainland China, Singapore and the US, have since conducted national studies on the economic contribution of copyright-based industries. On IP more generally, the US also conducted a study to identify IP-intensive industries in 2012.

³⁹ These economic surveys include the Annual Survey of Economic Activities and the Annual Survey of Imports and Exports of Services.

policy initiatives, taking into account the findings of the Survey. The proposed survey could aim at collecting updated manpower information specified by job types and nature, identifying skill requirements, shortages and training needs, and conducting manpower forecast. This may also form a basis for exploring the feasibility of establishing a qualification framework for IP professionals in the long run.

Recommended actions

6.26 Complete the first survey on IP trading activities in 2015, and review the results for introducing enhancement in future surveys and exploring the feasibility of launching a dedicated survey on the manpower situation of the IP trading industry.

Actions taken so far and way forward

6.27 The contractor is currently processing the collected data of the Survey. Findings are expected to be available in the first half of 2015, which may provide some useful information on IP trading and IP intermediary services in Hong Kong.

Focus strategies

7.1 The Framework sets out the following focus strategies under Strategic Area (III):

- (a) *Facilitate the provision of highly specialised professional services in IP trading, e.g.:*
 - (i) *IP valuation;*
 - (ii) *IP financing;*
 - (iii) *IP insurance;*
 - (iv) *IP arbitration and mediation;*
 - (v) *IP due diligence; and*
 - (vi) *IP matching services.*
- (b) *Attract and nurture talents in IP activities, and support the building of strong IP related professions.*

This chapter focuses on the discussion of IP valuation, IP due diligence, IP financing and IP insurance under Strategic Area (III), which are specific subjects covered by one of the two sub-groups formed (see paragraph 1.9).

What is IP valuation

7.2 Like any tangible asset, IP needs to be managed in order to realise its potential. Clearly, the first step is to identify and understand what IP assets one owns. To justify committing time and resources to them,

it is essential to have an informed way of determining their contribution to the business and future growth. An IP valuation expresses this contribution in terms of economic value that could be understood by all, and would be essential for many aspects such as IP management, commercialisation and financing.

7.3 According to a study commissioned by the Intellectual Property Office of the UK (UKIPO) in 2013 to investigate the barriers to the broader use of IP in financing (UKIPO Report), there were three distinct issues with intangible assets (particularly IP) which would inhibit innovative SMEs' financing: (i) valuation; (ii) the taking of effective security over them; and (iii) their disposal in the event of distress⁴⁰. A properly conducted IP valuation is thus one of the important elements in facilitating IP commercialisation and financing.

Application of IP valuation

7.4 IP valuation has a wide range of application in modern-day business, such as:

- (a) putting an economic value on an innovator's creation is a direct and important way to recognise his or her creative efforts, as well as an essential step towards the commercialisation of the IP being generated;

⁴⁰ See UKIPO 2013, "Banking on IP? The role of IP and intangible assets in facilitating business finance" Summary of a report for the Intellectual Property Office (pp.5) at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312018/ipresearch-bankingip-sum.pdf.

- (b) facilitating the identification and understanding of the range of IPs that a company owns (particularly within a large portfolio), and distinguishing the valuable ones (for better protection and further exploitation) from those that may be sold or abandoned⁴¹;
- (c) creating new and diverse revenue streams, especially from underused IPs, and achieving greater awareness among staff of the significance of IP to the financial viability of the company⁴²;
- (d) setting a realistic price for negotiations to sell or license IPRs, or for the purposes of merger and acquisition, joint venture or bankruptcy, particularly when companies are increasingly based on intangible assets and investment in knowledge. Knowing the value of their IPs would shed light on the companies' value as well;
- (e) utilising IPRs as security for bank loans, and accessing and attracting other fundraising means such as IP asset-backed securitisation, venture capital or equity-related mechanisms;
- (f) providing support in situations of conflict such as litigation or dispute resolution. In conflict scenarios, quantification of damages is often a necessary step of the process. The correct valuation of the IPRs at stake is important for guaranteeing a fair recovery of the damages⁴³; and
- (g) facilitating companies in meeting financial reporting requirement and for taxation planning purposes.

⁴¹ See United Nations Economic Commission for Europe (UNECE), 2011 "Intellectual Property Commercialization – Policy Options and Practical Instruments" (pp.86) at <http://www.unece.org/fileadmin/DAM/ceci/publications/ip.pdf>.

⁴² Ibid (pp.86 & 87).

⁴³ See European IPR Helpdesk, June 2013 "Fact Sheet on Intellectual Property Valuation" (pp.2) at http://www.iprhelpdesk.eu/sites/default/files/newsdocuments/Fact_Sheet_IP_Valuation_0.pdf.

Methodologies for valuing IP

7.5 There are basically three commonly-used methodologies for valuing IP, namely the Cost, Income and Market Approach⁴⁴. A valuer may use either one or a combination of them depending on the circumstances and the available information. There is, however, no single best methodology for the valuation of IP, as it depends heavily on the purpose for which the valuation is undertaken. Whichever method is chosen, IP valuation will inevitably involve an element of subjectivity⁴⁵. In addition, as IP valuation is still a new, complex

and rapidly evolving area, there is currently little factual basis for recommending good practices to policymakers and standard setters. Any such practices or standards that might be adopted should preferably be principle-based rather than prescriptive⁴⁶.

International development

7.6 International professional organisations, such as the International Valuation and Standards Council (IVSC) and the Royal Institution of Chartered Surveyors (RICS)

⁴⁴ In general, the three Approaches may entail the following:

- the cost-based methodology attempts to determine the value of the IP by means of determining the actual historical cost of generating the IP or its replacement cost;
- the value of an IP depends on the predicted future cash flow to be derived through the exploitation of that particular IP. The income-based methodology thus entails the determination of the cost or value contributed by the IP, and is often assessed by determining the volume of the product sold and the margin on that product to obtain the total profit made; and
- the market-based methodology uses other recent similar market transactions as a reference to obtain the comparable market value of the IP. The basis of the market value is the assumption that if comparable property has fetched a certain price, then the subject property will realise a price something near to it.

See UNECE, 2011 "Intellectual Property Commercialization – Policy Options and Practical Instruments" (pp.88) at <http://www.unece.org/fileadmin/DAM/ceci/publications/ip.pdf>.

⁴⁵ The subjectivity issue arises from the need to:

- assess the quality and strength of IPRs and the capability of the company's management to protect and enforce them;
- assess market prospects of existing and future IP-based products;
- estimate future royalty streams;
- estimate future development costs to bring IP-based products to market;
- assess the risks surrounding all these estimates as well as other risk factors such as the costs of protection, execution, compliance, and enforcement, possibly including litigation; and
- identify comparable IP assets that were recently sold and whose prices a company can use as benchmarks in valuing its own IP.

Ibid (pp.96)

⁴⁶ Ibid (pp.96 & 97).

(based in the UK), have published standards and guidelines for the valuation of intangible assets⁴⁷. Some overseas jurisdictions are also looking into the issue of formulating IP valuation models, methodologies or best practices.

Ideas for Hong Kong

7.7 The establishment of an IP-specific valuation reporting standards by Hong Kong would be a pioneering effort on this front. It would also facilitate the development of IP trading in the long run by providing an instrument for carrying out valuation reporting, as a written account of the valuation that essentially encompasses the factors considered and the analytical thinking process undergone by the valuer in arriving at the valuation conclusion. The reporting format and substance may be governed by a set of common parameters⁴⁸ that would help enhance the transparency and understanding of the valuation process, particularly from the perspective of readers and clients.

7.8 The proposed valuation reporting standards, if eventually established and adopted, would contribute to the long-term development of the valuation profession in Hong Kong by fostering the creation of a pool of local talents conversant in the subject matter, which could be achieved through the appropriate incorporation of the standards in the curriculum of the local surveying-related undergraduate and graduate programmes.

7.9 It is in this context that the Hong Kong Business Valuation Forum (HKBVF)⁴⁹ is working to develop a set of IP valuation reporting standards for Hong Kong. This should be supported.

7.10 On a separate but related front, RICS is preparing a Guidance Note on the Valuation of IPRs (Guidance Note) which seeks to expand on the International Valuation Standard and the Valuation - Professional Standards (Red Book) (see Footnote 47 for details) in order to clarify the legal, functional and economic characteristics of IP that should be considered and reported on in an IP valuation exercise.

⁴⁷ IVSC published the International Valuation Standard 210 Intangible Assets in July 2011, and released the Technical Information Paper 3 "The Valuation of Intangible Assets" in April 2012. See IVSC's project news at <http://www.ivsc.org/workplan/intangible-assets>. RICS published the Valuation - Professional Standards January 2014 (Red Book) in November 2013 which contains guidance notes on the valuation of intangible assets. See <http://www.rics.org/us/shop/RICS-Valuation-Professional-Standards-Red-Book-2013-19750.aspx>.

⁴⁸ The set of common parameters may include: details of the client; purpose, subject and basis (or bases) of the valuation; description of the IP asset(s), assumption, as well as the nature and source of information to be relied on by the valuer; description of the valuation approach employed; the analytical process and empirical data used to arrive at the valuation conclusion, etc.

⁴⁹ HKBVF is an alliance formed in 2005 by three professional institutes, namely RICS, the Hong Kong Institute of Surveyors and the Hong Kong Society of Financial Analysts, by way of a Memorandum of Understanding with the aim of addressing the increasing need for business valuation services in Hong Kong.

The document is expected to be finalised by the first quarter of 2015. Once finalised, the Guidance Note would be included in the Red Book for international use.

Recommended actions

7.11 Support the development of “IP valuation reporting standards” for first-mover use in Hong Kong.

Actions taken so far and way forward

7.12 HKBVF plans to launch the “IP valuation reporting standards”, as part of the Business Valuation Standards⁵⁰, in 2015. The Government would explore with HKBVF on how best to promulgate it to maximise the impact, e.g. at the 2015 Business of Intellectual Property Asia Forum (BIP Asia) and the dedicated website to be set up by IPD (see Chapter 9 for details).

7.13 The Government also welcomes similar initiatives undertaken by other professional organisations, and under appropriate circumstances, would explore with them on ways to exploit the promulgation and use of those standards in Hong Kong as the first mover.

⁵⁰ See <http://hkbvf.org/bvs.html>.

IP due diligence

7.14 As mentioned in paragraph 7.3, according to the UKIPO Report, apart from the absence of information over valuation, the absence of information over the security of IP assets and their disposal in the event of distress would also inhibit financing. Therefore, another important facilitator for IP financing is IP due diligence, which is essentially an “audit” process to define, examine and analyse the IP portfolio of a target entity, to advise on the strength, scope and enforceability of the IP assets, and to evaluate the value for acquisition. It is applicable in mergers and acquisitions, joint ventures and other licensing arrangements, venture capital financing and securitisation of IP assets⁵¹.

7.15 If conducted properly, IP due diligence would help assess the true value of the IPRs, reveal the client's market position vis-à-vis its competitors, project on how the IPRs might impact upon future commercial activities,

analyse the risk of the transaction and most importantly, advise on strategic solutions to any existing or potential problems⁵². The benefits of conducting IP due diligence would, however, extend beyond this level: it would confer a body of knowledge on the investigating party whereby it could be parlayed into reshaping transactions, re-invigorating stalled negotiations, reconciling valuations and articulating issues for resolution. As such, IP due diligence provides a vehicle to facilitate other IP intermediary services such as IP valuation, IP financing and IP insurance, as well as for knowledge collection purpose, which are all indispensable in educated decision-making and calculated risk-taking⁵³.

7.16 Given the value and importance of IP due diligence in the context of commercialisation and trading of IP, there is a case to promote its wider use by businesses. Professional bodies with IP expertise may also play a part in such promotional efforts.

⁵¹ See Kenny Wong and Alice Lee, 2012 “Intellectual Property Law and Practice in Hong Kong” (pp.516 & 517), Sweet & Maxwell.

⁵² Ibid (pp.517).

⁵³ See Michele C Bosch and Adriana L Burgy, 2006 “Demystifying IP Due Diligence” (pp.6), Finnegan Articles at <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=3af2e1b1-aa4f-47fa-bf5c-6429a5171f55>.

Recommended actions

7.17 Seek collaboration with professional bodies to compile an IP due diligence checklist to facilitate businesses, particularly SMEs, in understanding the process and the benefits that it would bring about prior to seeking IP finances and engaging in IP trading activities.

Actions taken so far and way forward

7.18 IPD is joining hands with the Law Society to compile and publish a checklist containing basic practical guidelines on two areas, namely “IP audit” (management for day-to-day business) and “IP due diligence” (due diligence for IP transactions), which is expected to be made available in 2015.

IP financing and insurance

7.19 IP financing is a vast subject which may cover both debt financing (such as banking facilities, asset finance and asset-based lending) and asset financing (from crowdfunding, to angel network, venture capital, private equity, etc.). One central issue is how best for all relevant stakeholders to recognise IP as an asset class and to realise its business value and economic growth potential, such that owners may just use it like tangible security to access finance to support business growth, to the benefit of both the owners and the financiers. As mentioned in paragraph 7.3, there are difficulties to overcome for IP financing given the intangible nature of IP, in particular its valuation, its security and its disposal in the event of distress. One basic problem is the lack of awareness and understanding of IP by both the supply and demand side on the financing landscape. According to the UKIPO Report, “SMEs are not much better placed to understand and communicate the IP and intangibles they own than the lender or investor”⁵⁴.

7.20 As an asset class by itself, IP presents unique opportunities and challenges vis-à-vis other types of asset with which the markets, particularly the banking and finance one, are more familiar. To guard against unforeseen events, insurance for IP may be sought mainly

⁵⁴ See UKIPO 2013, “Banking on IP? The role of IP and intangible assets in facilitating business finance” Summary of a report for the Intellectual Property Office (pp.15) at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/312018/ipresearch-bankingip-sum.pdf.

for (i) risk mitigation; (ii) deterring potential infringers; and (iii) encouraging investment. The rather under-developed IP insurance market, particularly in Hong Kong, could be attributed to a combination of factors such as a lack of awareness and interest on stakeholders' part to pursue IP insurance; unawareness of the availability of local product expert on IP underwriting, insurance brokerage and agency, and risk management services; scepticism from insurers whose traditional asset protection solutions focussed almost exclusively on tangible security; and key markets' reluctance to invest and develop expertise in a particular market unless and until they saw good business potential.

7.21 Studies and researches conducted by selected overseas jurisdictions and international organisations⁵⁵ identified the general lack of awareness and understanding of IP among the stakeholders (i.e. the financial services sector and business community, particularly financiers, insurers and SMEs) as a fundamental barrier hindering the greater use of IP assets to raise finance. Whilst they have come up with different recommendations to address the issue having regard to their own needs and circumstances, some broad directions forward

could still be drawn after consolidation, as follows:

- (a) raise general awareness of IP by all stakeholders, and promote dialogue between the business community (particularly innovative SMEs) and the financial services sector;
- (b) facilitate the development of market for IP transactions; and
- (c) help businesses develop more effective IP management and commercialisation capabilities.

7.22 In the Hong Kong context, there are apparent challenges in further promoting IP financing and insurance as a result of the immaturity of the market, the general lack of awareness and understanding on the unique nature of IP as an asset class, and its potential as security for lending purposes. It would thus be important to build up an understanding and appreciation of the value of IP, through education and other promotional efforts, and help businesses engender confidence in their IP assets which could be leveraged effectively to support growth.

⁵⁵ They include: "Banking on IP? The role of intellectual property and intangible assets in facilitating business finance Final Report" published by UKIPO in November 2013, "Banking on IP – An Active Response" published by UKIPO in April 2014, "The Final Report from the Expert Group on Intellectual Property Valuation" published by the European Commission in November 2013, and "Using intellectual property to raise finance for innovation", a policy brief published by the Innovation Policy Platform (a joint effort by OECD and the World Bank) in March 2014.

Recommended actions

7.23 Focus on building up and enhancing the understanding of IP as an asset class among the financial services sector and the business community through various recommended measures and other education and promotional efforts in the pipeline, and remain vigilant of relevant overseas development to draw lessons, as prerequisites to further exploring the subject of IP financing and insurance.

Actions taken so far and way forward

7.24 Various actions for increasing awareness and understanding of SMEs and the general public about IP management and trading have been recommended and are being taken forward:

- (a) IP Advisory Service providing free advisory services on IP management for SMEs (see paragraph 5.5);
- (b) IP Manager Scheme supporting SMEs to build up their manpower capacity on IP management and commercialisation (see paragraphs 6.8 to 6.11);
- (c) A dedicated website “Hong Kong – The IP Trading Hub” providing IP trading related information in Hong Kong in a one-stop manner (see paragraph 9.8); and
- (d) Promotion and public education campaign building an IP awareness culture and branding Hong Kong as a premier IP trading hub in the region (see paragraph 9.9).

Focus strategies

8.1 The Framework sets out the following focus strategies under Strategic Area (III):

- (a) *Facilitate the provision of highly specialised professional services in IP trading, e.g.:*
 - (i) *IP valuation;*
 - (ii) *IP financing;*
 - (iii) *IP insurance;*
 - (iv) *IP arbitration and mediation;*
 - (v) *IP due diligence; and*
 - (vi) *IP matching services.*
- (b) *Attract and nurture talents in IP activities, and support the building of strong IP related professions.*

This chapter focuses on IP arbitration and mediation under Strategic Area (III) which are specific subjects covered by one of the two sub-groups formed (see paragraph 1.9).

Alternative Dispute Resolution in Hong Kong

8.2 Alternative Dispute Resolution (ADR) is a term which has been used collectively for the ways in which parties can settle disputes, and is an alternative to a formal court hearing or litigation. The most common forms of ADR include arbitration and mediation.

8.3 Arbitration is a consensual and confidential procedure in which a dispute is submitted to one or more arbitrators who make a binding decision on the dispute. Parties to arbitration may appoint arbitrators who are experts in the relevant field of dispute. The procedure is also neutral to the law, language and institutional culture of the parties, thereby avoiding any home court advantage that one of the parties may enjoy in court-based litigation. Arbitral awards are generally enforceable in over 150 contracting states to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards⁵⁶.

8.4 Mediation, being a flexible and less formal process as compared to arbitration, is a voluntary, confidential and non-binding procedure in which an impartial intermediary, the mediator, assists the parties in reaching a settlement of the dispute. The mediator will not adjudicate on the dispute. It is a popular option for parties that are keen to preserve or enhance their relationship, seek to maintain control over the dispute settlement process and the terms and conditions of any settlement, minimise the cost-exposure entailed in settling the dispute, value confidentiality, or want to reach a speedy settlement without damage to their reputations.

8.5 The Government is committed to developing and promoting Hong Kong as a leading dispute resolution centre in the Asia Pacific region. The Department of Justice

⁵⁶ See http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html.

(DoJ) has been making continuous efforts to improve our legal framework and set up necessary infrastructure for speedy and effective resolution of disputes. The Hong Kong courts also support the use of ADR, and have encouraged its greater use through the Civil Justice Reform in 2009⁵⁷.

8.6 In its 2015 policy initiatives⁵⁸, DoJ announced steps to facilitate the continued development of Hong Kong as a centre for international legal and dispute resolution services in the Asia Pacific Region. Some on-going initiatives are particularly relevant to and would complement the long-term development of IP trading in Hong Kong, namely⁵⁹:

- (a) promote Hong Kong's legal and dispute resolution services in Mainland China actively;
- (b) further foster the development of mediation services in Hong Kong with the efforts of the Steering Committee on Mediation chaired by the Secretary for Justice (SJ), and among other things, DoJ plans to develop suitable mediation schemes for specific trades or fields;

- (c) conduct a consultancy study in conjunction with HKTDC on the development of arbitration in Hong Kong and the challenges and opportunities that Hong Kong faces as a regional centre for international arbitration in the Asia Pacific region; and
- (d) enhance the promotion of legal and dispute resolution services of Hong Kong among emerging economies in the Asia Pacific Region.

ADR in IP trading

8.7 The surge in global and regional demand for IP, especially in Mainland China in the past two decades, offers huge market potential and trading opportunities in IP. In addition to economic growth and advancement, increased IP transactions and volume also bring about a higher chance of dispute. In Mainland China alone, the number of first instance civil IP cases accepted by the local courts in 2013 was 88 583⁶⁰, up by 106% as compared to 42 931 cases in 2010⁶¹. While litigation is a common option for resolving

⁵⁷ See <http://www.doj.gov.hk/eng/public/alternative.html>.

⁵⁸ See <http://www.legco.gov.hk/yr14-15/english/panels/ajls/papers/ajls20150126cb4-367-3-e.pdf>.

⁵⁹ Ibid (pp. 5, 6, 9 and 10).

⁶⁰ See "China: Intellectual Property Protection by Chinese Courts in 2013" at <http://www.mondaq.com/x/317554/Trademark/Intellectual+Property+Protection+by+Chinese+Courts+in+2013>.

⁶¹ See "Intellectual Property Protection by Chinese Courts in 2010" at http://english.sipo.gov.cn/laws/whitepapers/201104/t20110429_602312.html.

domestic IP disputes, there would undoubtedly be increasing use of ADR for resolving international IP disputes when the latter continues to grow in numbers and complexity. To date, the WIPO Arbitration and Mediation Centre (WIPO Centre) has administered some 400 mediation, arbitration and expert determination cases, the majority of which were filed in the past years⁶². The WIPO Centre's caseload typically involves international IP and information technology (IT) disputes, e.g. 35% of the caseload had been on patent disputes, 22% on IT disputes and 15% over disputes on trade marks⁶³.

8.8 Hong Kong's strategic "gateway" position between the Mainland and the rest of the world, our robust and independent legal system and the availability of related professional talents are valuable assets to facilitate the provision and further development of ADR services, notably arbitration and mediation, for resolving IP disputes which are often characterised by the involvement of parties from different jurisdictions, are technical in nature, and require speedy resolution, finality of award and confidentiality.

Major issues explored

8.9 Several pertinent issues have been identified and explored in order to make use of ADR in promoting IP trading in Hong Kong:

- (a) Promote Hong Kong as an international IP arbitration and mediation centre

Promotional activities jointly organised by the Government, professional organisations and HKTDC, e.g. BIP Asia, Hong Kong Legal Services Forum, served as good platforms to showcase Hong Kong's dispute resolution services to businesses and relevant stakeholders in Mainland China and overseas. On a macro level, publicity and promotion would help raise the awareness of the general public and potential users about arbitration and mediation as alternative means for resolving IP disputes. Enhanced awareness would facilitate the understanding of the subject matters, which would in turn increase the demand for the concerned ADR services in the long run, and would promote and identify Hong Kong as an international IP ADR centre.

⁶² See WIPO Caseload Summary at <http://www.wipo.int/amc/en/center/caseload.html> (accessed on 17 February 2015).

⁶³ Ibid.

(b) Arbitrability of IP disputes

There have been doubts among the arbitration and IP community on the arbitrability of IP disputes, especially on issues on validity of registered IPRs (patents, trade marks and registered designs) granted by state agencies or government authorities. At present, there is no specific legislative provision addressing the arbitrability of IP disputes in Hong Kong. Looking abroad, there appears to be only a handful of overseas jurisdictions which have express statutory provisions or case precedents on arbitrability of certain IP disputes⁶⁴. To make Hong Kong stand above the other jurisdictions in Asia as a venue for resolving IP disputes, specific guidance on the issue of arbitrability can be a positive factor. Arbitrability can be an important issue also at the commencement and during the process of arbitration. Resolving the doubt may tip the scale in favour of Hong Kong as an IP arbitration centre as it would help (i) clarify the ambiguity in regard to the “arbitrability of IP disputes” in a case where Hong Kong has been chosen as the seat of arbitration, or

Hong Kong law has been chosen as the governing law of the arbitration; (ii) make Hong Kong more appealing than other jurisdictions for hosting arbitration involving IP disputes; and (iii) demonstrate to the international community Hong Kong’s commitment to developing itself as an international centre for ADR involving IP matters as an integral part of its drive to establish itself as an IP trading hub in the region.

(c) A special panel of IP arbitrators and mediators

It was suggested that having a special panel of IP arbitrators and mediators was essential as this would boost credentials for Hong Kong to develop and identify itself as a centre for IP arbitration and mediation. The availability of a special panel of IP arbitrators and mediators, comprising local and international IP experts and professionals in the respective fields, would help elevate Hong Kong’s profile in that respect and attract IP players worldwide to choose Hong Kong as the place for trading IP and resolving their disputes.

⁶⁴ For instance, the US Code Title 35 S.294(a) expressly states that any dispute relating to the validity or infringement of patents can be settled by arbitration. The patent law of Belgium also expressly permits arbitration of disputes relating to the ownership, validity, infringement, compensation for disclosure or licensing of patents. Switzerland’s Federal Office of Intellectual Property ruled in 1975 that arbitral tribunals are empowered to decide all issues of IPRs, including the validity of patents, trade marks and designs. Arbitral awards can serve as a basis for entries in the relevant registry so long as it has obtained sanction from the court at the seat of the arbitration certifying its enforceability. It therefore appears that all aspects of IPRs are arbitrable in Switzerland.

- (d) Dedicated arbitration and mediation rules for IP disputes

The availability of dedicated institutional rules for IP arbitration and mediation would strengthen Hong Kong's specialty and capability in the concerned areas, and complement its long-term development as a regional IP trading hub. The formulation of dedicated sets of rules for arbitration and mediation for a specialised subject such as IP would also offer useful information and guidance to those who had to arbitrate or mediate on that specialised subject.

For mediation, it should be considered whether the more commonly used facilitative model of mediation, or rather the evaluative model of mediation is more appropriate for IP disputes, particularly for disputes involving complex legal and technical issues.

- (e) Training for IP arbitrators and mediators

It was suggested to explore the possibility of organising arbitration and mediation training specifically for IP practitioners, and training on IP and related issues for arbitrators and mediators, so as to facilitate cross-fertilization of expertise in the relevant fields, as well as to build up the necessary manpower capacity in the long run.



Recommended actions

8.10

- (a) Highlight IP as an exemplary specialised area in developing and promoting Hong Kong as an international ADR centre;
- (b) Promote Hong Kong as an international IP arbitration and mediation centre;
- (c) Study the need for legislative amendments to clarify the arbitrability of IP disputes;
- (d) Promote and develop the use of mediation as a means to resolve IP disputes in Hong Kong and explore the use of evaluative mediation on top of facilitative mediation for the purpose; and
- (e) Work with local arbitral and mediation bodies to improve offerings on IP arbitration and mediation.

Actions taken so far and way forward

8.11 Preparation work of DoJ's consultancy study on the development of arbitration in Hong Kong (see paragraph 8.6(c) above) is underway, which would consider the strengths, weaknesses, opportunities and challenges for Hong Kong in relation to its status as an international arbitration hub, particularly in the face of stiffening regional and international competition. IP would be given a proper focus and position in the study. The findings and recommendations from the study would also greatly assist with long-term policy planning and strategic development in this area.

8.12 In promoting Hong Kong as an ADR centre in Mainland China and overseas, efforts will be made to feature IP arbitration and mediation as one of the important components.

8.13 IPD is conducting further researches and studies in exploring potential refinement to the substantive and/or procedural laws relevant to arbitration with a view to enhancing the competitiveness of Hong Kong in being an international IP ADR centre. The department would also work with DoJ and stakeholders to develop and promote the use of mediation to resolve IP disputes, and to explore the use of evaluative mediation on top of facilitative mediation as a means of dispute resolution for IP disputes⁶⁵.

8.14 The Government is also bringing on board relevant stakeholders, including local arbitration and mediation institutions, to pursue the actions recommended above.

⁶⁵ At the Ceremonial Opening of the Legal Year 2015, SJ mentioned that one of the key focuses in the coming years would be the use of mediation as a means to resolve IP disputes. To this end, DoJ would explore the use of evaluative mediation on top of facilitative mediation. See <http://www.info.gov.hk/gia/general/201501/12/P201501120784.htm>.

Focus strategies

9.1 The Framework sets out the following focus strategies under Strategic Area (IV):

- (a) *Brand and market Hong Kong as a premier IP trading hub to attract overseas and Mainland China IP owners and users, as well as intermediaries.*
- (b) *Foster an IP awareness culture in society especially among SMEs and the younger generation, and promote the importance and opportunities brought by IP management and trading.*
- (c) *Collaborate with Mainland China, overseas and international IP authorities in fostering the development of IP trading internationally and in the region.*

Brand Hong Kong

9.2 Branding Hong Kong as a regional IP trading hub is important to educate and focus market players both internally and externally on the benefits and opportunities offered by Hong Kong in this area, as well as to attract overseas and Mainland China IP creators and users, and IP intermediaries to use Hong Kong as a marketplace. On the international publicity

front, the Information Services Department (ISD) has been producing promotional materials on Hong Kong as an IP trading hub, including a Fact Sheet. The subject is also featured in the BrandHK series and the promotional booklet "This is Hong Kong" for distribution to external audience. Where appropriate, ISD has arranged briefings and visits relating to Hong Kong as an IP trading hub for VIP visitors and visiting overseas journalists, as well as assisted in inviting overseas journalists to cover local IP events.

9.3 At home, the Government co-organised BIP Asia with HKTDC and the Hong Kong Design Centre (HKDC) since 2013. The Forum sought to bring together IP professionals, business leaders and government officials to explore the huge opportunities brought about by the exploitation and trading of IPRs. Launched in 2011, BIP Asia has now become an annual IP flagship event in the region. In the 2014 edition, over 2 000 participants from 36 countries and regions attended the Forum, representing a 22% growth as compared to that in 2013.

9.4 On top of the above, it would be more efficient and effective to promote Hong Kong as an IP trading hub through concerted efforts in branding and marketing with a view to achieving a sustainable impact.

Recommended actions

9.5 Launch a dedicated website “Hong Kong – The IP Trading Hub” to provide a one-stop shop for information dissemination.

9.6 Launch a promotion and public education campaign locally and internationally to boost the image of Hong Kong as a premier IP trading hub.

9.7 Continue to co-organise BIP Asia with HKTDC and HKDC.



Actions taken so far and way forward

9.8 IPD will launch a dedicated website “Hong Kong – The IP Trading Hub”, which aims to provide a one-stop shop for disseminating information relating to Hong Kong as an IP trading hub for different target audience such as SMEs, IP professionals and intermediaries, overseas and Mainland China companies interested in conducting IP trading in Hong Kong, general public and the international community.

9.9 IPD will also launch a promotion and public education campaign, which seeks to boost the image of Hong Kong as a premier IP trading hub, both locally and internationally, through a series of promotional and public education activities⁶⁶.

9.10 Riding on the success of BIP Asia held in 2013 and 2014, the Government will continue to co-organise BIP Asia with HKTDC and HKDC in 2015, with

a view to escalating this premier regional IP event to a more strategic level. This joint venture also underlines the Government’s commitment to a leadership position in making the most of a still nascent knowledge market.

IP awareness

9.11 Promotion and public education can enhance the awareness of society on the benefits and opportunities brought by IP, and encourage companies, professionals, the younger generation, etc. to be fully equipped to grasp the new opportunities offered. It would never be too early to start and nurture a culture that appreciate, respect and exploit IPRs, as knowledge protected by law, as a key driving force in furthering the development of Hong Kong as an externally-oriented economy thriving on trade.

⁶⁶ Initially, the proposed promotion channels may include:

- TV and Radio Announcements of Public Interest;
- promotional video featuring success stories;
- print and online advertisement;
- Business of Intellectual Property Asia Forum 2015 and the Business of Intellectual Property Zone set up in over 10 trade shows in 2015;
- Government’s Economic and Trade Offices on the Mainland and overseas, Invest Hong Kong and HKTDC; and
- communications through IP-related and business organisations to their members.

IPRs education in schools

9.12 The Government is committed to promoting awareness of IPRs of individuals and respect for the rights of others. The Education Bureau (EDB) strives to provide students with learning opportunities to acquire knowledge of all domains and to nurture their positive values and attitude in schools through a holistic school curriculum. Students have ample opportunities to develop an understanding of the concepts and values in relation to IPRs in the existing school curricula.

9.13 In schools, important knowledge and concepts, decision making skills and values on IP, such as integrity, responsibility, rule of law, and justice, are taught and discussed in order to enhance students' understanding and values. The issue of IPRs is a cross-disciplinary issue and has already been covered in our school curriculum in many Key Learning Areas

and subjects such as General Studies at primary level, Life and Society at junior secondary level, Liberal Studies at senior secondary level as well as moral and civic education. Through learning related subjects and topics, students would develop their awareness and understanding of IPRs.

9.14 Various education resources have been developed and provided to schools to help nurture students' understanding of and positive values on IPRs. Related support measures will continue to be provided to schools. Professional development programmes were available for teachers to enrich and enhance their understanding of IPRs in connection to curriculum development as well as learning and teaching.

9.15 IPD has been striving to promote the awareness of respect for IPRs in schools by organising primary and secondary school visit



programmes since 1997. Five part-time IPRs tutors who possess Certificate in Education and equipped with basic IP knowledge conduct the school talks. In end-2014, the programme has covered 1 299 schools and 424 241 students. Starting in 2011, IPD has organised seminars in tertiary institutions by inviting speakers from graphics design, music industry, movie industry, IP bodies, etc. to encourage creativity and to share views and experience in their working environment and strategies of IP protection.

Recommended actions

9.16 Study ways to cultivate and enhance IP awareness and promote the importance of IP in economic development in different parts of the education system.

Actions taken so far and way forward

9.17 EDB will continue to support schools in enhancing students' understanding and attitude in connection to the issue of IPRs through resource development, professional development programmes and school-based support services so as to equip teachers to teach IPR-related topics in the school curriculum competently and effectively. Learning and teaching resources, such as Life Event Approach exemplars and video-based learning materials on personal and social issues/dilemma situations, are continuously developed to support the implementation of values education in schools.

9.18 EDB will also continue to support IPD, which takes the lead in the promotion of IPRs and has expertise and resources in IPRs education to the public in educational outreach programmes for students and other initiatives in IPRs education. As for IPD, it will continue its dedicated education efforts in schools with an aim to include a message on the value of IP and its importance in driving economic development through

its school programmes as well as other activities. IPD will also explore the need to provide further support in:

- (a) building up school teachers' manpower capacity on solid IP concepts and knowledge through workshops and seminars; and
- (b) assisting schools to integrate IP in the existing curriculum or teaching materials.

9.19 It is important that EDB and IPD, being professional departments in their respective fields, should sustain separate and collaborative efforts in nurturing a culture in the younger generation to appreciate, respect and exploit IPRs and preparing themselves for the opportunities in the future IP economy.

External collaboration

9.20 It is important to build up and foster stronger collaborations with Mainland China and international IP organisations to enhance Hong Kong's overall image and attractiveness as an advanced economy in the global IP arena. Through the collaboration with Mainland China, overseas and international IP authorities and institutions, it is expected to:

- (a) help brand Hong Kong as a premier IP trading hub in the region and internationally;
- (b) promote Hong Kong's strategic position as a springboard for investors from overseas and Mainland China seeking to tap each other's market;
- (c) strengthen collaboration between Hong Kong and other countries/regions in the area of IP trading; and
- (d) promote and enhance IP awareness, and its vast potential and ability to drive economic development in Hong Kong, Mainland China and other countries/regions.

Recommended actions

9.21 Seek positive opportunities to cooperate with Mainland China, overseas and international IP authorities and organisations.

Actions taken so far and way forward

9.22 IPD has been working to build up and foster stronger collaborations with international and Mainland China IP authorities in promoting IP trading. At the international level, IPD, representing Hong Kong as a full WTO member, has been actively participating in the deliberation of some TRIPS issues in the TRIPS Council, sending high level delegation to the Trade Policy Review Meeting to promote Hong Kong's efforts in enhancing the IP protection regime, and giving speech in WTO-organised workshops relating to the protection and promotion of IPRs. The Director of IPD also joins the delegation of China

in attending the annual Meetings of the Assemblies of the Member States held by WIPO. Besides, IPD has been making use of the Asia Pacific Economic Cooperation Intellectual Property Rights Experts' Group forum to promote and further Hong Kong's interest on IP and related matters. In 2014, the department signed a general agreement on IP co-operation with the International Trademark Association. In early 2015, IPD signed a Memorandum of Understanding respectively with the Korean Intellectual Property Office and the Mexican Institute of Industrial Property to enhance cooperation and promote commercialisation of IP.

9.23 In regard to collaborations with Mainland China IP authorities, IPD had signed general IP cooperation agreement with SIPO in 2011, and has been joining hands with IP authorities in Mainland China under the Pan-Pearl River Delta Cooperation and Guangdong/Hong Kong Expert Group on Protection of IPRs and SIPO on promoting the development of IP trading in the regions.



9.24 IPD will continue to participate in different international and regional conferences and meetings, and explore external collaboration opportunities with the international and regional community.

Recommended Actions		Page
Strategic Area (I): Enhancing the IP protection regime		
1	Build an OGP system which is up to international standards and is user-friendly, through cooperation with reputable patent examination office(s)	18
2	Explore the feasibility of building up substantive examination capability on niche areas where Hong Kong has an edge in R&D in the longer run	18
3	Explore cooperation with other patent authorities by making reference to international developments such as the setting up of PPH	18
4	Review and update the copyright law regularly to ensure that it keeps pace with technological and international developments to meet our economic needs	20
5	Pursue the proposed application of the Madrid Protocol to Hong Kong taking into account the consultation outcome	23

Recommended Actions		Page
Strategic Area (II): Supporting IP creation and exploitation		
6	Launch a scheme for IP Advisory Service to provide free preliminary advisory services to SMEs	25
7	Keep under review Government's support for R&D activities as well as technology transfer, application and commercialisation of R&D outcomes and seek enhancement where appropriate	26
8	Sustain Government's support for the creative industries through various dedicated agencies and engagement in licensing and franchising arrangements	30
9	Continue expansion of Hong Kong's network of CDTAs with its major trading and investment partners so as to enhance Hong Kong's position as an international business and financial centre while providing relief for double taxation	32
10	Consider tax incentives for IP trading taking into account international practices and concerns, notably expansion of the present tax deduction for capital expenditure incurred on the purchase of IPRs under the IRO	34

Recommended Actions		Page
Strategic Area (III): Fostering IP intermediary services and manpower capacity		
11	Enhance and promote the use of AsialPEX launched by HKTDC, for example to encourage IP exchange, licensing and other trading activities	35
12	Launch an IP Manager Scheme to support SMEs to build up their manpower capacity	37
13	Consider sponsoring and promoting training courses in IP related subjects for facilitating the development of IP related services among professionals and nurturing talents	38
14	Introduce a regulatory regime in the long run for patent practitioners as a complementary component of the future OGP system, and explore interim regulatory measures to be launched along with the OGP system	39
15	Complete the first survey on IP trading activities in 2015, and review the results for introducing enhancement in future surveys and exploring the feasibility of launching a dedicated survey on the manpower situation of the IP trading industry	41
16	Support the development of "IP valuation reporting standards" for first-mover use in Hong Kong	46
17	Seek collaboration with professional bodies to compile an IP due diligence checklist to facilitate businesses, particularly SMEs, in understanding the process and the benefits that it would bring about prior to seeking IP finances and engaging in IP trading activities	48

Recommended Actions		Page
Strategic Area (III): Fostering IP intermediary services and manpower capacity <i>(cont'd)</i>		
18	Focus on building up and enhancing the understanding of IP as an asset class among the financial services sector and the business community through various recommended measures and other education and promotional efforts in the pipeline, and remain vigilant of relevant overseas development to draw lessons, as prerequisites to further exploring the subject of IP financing and insurance	50
19	Highlight IP as an exemplary specialised area in developing and promoting Hong Kong as an international ADR centre	56
20	Promote Hong Kong as an international IP arbitration and mediation centre	56
21	Study the need for legislative amendments to clarify the arbitrability of IP disputes	56
22	Promote and develop the use of mediation as a means to resolve IP disputes in Hong Kong and explore the use of evaluative mediation on top of facilitative mediation for the purpose	56
23	Work with local arbitral and mediation bodies to improve offerings on IP arbitration and mediation	56

Recommended Actions		Page
Strategic Area (IV): Pursuing promotion, education and external collaboration efforts		
24	Launch a dedicated website “Hong Kong – The IP Trading Hub” to provide a one-stop shop for information dissemination	59
25	Launch a promotion and public education campaign locally and internationally to boost the image of Hong Kong as a premier IP trading hub	59
26	Continue to co-organise BIP Asia with HKTDC and HKDC	59
27	Study ways to cultivate and enhance IP awareness and promote the importance of IP in economic development in different parts of the education system	62
28	Seek positive opportunities to cooperate with Mainland China, overseas and international IP authorities and organisations	64

Membership List of the Working Group on IP Trading



Mr Gregory SO, GBS, JP
Chairman



The Hon Andrew LIAO Cheung-sing, GBS, SC, JP
Vice-chairman



Mr Nicholas BROOKE, SBS, JP



Dr Jackson CHAN Chik-sum



Dr Toby CHAN Lap-man



Professor Paul CHEUNG Ying-sheung



Professor Raymond CHOY Hon-sing



Ms Yvonne CHUA



Dr Roy CHUNG Chi-ping, BBS, JP



Mr Peter KUNG



Mr Alfred KWOK Chan-fai



Mr Anson KWOK



Mr KWONG Chi-keung, JP



Mr Ronald LAI Chi-shing



Dr Terence LAU Lok-ting



Mr Jong LEE



Mr Sunny LEE Wai-kwong, JP



Dr Lewis LUK Tei, JP



Mr WONG Ming-yam, BBS, JP



Professor Po Chi WU



Miss Janet WONG, JP
Commissioner for Innovation and Technology



Mr Peter CHEUNG, JP
Director of Intellectual Property
(up to 14 May 2014)



Ms Ada LEUNG, JP
Director of Intellectual Property
(from 15 May 2014)

and



Mr Jerry LIU
Head of Create Hong Kong



Ms Margaret FONG
Executive Director of Hong Kong Trade Development Council

List of organisations engaged to discuss IP valuation and related matters

Asia Patent Attorneys Association Hong Kong Group

Chinese General Chamber of Commerce

Hong Kong General Chamber of Commerce

Hong Kong Institute of Certified Public Accountants

Hong Kong Institute of Surveyors

Hong Kong Institute of Trade Mark Practitioners

Hong Kong Society of Financial Analysts

Law Society of Hong Kong

Licensing Executives Society of China Hong Kong Chapter

Royal Institution of Chartered Surveyors

**List of organisations engaged to discuss
IP arbitration and mediation**

Chartered Institute of Arbitrators (East Asia Branch)

China International Economic and Trade Arbitration Commission
Hong Kong Arbitration Center

Hong Kong Bar Association

Hong Kong Institute of Arbitrators

Hong Kong International Arbitration Centre

Hong Kong Mediation and Accreditation Ltd

Hong Kong Mediation Centre

Hong Kong Mediation Council

International Court of Arbitration of the International Chamber
of Commerce Asia Office

Law Society of Hong Kong

List of Abbreviations

Advisory Committee	Advisory Committee on Review of the Patent System in Hong Kong
ADR	Alternative Dispute Resolution
ASEAN	Association of Southeast Asian Nations
AsiaIPEX	Asia IP Exchange
BEPS	Base Erosion and Profit Shifting
BIP Asia	Business of Intellectual Property Asia Forum
C&SD	Census and Statistics Department
CDTAs	Comprehensive Avoidance of Double Taxation Agreements
CE	Chief Executive
DoJ	Department of Justice
EDB	Education Bureau
Framework	Strategic Framework promulgated by the Working Group on Intellectual Property Trading
Guidance Note	Guidance Note on the Valuation of Intellectual Property Rights compiled by the Royal Institution of Chartered Surveyors
HKBVF	Hong Kong Business Valuation Forum
HKDC	Hong Kong Design Centre
HKTDC	Hong Kong Trade Development Council
I&T	Innovation and Technology
IP	Intellectual Property
IPD	Intellectual Property Department

IPRs	Intellectual Property Rights
IRO	Inland Revenue Ordinance
ISD	Information Services Department
IT	Information Technology
ITC	Innovation and Technology Commission
ITF	Innovation and Technology Fund
ITF Review	Review of the Innovation and Technology Fund
IVSC	International Valuation and Standards Council
Law Society	Law Society of Hong Kong
LegCo	Legislative Council
Madrid Protocol	Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks
OECD	Organisation for Economic Co-operation and Development
OFF	Office of First Filing
OGP	“Original Grant” patent
OSF	Office of Second Filing
OSPs	Online Service Providers
PCT	Patent Cooperation Treaty
PPH	Patent Prosecution Highway
R&D	Research and Development
Red Book	“Valuation - Professional Standards” published by the Royal Institution of Chartered Surveyors

List of Abbreviations

RICS	Royal Institution of Chartered Surveyors
SCED	Secretary for Commerce and Economic Development
SIPO	State Intellectual Property Office
SJ	Secretary for Justice
SMEC	Small and Medium Enterprises Committee
SMEs	Small and Medium-sized Enterprises
Survey	Survey on Intellectual Property Trading
The Bill	Copyright (Amendment) Bill 2014
TIAB	Trade and Industry Advisory Board
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UKIPO	Intellectual Property Office of the UK
UKIPO Report	“Banking on IP? The role of IP and intangible assets in facilitating business finance” published by the Intellectual Property Office of the United Kingdom in November 2013
UNECE	United Nations Economic Commission for Europe
WIPO	World Intellectual Property Organization
WIPO Centre	World Intellectual Property Organization Arbitration and Mediation Centre
Working Group	Working Group on Intellectual Property Trading
WTO	World Trade Organization

Survey on Intellectual Property Trading Preliminary Findings

IPD commissioned a consultant in June 2014 to conduct a survey on IP trading (Survey) with a view to collecting more information on IP trading activities conducted by IP creators, owners and users as well as IP intermediaries¹ in Hong Kong. The findings of the Survey will be useful to the Government in formulating policies with respect to the promotion and development of IP trading in Hong Kong.

2. The Survey covered establishments in selected industries in which IP-related businesses are likely to be prevalent. These establishments were classified into two main groups, namely, a) IP intermediaries and b) IP creators/owners/users in nine surveyed sectors², as identified in interviews, focus group discussions and a desk-top study conducted prior to the Survey. The Survey collected opinions and quantitative information from the surveyed establishments on four major aspects in relation to their IP trading activities –

- (i) the scope of IP-related services/activities conducted;
- (ii) the number of persons engaged in IP-related activities;
- (iii) business receipts generated by and the expenses incurred in IP-related businesses; and
- (iv) respondents' views on the development of IP trading in Hong Kong.

¹ An IP intermediary generally refers to a party or platform that offers and provides one or more intermediary services for any arrangement, activity, task, negotiation, transaction or proceedings which involves addressing and/or resolving an IP issue, such as IP registration, arbitration and mediation, matching services, legal services and valuation, etc. In this Survey, the surveyed IP intermediaries include establishments in the legal services industry and IP intermediary establishments in industries other than the legal services industry (e.g. accounting & auditing services, business management & consultancy services, miscellaneous professional, scientific and technical activities, and other services).

² The nine surveyed sectors are: (i) “motion picture, video and TV programme production and distribution”; (ii) “television programming and broadcasting”; (iii) “sound recording and music publishing”; (iv) “publishing of books, directories and mailing lists”; (v) “computer programming”; (vi) “knowledge transfer offices of local universities, and research and development centres”; (vii) “leasing of intellectual property and similar non-financially intangible assets (except copyrighted works); (viii) “import/export trading of household goods; and (ix) “import/export trading of machinery, equipment and supplies”.

3. A total of 2 329 establishments were successfully enumerated in the Survey. They included 437 IP intermediaries (including 240 establishments in the legal services industry and 197 in other industries) and 1 892 IP creators/owners/users.

Preliminary Findings

(i) Scope of IP-related services/activities conducted

4. For IP intermediaries, the findings showed that about one-third of the establishments in the legal services industry provided IP intermediary services at the time of enumeration. Among this third of establishments, slightly more than two-thirds in turn provided IP registration and litigation services, and less than one quarter in turn provided IP arbitration and mediation services and IP due diligence services. Only a few of them provided IP services in the areas of matching, valuation, financing and insurance.

5. Meanwhile, among the 197 surveyed IP intermediaries in industries other than the legal services industry, about two-thirds provided IP registration services. Less than one-fifth of them have handled IP matching, valuation, due diligence, arbitration, mediation and litigation services. Only a few of them have provided IP financing and insurance services.

6. As mentioned above, the Survey covered IP creators/owners/users in nine sectors and it was noted that over 70% of the establishments in six of the sectors were engaged in IP activities³. Such IP activities were mostly related to IP creation. The remaining included IP registration, buy and sell, licensing/sub-licensing and enforcement of IP rights.

(ii) Number of persons engaged in IP-related activities

7. The findings showed that, in the legal services industry, there

³ The six sectors are “motion picture, video and TV programme production and distribution”, “sound recording and music publishing”, “publishing of books, directories and mailing lists”, “computer programming”, “knowledge transfer offices of local universities, and research and development centres”, and “leasing of intellectual property and similar non-financially intangible assets (except copyrighted works)”.

For the remaining three sectors, i.e. “television programming and broadcasting”, “import/export trading of household goods”, and “import/export trading of machinery, equipment and supplies”, the relevant figures ranged from less than 10% to about 40%.

were a total of about 2 700 persons engaged who were involved in providing IP intermediary services. As for the surveyed IP intermediaries in other industries, about 1 600 persons were involved in providing IP intermediary services. For IP creators/owners/users, the total number of persons engaged in IP creation and IP management in the nine surveyed sectors were about 19 100 and 15 400 respectively.

(iii) Business Receipts generated by IP-related business in 2013

IP intermediaries in the legal services industry

8. In relation to the establishments in this category that provided IP intermediary services, it was estimated that IP-generated business receipts represented less than one-fifth of the total business receipts of such establishments.

IP intermediaries in other industries

9. In relation to the establishments in this category, it was estimated that their IP-generated business receipts contributed to about one-third of the total business receipts of such establishments.

IP creators/owners/users

10. The business receipts generated by IP trading varied across the various sectors.⁴ However, it is worth noting that the total receipts from IP trading accounted for over half of the total business receipts of the “sound recording and music publishing” sector. In relation to the “computer programming” and the “motion picture, video and TV programme production/distribution” sectors, the IP trading receipts contributed to more than one-third of business receipts of each of the above sectors. Further, the IP trading receipts were mostly related to the licensing/sub-licensing of IP rights and outright sale of IP rights.

(iv) Views on the development of IP trading

11. Generally speaking, the majority of the respondents opined that IP trading could enhance economic growth of Hong Kong.

⁴ Owing to the small sample sizes in the “leasing of intellectual property and similar non-financial intangible assets (except copyrighted works)”, “import/export trading of household goods” and “import/export trading of machinery, equipment and supplies” sectors, information obtained regarding the total business receipts from and the total expenses incurred in IP trading from these sectors could hardly provide any valuable insights from the statistics perspective. As a result, the report will not deal with these findings and will only focus on those obtained from the six remaining surveyed sectors.

Meanwhile, “staff experience/knowledge” was mostly cited by the respondents that had engaged in IP trading as one of the major challenges being faced in the development of IP trading. Other challenges including “awareness of IP trading among clients”, “IP users’ willingness in paying royalties” and “finding suitable IP user/buyers” were also commonly cited.

END