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Hong Kong

19 December 2011

Commerce Industry and Tourism Branch
Commerce and Economic Development Bureau

Dear Sirs

Re: Review of Patent System in Hong Kong

We appreciate the opportunity to be heard on this important topic.

We set out our views on queries A and C below.

A. Standard patents:

Whether and, if so, how Hong Kong should have its own "original grant" patent system.

Short answer NO!

Enhanced level of "inventiveness"?

One of the reasons advanced for considering an "original grant" patent system is that there will be more inventions created in HKG.

There is no cogent evidence to support a claim that there will be more inventions in Hong Kong.

This is not to say that there is no creativity in HKG. There are inspired individuals in academic and commercial settings who are able to extend the boundaries of inventiveness in HKG. These people can and do secure protection for their intellectual endeavors by filing patent claims abroad first and then in many cases extending the rights to HKG as provided for under the current system.

Will academics discontinue applied research if there is no "original grant" patent system? There is no evidence that this would be the case. Indeed academics are by their nature pre-disposed to continuing research and we doubt that their curiosity and fervour for exploring the boundaries of existing knowledge be diminished. Indeed this passion to explore possible developments and new knowledge is supported by pressure from their employing institutions which typically achieve recognition through published research. To the extent that such research can be applied this can lead to patent filings and patent grants.

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Similarly we see no cogent or compelling reason why those individual researchers in the commercial environment would suddenly have more insight or inspiration simply because of a possible opportunity to apply for the original grant of a patent in HKG. Such researchers and/or their employers could still secure registrations for their patents in HKG. In other words, imagination and creativity are not fettered under the current efficient re-registration system.

Indeed, since the cost for applying for and securing patents in HKG is currently modest and patent owners and inventors are potentially able to extend their rights more widely than if they were compelled to pay for a separate originating patent in HKG. We do wonder what proof there is of inventors and or companies being fettered in their business by the financial cost of having to apply in UK or PRC before they can apply in HKG. Assuming for a moment that the government did adopt an "original grant" patent system and that it follows the professed "*user pays*" policy then the cost for an original grant may be as much if not more that the current system of basing a HKG patent on a patent published and granted in UK or PRC. A comment on the effort it would take to establish the system appears separately below.

We have no objection to extending the number of countries from which a patent owner may extend rights to HKG. Indeed if the government seriously takes the view that a material number of inventors and/or companies are fettered by the cost of the current process then the government could designate another jurisdiction which is known to have a relatively high standard of patent examination at modest (lower) cost. If the inventor and/or company is fettered by the current costs we wonder how they could conduct a business. Businesses must ensure that they have sufficient capital to operate and the costs of the current registration system are relatively low compared to other normal business costs for such things as rent and staffing. If HKG is serious about being a business hub then the businesses would need to include China in their patent portfolio anyway to protect their ability to manufacture and to provide a basis for preventing competitors manufacturing in China. Of course the current re-registration system allows an owner/inventor to designate China as the basis for an inexpensive patent registration in HKG.

Someone who can only afford the less than HK\$1,000.00 to apply for a patent in HKG may not be a realistic contributor to HKG as a regional business hub. Any such impecunious parties have the relatively inexpensive short-term patent as an option.

Whilst there are may be some loud calls for an "original grant" patent system the government must scrutinize whether there is any sound reasoning behind the call and whether there is proof.

Broader economic/fiscal implications

Of course the issue of patents can not be considered in academic or technical isolation. Any possible patent system has to be considered, reviewed, discussed, nurtured and then funded in the context of what is beneficial for the society as a whole.

A cursory review of the media will reveal that the Hong Kong and the world economy have been in a precarious state for the last few years. There is no clear view as to

whether the world will emerge from the current recession or whether it will sink into a depression.

Our immediate neighbour (China) is where a vast majority of the world's manufacturing occurs. Businesses in HKG are most likely to manufacture their products in China. Whilst China's economic development has been rightly lauded the near term economic prognosis is poor. At the time of writing the Chinese stock markets have been in decline for over two years. In addition it was reported in the "Business" section (page B1) of the South China Morning Post on 16 Dec 2011 that "*Slowing economies abroad have dampened foreign direct investment and hurt manufacturing activity in China...*" Foreign direct investment in China was reported to have dived 9.76 per cent to US\$8.75 billion last month..."

On 15 December, Reuters reported that "*Hong Kong's Exchange Fund, which is used to back the Hong Kong dollar, posted a HK\$40.8 billion (\$5.24 billion) investment loss for the third quarter*". The same article indicated that "*Hong Kong's stock market fell more than 20 percent in the third quarter*". Given the huge reduction in the communal wealth and individual this does not appear to be the time for allocating scarce funds to a project which has no proved ability to generate further revenue.

Businesses also have a limited supply of capital and cash flow is always a problem even for the largest HKG and multi-national companies.

Whilst we have not conducted a survey it is not inconceivable to imagine that most companies would prefer to secure a patent for the minimum cost possible and use the saved funds elsewhere to either invest or to distribute as profits.

One of HKG's many strengths is that in as far as public finance is concerned it has adopted "**a user pays system**". This has served HKG well for generations since it means the taxes are relatively low. If the user does not pay for resources and services then the tax payers and public of HKG will have to pay. Why would HKG people (the overwhelming majority who are not inventors) wish to subsidize a patent system and a limited number of inventors and commercial entities who may wish to file patents?

The government itself has to consider the proper allocation of resources to best support and maintain a stable economy and to provide reliable services and infrastructure for everyone to use and enjoy. Expenditure on things like education, health and security are critical to the well-being and harmony of society.

The capital and operating revenue available to the government has been rather precarious over the last few years.

Basic Law

Article 107 of the Basic Law says that HKG must keep a balanced budget. In a climate of dwindling revenue the government must still balance its books. Indeed this may from time to time mean cuts to expenditure. HKG's situation is exacerbated by the fact that it's surplus has been eroded by poor investment decisions which may be in some quarters be blamed on the poor economic outlook.

Allocating already dwindling funds to a speculative venture does not seem to be prudent in the current economic recession. Indeed we would not be surprised if there were

protests if such subsidies were granted in the face of more widespread struggles with basic livelihood issue.

Supporting the spurious call for an "original grant" patent system would have two sure consequences: First, it would increase expenditure; and secondly it would increase the size of the civil service. Both of these consequences would rightly attract public concern.

The public will understand that the costs of fiscal imprudence are high. The impact in the PIGS Grouping (Portugal, Italy, Greece and Spain) are well discussed in the media particularly in Greece. In the next 6-12 month we will know whether those countries can remain in the Euro zone and whether they have the discipline to balance their budgets. Whilst balancing the budget is not the only indicator of how healthy the economy is intuitively we believe that improper allocation of resources will contribute to the undermining of public confidence in the Government.

Existing limitations

If funds are to be allocated to the Intellectual Property Department ["IPD"] those funds are best used to ensure that the services currently offered are adequate. We refer in particular to the services of the Trade Marks Registry ["TMR"]. Hong Kong is known for its service industry and perhaps takes pride in that reputation. Unfortunately the time taken to examine trade marks and dealing with disputes between parties has arguably fallen behind the service level (turn around) provided by the China Trade Marks Office in Beijing. This may well be because of HKG's budget constraints which hamper the ability of the IPD being able to employ more staff and train such staff.

The delay at the IPD is more acute for contentious matters that require a hearing (e.g. oppositions and revocation matters). It is currently taking between 24 and 36 months for a date to be fixed for a Formal Hearing before a Hearing Officer at the TMR. The government should first consider how the TMR of the IPD can be financially supported so that it can satisfy staffing needs and thereby comfortably satisfy published service/performance targets. This is not a criticism of the IPD but recognition that perhaps the functions of the IPD are impacted by financial constraints beyond its control. Hence, this is no time for directing scarce funding for a speculative exercise of introducing a completely new system for examining standard patents.

Competency required

For such a patent examination system to work numerous technical staff would need to be found, trained and supervised. It is arguable that the patent review may be even more difficult to handle than the review of trade marks. Patent examination would require more than just a competent grasp of the English language and Chinese language but an operational understanding of patent law and application in the real world. It is in our respectful view a significant challenge for the IPD to maintain consistency in the examination of trade marks which does not require an additional technical burden. That is bearing in mind that the TMR historically has generations of experience. We are very worried that apart from the cost implication "original grant" patent examination would be an over whelming technical burden which would not reflect the service levels and competency that HKG wishes to be known for.

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The amount of time and funds required to achieve the necessary level of competency would be significant. On a "user pays" basis how could HKG realistically hope to prepare for and introduce such a system at a cost that is even competitive with the examination systems already in place in other first world industrialized countries around the world.

The other main issue is whether the current "re-registration" system should be maintained, and, if so, whether the system should be expanded to recognize the patents granted by other jurisdictions.

The current system is working well and very efficiently.

If there are concerns about cost then the IPD may consider recognizing competent jurisdictions that have lower examination and registration costs.

If there is an issue about the commercial extension of patents to other business centers IPD may consider adding Japan, German (national) and the US to the list of recognized jurisdictions.

We mention German (national), Japan and the US since they are obviously the other major economies in the world along with China.

(b) Short-term patents: Whether the short-term patent system should be retained as a supplement to standard patents, and whether and, if so, what measures should be introduced to enhance the efficacy of the system. No comment

(c) Regulation of patent agency services: Whether the provision of patent agency services in Hong Kong should be regulated, and, if so, what form the regulatory system should take.

We understand that most other first world countries have a patent profession that sets stringent standards for entry. These standards include a rigorous course of study from recognized and respected bodies, examinations and then typically a period of articling (in-house training). The later is critical since the academic study alone does not ready students for real world application to business settings. A period of articling under competent practitioners is critical to rounding out the practical skills necessary for a patent attorney to properly contribute to the businesses and academic institutions that they may serve.

The IPD or government should set a meaningful level of competency so that only those who receive practical and academic training can hold themselves out as a "Patent Attorney". HKG should not countenance a qualification scheme that is below the level of the major economies that HKG does business with.

Fiscal prudence alone demands that the arguments and assumptions of those calling for funding are meticulously scrutinized.

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We believe the onus should be on those people seeking to garner public funding to soundly and cogently establish their case. We are not convinced that the assumptions set out as a basis for a new patent examination system have proved.

In conclusion we Hope and Trust that the government will be prudent stewards of limited public resources.

Yours faithfully

A handwritten signature in cursive script that reads "Scholar Corp.".

Scholar Corporation

19 Dec 2011

Submissions to: patent_review@citb.gov.hk