



REVIEW OF FEES AND CHARGES OF THE INTELLECTUAL PROPERTY DEPARTMENT

The Law Society's Submissions

Introduction and Background

1. This paper sets out a response by the Law Society of Hong Kong to the proposed changes in costs and fees pursuant to the "Review of fees and charges of the Intellectual Property Department" provided to the Legislative Council Panel on Commerce and Industry in December 2014 under LC Paper No. CB(1)344/14-15(03) ("the Paper").
2. The Commerce and Economic Development Bureau ("CEDB") and the Intellectual Property Department ("IPD") note the "user pays" principle stated in the 2013-2014 Budget Speech and proposes to set fees at levels sufficient to recover the full costs of providing its services "on a global basis". Thus, as noted in footnote 1 to paragraph 7 of the Paper, pursuant to the relevant Ordinances, costs may be fixed at levels that provide for the recovery of expenditure incurred in the exercise of all functions and not necessarily in respect of the exercise of any particular function. Cross-subsidy is therefore expressly envisaged and provided for under the law.
3. Reflecting these principles, the proposal involves multiple changes in costs and fees of services provided by various registries of the IPD. The details of changes in costs and fees are provided in Annex A, Annex B and Annex C of the Paper.
4. Whilst we accept that certain fee increases are necessary, we take issue with the way this is to be done, by proposing
 - (a) to substantially increase the costs of applications and searches, which are fundamental preliminary activities required to obtain rights (and to check the rights of others) provided by law, *but at the same time*
 - (b) to unnecessarily reduce the costs of renewals, which (or which should) reflect the real value of rights that have already been obtained and exploited.
5. Thus, contrary to the assertion in paragraph 19 of the Paper, representatives of our

organisation have expressed to IPD our objection to and concerns about the proposed adjustment of fees. We are disappointed that these views have not been properly represented in the Paper and accordingly have prepared this response.

6. We confirm that we have made **strong** objections to the following unnecessary proposals on amendments relating to fees for retaining rights, which have thereby necessitated substantial increases in other fees, in particular with respect to applications, for obtaining rights:-
- a. amendments relating to the increase of trade mark fees (items number 1, 2, 3, 6,7 and 8 of Annex B);
 - b. amendments relating to the reduction of trade mark fees (items number 10, 11, 12, 13 and 14 of Annex B); and
 - c. amendments relating to the reduction of registered design fees (items 1, 2, 3 and 4 of Annex C),

and we make a more acceptable proposal in paragraph 13 below.

Proposal Regarding Changes in Fees for Copyright Licensing

7. We have no objection to the CEDB's proposed increase in application and renewal fees of the Copyright Licensing Bodies Registry by 12% and 58% respectively.

Proposal Regarding No Change in Patent Registration and Renewal Fees

8. We have no objection to the CEDB's suggestion to retain the current patent registration and renewal fees.

Proposal Regarding Changes in Fees for Trade Mark and Registered Designs

9. With respect, we strongly object to the proposed unnecessary and counterproductive reduction of the trade mark and registered design renewal fees.
10. The reasons for objection are listed below.

Reasons for Objection

(i) Higher application fees create a barrier to market entry

11. The IPD's proposed increase of the trade mark application fees by 54% (\$700 single class/\$350 each extra class) is of great concern and is a significant barrier to entry. This is particularly so for Small and Medium Enterprises in Hong Kong (or

elsewhere) who are attempting to develop their businesses. Finances are often stretched at the outset of a business when obtaining Intellectual Property (“IP”) protection is vital, so low application fees are important.

12. On the other hand, when the time comes to consider the renewal of an IP right, this will normally be done because it has been seen to be successful and is in use. This in turn will assume that the underlying business has been successful and financial resources are less strained. Such business will have the ability to pay a commensurate amount to renew the relevant rights and it is submitted that no reduction in renewal fee is necessary in these circumstances.
13. In view of paragraphs 11 and 12 (and the paragraphs below regarding renewal fees), we believe it is preferable to:
 - a. withdraw the proposal to reduce renewal fees for both trade marks and designs; and
 - b. in the case of trade marks, to reduce the proposed trade mark application fee increase from 54% (\$700/\$350) to 28.5% (\$370/\$185), or such other similar amount, to effectively cover the equivalent amount of the cancelled trade mark renewal fee reduction.

(ii) Lower renewal fees may encourage the abuse of monopoly rights

14. An IP right that is less expensive to retain would mean that there is more incentive for registrants to hold onto disused rights. The reduction of trade mark and design renewal fees completely contradicts the CEDB’s aim of encouraging non-renewal of disused intellectual property stated in paragraph 7 of the Paper (“... *and setting renewal fees above cost recovery level to encourage non-renewal of disused intellectual property.*”).
15. By charging lower fees for retaining trade mark and registered design rights, those who might not in fact have a legitimate claim to such rights (e.g. so-called trade mark squatters) will have a greater incentive to retain those rights. This is especially so where these monopolised rights are disused, as mentioned above.
16. Low renewal fees is also likely to result in the trade mark and design registers clustered with rights that have no true value to the owner, but are there just because they are extremely cheap to retain.
17. Conversely, if renewal fees are higher, the higher costs may discourage disused rights squatting, thereby freeing up more options for brands or design works to be released to the public domain; to allow others to use, adapt or transform them into new IP assets. This enhances upcycling or transformation of IP resources, increases marketing competition and creates a healthier eco-system for IP rights to subsist, be exploited, and be traded.
18. The Government should consider increasing renewal fees so as to give less incentive for creators to hold onto disused rights and to discourage the retention of monopoly power, or at the very least, maintain them at their current levels.

(iii) Lower renewal fees fail to reflect the inherent value of IP rights

19. IP rights are valuable assets and should be viewed as such. The costs to an IP right holder of renewing (maintaining) these rights should also be reflective of the inherent value of the rights. Whilst the current level of renewal fees are not substantial (being amongst the lowest in the world), they are presently at least at a costs level where the "value" of the IP right are recognised by the amount payable.
20. The proposed reduction in the trade mark and design renewal fees, which are already at a reasonably low level,
 - a. misrepresents and undermines the inherent value of these IP rights by presenting them as "cheap" and "low-value" assets requiring little investment;
 - b. sends to the public the wrong message that IP rights are cheap and easy to maintain; and
 - c. undermines the IPD's extensive public campaign to enhance the recognition and respect of IP rights.

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

21. Hong Kong has one of the lowest intellectual property registration and renewal fees structures in the world. Our organisation represents members who act on behalf of the vast majority of right holders in Hong Kong. There has been no complaint of lack of competitiveness or the renewal fees being high. There has also been no demand for lowering of renewal fees by the local or international community. Hence, there is no need or call for the Government to reduce the renewal fees.

(v) Lower renewal fees lead to increase in the IPD's expenses

22. A lower opportunity cost to retain the IP means that more applicants will retain/renew their IP rights. As a practical matter, this may clog up the IPD, leading to an increase in administrative expenses. The newly proposed fee reduction may not be able to cover the increase in actual costs that will likely arise from a less efficient IPD.
23. Indeed, the IPD's own statistics show that the number of trade marks applied for in 2013 was 40% more than the number in 2009. If this trend continues, the IPD will soon suffer from insufficient revenues if resources are needed to deal with increasing volumes.
24. The resources of the IPD are already stretched with not only day-to-day running of the registries (where substantial delays in some areas of operation, such as handling of hearings and issues of decisions, are already experienced), but also discussions and preparations for patent reforms, copyright law amendments, Madrid discussions etc. Greater resources are needed, and reducing fees where

there is no need or call to reduce the fees, is not a prudent step.

(vi) Any revenue made by the IPD may be used to subsidise other operations

25. It is noted in paragraph 11 of the Paper that “*Renewal fees will remain to be charged above the cost recovery level and a major source of income for the Trade Marks Registry*”, and paragraph 17 of the Paper that the IPD registries generate millions in annual revenue. The IPD does not have to penalise itself for being efficient in the handling of renewals by taking away any surplus fees generated by that function. The revenue made from the current renewal fees may be added to the Government budget, and may be used for subsidising the trade mark application fees, or other meaningful purposes such as continuing to host programmes and activities to promote IP education and awareness. We do not have any objections if the IPD’s annual revenue results in an excess, and is used for meaningful purposes that benefit society as a whole.

Conclusions and Advice

26. For the reasons above, the Law Society strongly objects to the proposed scale of increase in trade mark application fees and the reduction of the trade mark and registered design renewal fees.
27. We hereby submit that the IPD should retain the current fees for trade mark and registered design renewal.
28. Alternatively, we believe it is preferable to:
- a. withdraw the proposal to reduce renewal fees for both trade marks and designs; and
 - b. in the case of trade marks, to reduce the proposed trade mark application fee increase from 54% (\$700/\$350) to 28.5% (\$370/\$185) to effectively cover the equivalent amount of the cancelled trade mark renewal fee reduction.
29. All other proposals are acceptable to us.

The Law Society of Hong Kong
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