

**For discussion on
15 March 2016**

Legislative Council Panel on Commerce and Industry

**Progress on the promotion of
intellectual property trading in Hong Kong**

Purpose

This paper reports the latest progress on the promotion of intellectual property (IP) trading in Hong Kong.

Background

2. At the Panel Meeting on 19 May 2015, Members were briefed on the conclusion of work by the Working Group on IP Trading (Working Group), the release of a report by the Working Group (Report) in late March 2015 with 28 recommended measures to position and promote Hong Kong as a premier IP trading hub in the region, and the implementation progress being made.

3. The recommended measures fall under four strategic areas of an action framework, 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.

Latest Progress

4. The ensuing paragraphs set out the latest progress of various measures for Members' reference.

Strategic Area (I): Enhancing the IP protection regime

Build an "Original Grant" patent (OGP) system

5. To provide for the legal framework of the new OGP system¹, we introduced the Patents (Amendment) Bill 2015 (Patents Bill) into the

¹ Other major legislative proposals under the Patents Bill include refining the existing short-term patent system and introducing interim measures for regulating local patent practitioners pending the establishment of a full-fledged regulatory regime.

Legislative Council (LegCo) in November 2015. We are assisting the Bills Committee to scrutinise the Patents Bill to strive for its early passage. Subject to the progress of the legislative exercise and other implementation work, we plan to implement the new patent system in 2017 at the earliest.

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

6. A robust copyright regime helps creativity flourish and supports development of a knowledge-based economy. The Government introduced the Copyright (Amendment) Bill 2014 (Copyright Bill) in June 2014 to update our copyright regime. Following scrutiny by a Bills Committee and with its support, LegCo had resumed and concluded the second reading of the Copyright Bill by January 2016. However, the Government could not pursue further due to filibustering by some members. While the legislative exercise could not conclude, the Government will continue to liaise with stakeholders and carefully consider the way forward.

Pursue the proposed application of the Madrid Protocol² to Hong Kong taking into account the consultation outcome

7. We launched in November 2014 a consultation exercise on the proposed application of the Madrid Protocol to Hong Kong. The consultation exercise ended in February 2015. The majority of the respondents support the proposal given the availability of one-stop services for international trade mark registration and management. But some respondents mainly coming from the trade mark profession have expressed concern about the possible lack of practical benefits as well as possible adverse effects on the local IP profession. We are carefully considering the views received and mapping out the way forward.

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 pilot scheme to provide free initial IP consultation services to SMEs in December 2014 with a view to raising their awareness of IP and assisting them to develop effective IP management and commercialisation strategies. The scheme was well received, with 71 consultation sessions conducted by

² The Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

end-February 2016. IPD and the Law Society are reviewing the scheme to prepare for full implementation later this year.

9. Since March 2015, the Hong Kong Trade Development Council (HKTDC) has broadened the scope of its existing advisory services at its SME Centre to cover exclusive IP related issues for helping Hong Kong companies make better use of their IP. Users' feedback has been positive. HKTDC will continue to promote the service, and work with IP experts and industry associations to provide free basic IP consultation service.

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 establishment of the Innovation and Technology Bureau in November 2015, the Government has undertaken to formulate holistic policies relating to innovation and technology; strengthen the coordination among the Government, industry, academia and research sectors; and expediting the development of innovation, technology and related industries in Hong Kong.³

11. As announced in the 2016 Policy Address and the 2016-17 Budget, the Government will strengthen its effort to promote R&D, and realisation and commercialisation of R&D results. The Government proposes to launch a \$2 billion Midstream Research Programme for Universities to provide funding support for universities funded by the University Grants Committee to conduct theme-based research in key technology areas, so as to encourage more midstream and translational R&D.⁴ We will continue to provide a three-year funding for the six Hong Kong branches of the Chinese National Engineering Research Centres and 16 Partner State Key Laboratories, amounting to \$110 million each year. We will also continue to support each Technology Transfer Offices of the six universities with an annual funding of up to \$4 million.⁵

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

12. Create Hong Kong has long been providing financial support to the creative industries through the CreateSmart Initiative (CSI) and the Film Development Fund (FDF). As of end-December 2015, the CSI has provided

³ See paragraph 68 of the 2016 Policy Address.

⁴ See paragraph 75 of the 2016 Policy Address and paragraph 55(a) of the 2016-17 Budget Speech.

⁵ See paragraph 71 of the 2016 Policy Address and paragraph 55(d) of the 2016-17 Budget Speech.

about \$550 million to support different sectors of the creative industries in organising events that would benefit the trade as a whole. As announced in the 2016-17 Budget, the Government will inject an additional \$400 million into the CSI to further develop creative industries and, in particular, nurture start-ups and talent.⁶

13. Through the injection of an additional \$200 million into the FDF in May 2015, Create Hong Kong has enhanced the funding arrangements of the Film Production Financing Scheme, and introduced in November 2015 a new Film Production Grant Scheme to subsidise small-budget film productions with a view to boosting the volume of local film production. In addition, the First Feature Film Initiative was re-launched in March 2015 to identify and nurture film talents through a competition on screenplay and production proposals.⁷

14. The Government also announced to inject an additional \$20 million into the FDF to subsidise the expenses incurred by locally-produced Cantonese films for distribution and publicity conducted in the Mainland. This initiative will assist the film industry in leveraging the enhanced measures under The Mainland and Hong Kong Closer Economic Partnership Arrangement to promote Cantonese films to the Mainland.⁸

15. Organised by HKTDC and held in January 2016, the 14th edition of the Hong Kong International Licensing Show featured over 340 exhibitors from 15 countries and regions, and attracted more than 20 800 industry professionals from over 100 countries and regions the attendance of which was up by 5.6% from the previous event. The fifth Asian Licensing Conference, which was held in parallel with the Licensing Show, showcased over 30 renowned speakers from around the world, and attracted over 1 400 industry players to attend. This twin event is next scheduled for January 2017, and HKTDC will enhance its scale and stature.

16. HKTDC will also continue to set up Business of IP Zones in its various trade fairs such as the HKTDC Hong Kong International Film & TV Market, Fashion Week of Fall/Winter, Hong Kong International Medical Devices and Supplies Fair, etc. To help Hong Kong's start-ups and SMEs seize the franchising business opportunities, HKTDC launched the first Hong Kong International Franchising Show as a special event of the World SME Expo held in December 2015. The Franchising Show gathered 103 exhibitors, including famous franchise brands and support service providers from Hong Kong, Mainland China and overseas, and drew in 10 000 visitors from

⁶ See paragraph 68 of the 2016-17 Budget Speech.

⁷ See paragraph 72 of the 2016-17 Budget Speech.

⁸ See paragraph 73 of the 2016-17 Budget Speech.

67 countries and regions.

Consider tax incentives for IP trading

17. As announced in the 2016-17 Budget, the Government will expand the scope of tax deduction for capital expenditure incurred for the purchase of IP rights (IPRs) from the existing five categories to eight.⁹ The additions are layout-design of integrated circuits, plant varieties and right in performances.¹⁰ This measure would encourage enterprises to engage in the development of IP and help promote Hong Kong as an IP trading hub.

⁹ See paragraph 95 of the 2016-17 Budget Speech. At present, the following capital expenditure on prescribed IPRs are deductible under specific provisions of the Inland Revenue Ordinance (Cap. 112) – purchase cost of copyright, registered designs, registered trade marks, patent rights and rights to know-how. Of the above IPRs, copyright, registered designs and registered trade marks were lately added in 2011 by the Inland Revenue (Amendment) (No. 2) Ordinance 2011. During the Bills Committee stage of the above Amendment Bill, Members of the Committee suggested that the Government should consider extending the scope of tax deduction to cover more types of IPRs.

¹⁰ The Layout-Design (Topography) of Integrated Circuits Ordinance (Cap. 445) protects the layout-design (topography) of integrated circuits in computer chips, and semiconductor chips used in computers and other equipments that rely on computer technology, for example, television sets, mobile telephones, medical devices such as hearing aids, and other products with electrical components.

- the rights in layout-design (topography) of integrated circuits are protected automatically as soon as the layout-design (topography) is created, and registration of the layout-design (topography) is not required.
- For layout-design (topography) of integrated circuits to be protected, the layout-design (topography) must be original, and must be recorded in documentary form or incorporated into an integrated circuit.

The Plant Varieties Protection Ordinance (Cap. 490) provides plant breeders (or the owners of the varieties) the legal means to apply for proprietary rights over cultivated plant varieties they have bred. Owners of plant variety rights shall have the exclusive rights to:

- produce reproductive material of the protected variety for the purpose of commercial marketing; sell or offer for sale reproductive material of the protected variety;
- import/export reproductive material of the protected variety; and
- licence others to carry out the above activities.

The right in performances is known as “performers’ rights” under the “Agreement on Trade-Related Aspects of Intellectual Property Rights of the World Trade Organization”. It refers to the performers’ right to prohibit the fixation, broadcast or inclusion in a cable programme of a performance or the reproduction of such fixation. The performers can also prohibit others from importing, exporting, possessing or dealing with (such as selling or letting for hire, offering or exposing for sale or hire, or distributing) the fixations of their performances for the purpose of or in the course of any trade or business. According to the Copyright Ordinance (Cap. 528), apart from performers, the right in performances also applies to persons having exclusive fixation rights in relation to a performance. At present, capital expenditure incurred on the purchase of copyright is tax deductible. We consider that rights in performance, which are rights related to copyright, shall also enjoy tax deduction.

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

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

18. As of end-February 2016, AsiaIPEX (www.asiaipex.com) has registered over 15 000 users, formed alliances with 34 strategic partners local and overseas, and covered over 25 000 entries of tradable IPRs. HKTDC will continue to bring out regular e-newsletters, advertisements and outdoor publicity promotion for sustaining the awareness and a steady growth of registered users. To increase exposure of the portal listings and maintain user traffic, a monthly “Star IP Projects” was launched in June 2015 featuring IP projects from selected industries, e.g. fashion and textile, electronics and information and communication technologies, medical and healthcare, etc. A mobile version of the portal was introduced in October 2015 to enhance user experience.

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

19. IPD launched the Scheme¹¹ in May 2015 to help local SMEs build up their IP manpower capacity and increase competitiveness through IP management and commercialisation. Over 200 SMEs joined the Scheme as of end-2015. Two rounds of training were organised for participating SMEs in 2015 with a total of 380 attendees. In view of the positive feedback, IPD will continue to promote the Scheme, and the next round of training is scheduled for early June 2016.

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

20. From October 2015 to January 2016, IPD sponsored training courses on IP related subjects conducted by three professional bodies¹² with a total of 136 participants. Feedback on the training was encouraging, and IPD will sustain this effort in 2016 and beyond.

¹¹ The Scheme seeks to support SMEs in building up their manpower capacity on IP management and commercialisation by encouraging them to appoint in-house IP Managers, who will be responsible for overseeing the compliance, management, exploitation and commercialisation of IP assets. They will be provided with relevant training and resources on IP management to facilitate their carrying out of the duties competently.

¹² The three professional bodies are the Hong Kong Productivity Council, the Federation of Hong Kong Industries and the Royal Institution of Chartered Surveyors. Topics covered include patent search, practical skills in handling patent matters, preparation for the National Qualification Examination for Patent Agents, and IP valuation.

Complete the first Survey on IP trading activities (Survey) in 2015, and explore the feasibility of launching a dedicated survey on the manpower situation of the IP trading industry

21. IPD commissioned the Survey in June 2014 with a view to collecting more information on the IP trading activities conducted in Hong Kong. Major findings of the Survey were released in June 2015, and uploaded to IPD's dedicated website "Hong Kong – The IP Trading Hub" (www.ip.gov.hk).

22. We note that "staff experience/knowledge" was commonly cited as a major challenge in the development of IP trading by respondents of the Survey. IPD plans to commission a dedicated IP manpower survey in the second half of 2016, with a view to addressing the aforesaid observation and identifying the manpower capacity and training needs of the IP industry. Preparatory work is underway.

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

23. The Government supports the development of IP valuation standards by professional organisations for first-mover use in Hong Kong. To this end, the Hong Kong Business Valuation Forum (HKBVF)¹³ released in March 2015 a pioneering IP valuation reporting standards for its Registered Business Valuers (RBVs)¹⁴ to follow, in support of the Government's efforts to promote IP trading. Choosing Hong Kong as a launch pad, the Royal Institution of Chartered Surveyors issued an IP Valuation Guidance Note in May 2015 to clarify the legal, functional and economic characteristics of IP, and help establish industry wide professional standards. IP professionals might make reference to the aforesaid tools to facilitate IP commercialisation.

24. With our support, the aforementioned professional organisations each organised a discussion session on IP valuation and related matters at the 5th Business of Intellectual Property (BIP) Asia Forum (see paragraph 35 for details) held in December 2015, as part of an effort to further promote their own publication and maximise the impact.

¹³ 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.

¹⁴ 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 end-February 2016, there are 139 RBVs, with an average of four to five new applications received every year.

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

25. IPD is working with legal practitioners with expertise in IP transactions 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 later this year.

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

26. The Department of Justice (DoJ) of Hong Kong is spearheading the development and promotion of Hong Kong as an international legal and dispute resolution services centre. DoJ is working closely with IPD and relevant stakeholders to feature IP as a specialised area in alternative dispute resolution, notably arbitration and mediation.¹⁵

27. On IP arbitration, pursuant to a recommendation in the Report¹⁶, a Working Group on Arbitrability of Intellectual Property Rights (Arbitrability Working Group) comprising representatives from DoJ, IPD and the Hong Kong International Arbitration Centre and legal practitioners with expertise in this area was formed in May 2015 to study the issue of “arbitrability of IP disputes”. After deliberations, the Arbitrability Working Group supported the proposal to amend the Arbitration Ordinance (Cap. 609) to clarify that disputes relating to IPRs are capable of resolution by arbitration. DoJ launched a consultation exercise on the issue in December 2015, which ended in January 2016.

28. Taking into account the result of the consultation and subject to the progress of the preparatory tasks, DoJ intends to introduce a bill in 2016 to amend the Arbitration Ordinance. The purpose is to make clear that disputes over IPRs are capable of resolution by arbitration, and that it would not be contrary to public policy to enforce an arbitral award solely because the award is in respect of a dispute or matter which relates to IPRs. Such amendments will be useful in attracting more parties to resolve their IP disputes by arbitration in Hong Kong.

¹⁵ One example is the seminar on “Legal and Dispute Resolution: Key for International Trade”, with a theme on IP, that was jointly organised by DoJ and HKTDC in Jakarta and Indonesia in September 2015 to showcase Hong Kong’s dispute resolution services.

¹⁶ Paragraph 8.9(b) of the Report pointed out that “there have been doubts among the arbitration and IP community on the arbitrability of IP disputes, especially on issues on the validity of registered IPRs (patents, trade marks and registered designs) granted by state agencies or government authorities.” The Working Group therefore recommended in paragraph 8.10(c) of the Report for the Government to “study the need for legislative amendments to clarify the arbitrability of IP disputes”.

29. The consultancy study on the development of arbitration in Hong Kong commissioned by DoJ is underway. The results of the study are likely to be available in 2016.

30. DoJ also organised a breakout session with HKTDC on “IP arbitration and mediation” at the 2015 edition of the Business of Intellectual Property (BIP) Asia Forum (see paragraph 35 below). During the session, the speakers highlighted the benefits of using alternative dispute resolution to resolve IP disputes.

31. In regard to IP mediation, DoJ and IPD will continue to follow up on the progress regarding how evaluative mediation may be effectively used to resolve IP disputes. They also intend to hold a second IP mediation workshop¹⁷ to explore the use of evaluative mediation to resolve IP disputes during the Mediation Week in May 2016.

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

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

32. IPD launched the dedicated website “Hong Kong – The IP Trading Hub” (www.ip.gov.hk) in March 2015, which provides a one-stop shop for disseminating information relating to Hong Kong as an IP trading hub for different target audience. IPD will continue to update information and activities related to IP trading on the website.

Launch promotion and public education campaigns

33. In 2015, IPD launched two television announcements of public interest to promote Hong Kong as a premier IP trading hub in the region as well as its new support services relating to IP trading. A newspaper advertorial was published in November 2015 to supplement the effort. Another newspaper advertorial on IP valuation was published in January 2016, with a further one on IP licensing and cross-sector IP trading to be published this month. IPD also plans to launch a short video showcasing local success stories of IP commercialisation in the first half of 2016.

¹⁷ The first IP Mediation Workshop was organised in May 2015.

34. We have also been reaching out to different industries such as fashion and textile, retail and publishing to publicise IPD's new support services mentioned in paragraphs 8, 19 and 20 above, as well as to promote cross-sector IP trading since the latter half of 2015. For example, movies and toys form an obvious pair. We have lined up discussion sessions for the industry players and responses have been encouraging. Key players in the respective fields have a better understanding of the potentials of their IP and the prospects of cross-sector commercialisation. We will continue to facilitate such exchanges in IP trading crossover.

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

35. The 2015 edition of the BIP Asia Forum featured over 80 internationally renowned speakers, and attracted more than 2 400 IP professionals and industry players from 37 countries and regions to participate, which is more than triple 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 also make use of the event to further boost Hong Kong's image as an IP hub in the region.

Presentation

36. Members are invited to take note of the progress of our work.