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To patent_review@citb.gov.hk

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Subject response to consultation on HK patent system

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Dear Sirs,

This is a response of the consultation on the future of the Hong Kong patent system.

Please do not publish my name in association with these comments, as there are many powerful vested interests with strong opinions on the matters outlined in the consultation.

I believe the main issues which the IPD should focus on modernizing the standard patent system to make it easier to carry out freedom to operate searches in Hong Kong (by dealing with an issue relating to divisional patent applications), and allow a grace period for some filing deadlines. In addition the IPD could start to regulate the profession by publishing a list on their website of patent attorneys in Hong Kong who have qualified in a specified list of jurisdictions.

Standard Patent System

(a) An OGP patent system in Hong Kong is very unlikely to enhance patent quality. Under the current system, the majority of patents in Hong Kong are standard patents which have been examined and granted by either the Chinese, UK or European Patent Offices, all of which have high standards and a good reputation. At best an OGP in Hong Kong could hope to equal the quality of current standard patents, but at greater cost. For example, if under OGP the examination was outsourced to SIPO, then one might expect the quality to be the same as a standard patent based on a designated Chinese patent.

The existence of an OGP patent system as opposed to a registration system is not a significant factor for multinational companies deciding where to set up regional headquarters or R&D centers. The main concerns are availability of a qualified technically trained workforce, cost of operations and proximity to large markets. As long as IP protection is available, that is sufficient. For local companies, I do not believe an OGP system will make a difference when deciding whether to invest in innovation. In general HK companies are more concerned with protection in US and China; and a 'short term' patent already provides protection in Hong Kong.

However, OGP patent system may have the advantage of building up the patent profession in Hong Kong, especially if coupled with a regulatory regime. It may also be advantageous to the legal profession and patent agencies if costs (in terms of professional fees) were increased without a reduction in the level of filing from overseas entities. It should be said that an OGP patent system will almost certainly increase costs in terms of professional fees, even if patent office fees were not increased.

(b) It is uncertain if there would be sufficient demand for an OGP system in Hong Kong. It depends upon how the system was implemented.

Option 1: keep the standard patent system and offer OGP as an alternative in place of the short term patent system. In this case demand for standard patents would remain likely constant. The OGP system would then likely have a demand similar to current short term patents (600 a year), or perhaps less (say 300 a year) as costs would be increased and grant no longer guaranteed.

Option 2: replace the standard patent system with an OGP system. In that case it is very likely that the filing level would decrease due to increased costs. It may decrease dramatically (e.g. reduce by 30-50%).

Given the (presumed) importance of filing numbers to the IPD for revenues and prestige, it is worth looking at the filing decision process for organisations and companies outside Hong Kong.

Most multinationals will have a defined 'filing strategy' and policy as to which countries to file patents in. The decision is generally made early on (e.g. when filing the first patent), although it may be refined later. Budgets are limited. To be picked at this stage, HK has to compete with many other small jurisdictions such as Singapore, Korea, Malaysia, Taiwan etc as well as the choice simply not to file in a small country but to use the budget to file more patents in major markets such as US, Europe etc.

The reasons for multinationals filing in Hong Kong, probably include

- it is cheap
- it is administratively easy (no complex decisions, very little paper work, few lawyer hours)
- it is an important port and has a solid legal jurisdiction which may give protection against imports from China
- it is a 'proxy' for China (e.g. 'we don't have a patent in China, but we have that area (partially) covered through Hong Kong')
- historically it was on a list of 'Asian tigers'

The last three reasons are less relevant than they used to be (unlike before, most multinationals now file in China, so when pressed for budget they may question whether they should be filing in Hong Kong as well). Making the Hong Kong system more expensive and complicated, does therefore risk that multinationals may decide not to file in HK or to file less.

For smaller companies the process is a bit different. They will generally file a first patent in their home jurisdiction. Then decide which other countries to file at 12 months or 30 months (if they file a PCT). At this point HK is not on the list (and quite possibly not considered as it is small). However, many small companies will file at the EPO or China. Then when the EP or CN patent application is published, the small company is separately notified that they have a chance to get protection in Hong Kong. I expect a lot of HK patents are filed at this point because the decision is taken 'out of turn' and the applicants are encouraged (or at least notified) in a special letter from the European and Chinese agents. If the decision date was moved to the Paris Convention or PCT deadline (as in Singapore), I expect less HK patents would be filed by small companies, simply because HK would then have to 'compete' for attention with many other larger jurisdictions.

Cost is also an issue. The IPD fees alone are misleading, as they are a small part of the total,

especially if substantive examination is involved. For example, a UK company with a UK or EP patent, may be advised that for 19,000 HKD (including professional fees of the UK and HK lawyer) they can get a patent in HK with guaranteed success if the UK or EP patent is granted. In comparison a Chinese patent may cost about 100,000 HKD from filing to grant (including translation, UK and Chinese lawyer fees, office actions etc). Under OGP by the Macau system a patent could cost about 70,000 HKD from filing to grant (including Macau agent fees and UK lawyer fees). The IPD might inquire of Singapore and UK law firms what the actual cost of obtaining a Singapore patent is for comparison. A HK patent under OGP could be assumed to cost slightly more than the equivalent Singapore or Macau patent, due to higher professional fees and cost of business in HK compared to Singapore or Macau.

I believe the OGP system could work, but when assessing the cost-effectiveness, the IPD should assume that over a few years the HK filing rate might drop by 25-50% if OGP was the only option. It should also be remembered that the cost of this is not just the immediate cost, but also the future impact on the renewal fee revenues.

(c) I suggest that an OGP system replace the current short term patent system. This would appease those pushing for an OGP system and also allow the IPD to assess demand for OGP.

However, if the IPD decides to implement an OGP system to replace the standard patent system, then I suggest it should follow the Singapore model allowing choice of OGP, self-examination or re-registration (with choice of outsourcing OGP to UK, SIPO, or Australian patent office). That would allow applicants to manage cost, while introducing sufficient complexity to underpin development of a local patent agent qualification and regulatory system.

(d) Suggest that the standard patent system is kept as is. It serves its purpose well. The IPD maintains a reasonable level of filings and revenue, law firms generate modest revenue and foreign companies get convenient, cost effective registration of IP rights.

I suggest that the standard patent system is NOT extended to allow re-registration of other jurisdictions (US, KR, JP, AU etc). That would complicate the process, especially for the IPD which would have to understand and verify publication and grant dates from various jurisdictions (many of which are less clear than UK, EP and CN). Further, avoiding this by changing from a 'registration after publication system', to a system requiring filing under Paris Convention or PCT, would risk many companies re-assessing their policy and deciding not to file in HK.

However, three very important changes are needed to the current standard patent system.

1. The current approach of the IPD to divisional standard patent applications, is based on leniency to applicants. However, it inadvertently puts HK companies at a considerable competitive disadvantage compared to companies in other countries when producing products for their home market. When launching a new product in their home market, a company needs to ascertain if they are free to do so, or if the product may be covered by an existing patent belonging to another company. Such 'freedom to operate' searches are commonly carried out in other jurisdictions and generally require a simple search of the patent register.

However, in Hong Kong 'freedom to operate' searching is very difficult, expensive and often incomplete. The reason is that according to current practice of the HK IPD, an applicant may

apply to record and register a divisional designated patent (e.g. divisional European patent) in Hong Kong, even if the parent designated patent was not recorded in Hong Kong.

This means that to carry out a 'freedom to operate' search in Hong Kong it is necessary to:-

- i. search the HK patent register for standard and short term patents
- ii. search the HK patent register for standard and short term patent applications which are still alive, but not yet granted
- iii. search the UK, EP and CN patent registers for any patent applications which are still alive and for which a divisional application may still be filed (as the divisional may be registered in Hong Kong, regardless whether or not the parent was registered).

iii. is VERY burdensome as it involves 10s of thousands of cases, some 5 or even 10 or more years old. It means that it is perhaps twice as expensive to carry out a 'freedom to operate' search in HK as it is in Europe or in China. That makes it very difficult for HK companies seeking to obey the law and respect IP rights of other companies.

This could be solved by amending Section 15 to state 'where the designated application is a divisional application, a request to record in Hong Kong may only be filed if a request to record the related parent application in Hong Kong was filed and subsequently published; such a request to record a divisional application of a designated application must be made in accordance with Section 22', or words to similar effect. That is, a divisional UK, CN or EP application can only be registered in HK, if a request was previously made to record the corresponding parent UK, CN or EP application in Hong Kong. I believe this was the original intention of the HK patent act, as otherwise section 22 is essentially pointless.

Such a move would bring greater certainty to companies operating in Hong Kong. However, it would be unpopular with law firms. Currently the ability to register a divisional application acts as an 'escape route' if a law firm negligently or accidentally fails to register a UK, EP or CN application on time. In that case a UK, EP or CN divisional application may be filed, solely for the purpose of filing a HK application after publication of the divisional. While expensive, this is cheaper than fighting a negligence law suit or loss of professional reputation. To be fair, the HK law is unusually harsh with regard to the consequences of missing the filing deadline.

2. To resolve this problem, I suggest the HK law further be amended to allow a request to record, or a request for registration and grant, to be filed 1 month late if a late payment fee is also paid. The late payment fee could be set quite high, e.g. 5000 HKD, to prevent abuse, so the vast majority of cases would be filed in time. This would be in line with the current approach to deadlines of UK, EPO and many other patent offices. The IPD could also issue a press release advising that cases already filed, before the change in law, would not be affected.

3. Under UK and European law it is now possible to amend a patent post grant. The amendment is published by the relevant patent office. The HK law should be updated to allow amendment of the corresponding HK patent post grant to conform with an amendment to the designated base patent.

Short term patent system

(e) The short term patent system brings a very important advantage to HK companies,

universities and research institutes. It makes it possible to cheaply and efficiently make a 'first filing'.

Typically when a company has an invention, they file the first patent application ('first filing') in their home country. This is partly due to national security laws in some countries, but also because it is generally cheap to do so and can be done as soon as the patent application is ready. After the first filing, the company has one year to assess the commercial interest in the invention, before spending more money by filing a foreign patent application or a PCT application.

If there was no short-term patent, then HK companies would have to make the first filing in the US, UK, China or another jurisdiction. This would increase the cost substantially as it then becomes necessary to pay a foreign attorney for the filing (usually at least 500 US\$) and can add delays and uncertainty in getting the desired filing date. Control of the filing date is crucial as if the invention is disclosed, e.g. at a conference, before the filing date then the patent application may be invalid.

The short-term patent system probably has a modestly positive effect on local innovation, as it is a cheap route to get a patent locally if a company is not sure whether or not to file abroad in the early stages.

(f)

(1) substantive examination should be introduced. It could either be an 'option' (advantage: user has use choice) or made compulsory after 1 year (advantage: system would be used, increase patent quality). Substantive examination should be a condition for commencement of infringement proceedings. The patent owner (or applicant) should bear the costs.

(2) should be extended to 20 years with the substantive examination.

(3) Should replace the current restriction with a restriction similar to US:- maximum of 20 claims and maximum of 3 independent claims. Suggest NO restriction on claim dependencies.

This will be well understood by practitioners world-wide. It has the advantage of focusing substantive examination and reduces the burden on third parties analyzing the patents for 'freedom to operate'.

(4) No. Introducing a new legal standard introduces uncertainty - especially given the low number of litigated cases in Hong Kong.

(g) No. The short-term patent system is essential to allow local companies to make a convenient first filing (even if the HK patent is later abandoned, the short-term system still provides a useful service in this respect).

Regulation of patent agency services

(h) Yes there should be a regulatory scheme. This need not be dependent on an OGP system. The lack of a regulatory system makes it difficult for HK companies to know if they are entrusting the work to people qualified to do the job well.

1) The simplest system would be to maintain a register of 'approved' patent agents prominently on the IPD website.

The list of 'qualified attorneys' would be very simple to compile. Anyone who has passed the relevant qualification in China, Australia, UK, European Patent Office, US patent bar,

Canadian patent bar, Singapore, or New Zealand could be included on the list. These countries are suggested because China and US are most important to HK applicants and because the others are solid qualifications which require examination of competence to draft and carry out substantive examination of patents in English. The country and year of qualification could be put in brackets after the name. It should be necessary to be resident in HK in order to be put on and remain on the list. Any person could apply to the IPD for inclusion on the list with a certified copy of the 'patent qualification' certificate from the relevant country and a certified copy of their HKID.

To make it even easier for the public, there could also be a list of patent agencies or law firms employing at least two patent agents/attorneys in HK or having at least one director or partner in HK who is a patent agent or patent attorney (director or partner implies serious commitment and sole practitioners can give very good service). Note this might be controversial as it would exclude a lot of law firms. However, it would serve as useful guidance to HK companies and inventors, which firms have qualified people in Hong Kong. Most clients prefer to deal directly with local patent attorneys.

In the event that, in the future, Hong Kong has its own patent agent qualification, I suggest that any 'grandfathering' in of existing practitioners be on the basis of one of the above well respected patent qualifications, rather than simply time spent in the field, or qualification as a solicitor (as solicitors in most cases do not have much experience of patents and rarely have the technical background or specialized legal training to draft patents).

Another issue is whether under any regulatory system, patent agents or attorneys in Hong Kong must be fluent in writing and reading Chinese and how that might be assessed. I would suggest that this is not made a requirement for now, due to the high demand in Hong Kong for English language patents and English language patent drafting. Given the increasing importance of China, however, the IPD might in the future consider classifying patent attorneys as 'English language', 'Chinese language' or 'bi-lingual'.

2) That depends upon government policy.

The simplest solution would be to have no regulation, other than entry on the approved list by the IPD. That in itself would be a badge of quality. This might be accompanied by limiting use of the word 'patent agent' or 'patent attorney' to qualified individuals. That would tie in best with HK's tradition of light regulatory touch.

There is no reason to require qualification as a patent agent to file patents under the current standard patent system, which may be carried out by a paralegal. However, making this a requirement might help Hong Kong to increase its competitiveness in terms of patent expertise, as it would require firms to employ or train well qualified patent attorneys.

With a switch to OGP, it would be a good idea to make representation before the HK IPD, conditional on having a recognized patent (not solicitor or legal), qualification.

There is a good argument for restricting drafting of patent applications to qualified individuals. That would protect the public further and help to bolster the competitiveness of the IP profession in Hong Kong. However, as noted above, this is contrary to HK's traditional light regulatory touch. It would increase costs for small companies that want patents but do not care so much about quality (there are many small outfits of engineers who will draft

'patent applications' much more cheaply than solicitors or patent attorneys, although usually the quality is lower). If drafting is regulated, then solicitors should not be allowed to draft patent applications (qualified patent agents working for solicitors should have this right).

One option might be to make subsidies for drafting through the HK Productivity Council available only if the patent is drafted locally in Hong Kong by a firm with a qualified patent attorney or patent agent. That would ensure that the government boosted the Hong Kong economy and that quality patents resulted from the subsidies.

Kind regards,