

Legislative Council Bills Committee

Copyright (Suspension of Amendments) Bill 2001

Purpose

This paper provides information on the issues raised by the Subcommittee on the draft Copyright (Suspension of Amendments) Bill 2001 (“the Bill”) on 3 May.

Possession and Use of Computer Software and Downloading of Information from the Internet

2. Questions and answers regarding the possession and use of computer software and downloading of information from the Internet are at the Annex. Some of them were included in the frequently asked questions produced for the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 (“Amendment Ordinance”) last December.

Problems with Implementing the Amendment Ordinance

3. The problems with implementing the Amendment Ordinance have been set out in detail in the relevant LegCo Brief (paragraphs 7 to 9).

4. For the purpose of disseminating information, enterprises have a practical need to make timely copies (e.g. photocopy, facsimile, scanning, recording) of newspaper or magazine articles, and to a lesser extent, of radio or television broadcasts or cable programmes, or to download works from the Internet. However, after the commencement of the Amendment Ordinance, unless authorized by the copyright owner, the possession in the course of business of an infringing copy of the work thus made may be liable to criminal prosecution. The threat of criminal proceedings and the absence of a convenient mechanism to obtain the required authorization have hampered the dissemination of information in enterprises. Some business associations have suggested that ad hoc photocopying of newspaper articles for internal reference purposes should not be made an offence.

5. Furthermore, the educational sector is concerned that teachers may incur criminal liability inadvertently as they routinely make multiple

copies of copyright works contained in newspapers, magazines or books, as well as works downloaded from the Internet, for classroom use. They may also record radio or television broadcasts for teaching purposes. We have explained, through various means including briefings and guidelines, to the educational sector that the Copyright Ordinance already provides exemptions for educational copying under specified circumstances, and that the Amendment Ordinance has not changed any of these exemptions. We have also explained that in relation to books, all subsidized or government schools are specifically authorized under licensing agreements to make photocopies of any books within the terms of the agreement. However, the educational sector remains worried about the possibility of committing an offence when conducting normal school activities. Teachers are particularly concerned that the statutory exemptions for educational copying are subject to the condition that copying must be done within a “reasonable extent”, which is not clearly defined in the Copyright Ordinance.

6. The Bill seeks to roll back the criminal provisions in the recently amended Copyright Ordinance to the position before the amendment took effect, except in relation to computer software, films, television dramas and music. The suspension will not affect the civil remedies available to copyright owners in respect of any copyright works.

7. In practical terms, after the passage of the Bill, we will suspend the criminal sanctions against, the possession in the course of business (including teaching activities in educational establishments) of an unauthorized photocopy of a newspaper cutting, an unauthorized recording of a television news programme, or an unauthorized copy of a photograph downloaded from the Internet. Computer software, films, television dramas and music works are not normally ‘information’ disseminated in enterprises or schools. The impact on the dissemination of information is therefore minimal. Piracy of these works in Hong Kong and elsewhere is rampant. As the Amendment Ordinance has the effect of providing a higher level of protection, it should continue to apply to them.

Impact of the Amendment Ordinance on the Small and Medium Enterprises

8. Summarising the views from the small and medium enterprises, the main difficulties faced by the enterprises after the commencement of the Amendment Ordinance are: unfamiliar with the provisions of the Amendment Ordinance; inadequate supply of legitimate computer

software; huge expenses on purchasing legitimate software; need to replace hardware to support updated version of legitimate software, as well as the lack of cheaper substitutes.

9. The Government has done a lot of publicity work since last year to prepare for the implementation of the Amendment Ordinance. In November last year, the Commissioner of Customs and Excise wrote to more than 42,000 enterprises in Hong Kong to introduce the new law, and to invite their representatives to the large scale seminars held at the end of November. More than 4,000 representatives attended this series of seminars. In December 2000, we compiled a set of detailed materials on frequently asked questions and answers, and distributed it through various means to the public. Since January this year, we arranged daily broadcasting of announcements over TV and radio. In addition, we wrote to 180 business organizations representing different trades in Hong Kong in late January attaching the frequently asked questions and answers, and asked them to distribute the materials to their members. After that, a number of business organizations invited us to attend seminars to introduce the new law. Until the end of March, we have attended nearly 30 seminars. The Department of Intellectual Property also wrote to more than 100,000 enterprises in March introducing the implementation of the new law. Business Software Alliance (“BSA”) also organized a number of seminars on software asset management to facilitate compliance of the new law by enterprises.

10. BSA and its members have also taken a number of measures to assist enterprises to purchase and use legitimate software. These measures include providing discount rates for software products, ensuring adequate supply of legitimate software in the market and providing software “downgrade” arrangements etc.

11. Regarding the supply of legitimate software, the demand exceeded supply for some of the software products because of the increased demand for legitimate software before and after the commencement of the Amendment Ordinance. In view of the situation, BSA announced that its members would not lodge criminal complaints to the Customs within April. BSA said the demand and supply in the market has returned to equilibrium.

12. Regarding “downgrade” arrangement, some enterprises need to continue using out-dated versions of software product in view of hardware support. However, the legitimate copies of the relevant software are no

longer on sale in the market. In view of this, most BSA members provide flexible “downgrade” arrangement, so that users can continue using “pirated” out-dated versions of the software legally after they purchase new versions of the relevant software. Users must contact relevant software publishers directly to make the necessary arrangements.

13. Since some enterprises need a longer time to purchase and install legitimate software, BSA promised that upon receiving written notice from enterprises on their plan to install legitimate software, BSA would not lodge criminal complaints to the Customs against those enterprises before 1 September 2001.

14. Regarding high price and limited choice of software products, it has always been the Government’s view that it is not appropriate to interfere with the commercial decision of software publishers in setting prices for computer software. The main reason for high price and limited choice of software products is the prevailing use of pirated software in business, which has dampened software developers’ investment incentive. In the absence of market competition, there is little room for software prices to come down. The ultimate solution to the problem is to encourage the use of legitimate software and facilitate market competition. The newly amended Copyright Ordinance plays a positive role in encouraging the use of legitimate software in enterprises and promote market competition. In the long run, we believe that more software developers will devote resources in product development to provide users with more choices at cheaper prices.

15. In addition, the Hong Kong Productivity Council (HKPC) has assisted 57 business associations in different economic sectors in collective bargaining with software publishers over software prices and succeeded in securing various discount rates. Regarding the search for cheaper substitutes, the Council has actively conducted tests on the functions and compatibility of locally developed Chinese software, and will make the results available for reference by users. It has also provided training courses on cheaper alternative computer operating system to assist enterprises to switch to the use of such operating system.

Parallel Importation of Computer Software

16. Section 35(3) of the Copyright Ordinance provides that a copy of a work is also an infringing copy if it has been or is proposed to be imported into Hong Kong and its making in Hong Kong would have

constituted an infringement of the copyright in the work in question, or a breach of an exclusive licence agreement relating to that work. Generally speaking, these kinds of copies are parallel imported products. According to section 118(1)(b), a person commits an offence if he imports into Hong Kong otherwise than for his private and domestic use, an infringing copy of a copyright work. However, section 35(4) also provides that it is not an offence if the importation into Hong Kong of a parallel imported copy of a work is made after 18 months of the publication of that work.

17. Some Members believed that parallel importation of computer software should be allowed so as to promote market competition and to allow enterprise to purchase legitimate software at a cheaper price.

18. The Government has always supported the relaxation of legal requirements regarding parallel imported products. This will provide more choices to the consumer and enables them to buy basically same products at a cheaper price. We therefore welcome Members' suggestion.

19. However, we need to study the complicated technical issues before relaxing parallel importation of computer software. For example, given the trend of convergence of computer software and multi-media products (including films and music), we need to carefully consider the definition of computer software as applicable under the relaxation of parallel importation when making amendments to the law. We will consult the industry on this suggestion before amending the Copyright Ordinance. Given that the purpose of the Bill is to suspend the amendments made to the Copyright Ordinance by the Amendment Ordinance, the relaxation of legal requirements on parallel importation cannot be done under this Bill. However, we will accord priority treatment to this suggestion.

Timing for Formulating Long Term Solution and Scope of the Review

20. After the enactment of the Bill, we shall consult non-governmental organizations, the copyright industry, and various sectors of the community with a view to coming up with an acceptable solution which strikes a balance between the two important principles of protecting intellectual property rights and free-flow of information. We plan to work out the long term solution before the suspension period ends on 31 July 2002. We will, if necessary, make further amendments to the law.

21. We have an open mind on the scope of the review and would welcome views from various sectors. Based on the views expressed recently by the various sectors, we have summarized the following issues which would be parts of the topics included in the review :

- (a) scope of criminal and civil provisions for infringement acts under the Copyright Ordinance;
- (b) whether to provide reasonable use under the Ordinance to exempt photocopying which is in small quantity and for internal reference only;
- (c) how to solve the problems of copying and authorization after downloading of information from the Internet, so that dissemination of information is not hampered;
- (d) provide clear definition of “reasonable extent” in the exemptions for educational activities; and
- (e) relax the parallel importation of computer software.

22. Regarding the time table, we initially plan to formulate detailed proposals after public consultation in summer and autumn this year. We will then draft the necessary legislation after consulting the Legislative Council and the relevant interest bodies, and try to secure its passage by the Legislative Council for implementation before July next year.

Commerce and Industry Bureau
May 2001

**Questions and Answers on
Computer Software and Downloading of Information
from the Internet**

Computer Software

1. When using legitimate software, computer will automatically create a copy of the software in its memory. Does this constitute an infringing act?

No. According to section 61 of the Copyright Ordinance, a lawful user of a copy of a computer program may copy the program without infringing the copyright in the program if the copying is necessary for his lawful use.

2. To ensure that there is back-up arrangement in case of failure of computer system or computer software, it is necessary for enterprises to produce back-up copy of the software. Does this constitute an infringing act?

According to section 60 of the Copyright Ordinance, a lawful user of a copy of the computer program may make a back-up copy of the program without infringing the copyright in the program if it is necessary for him to have the back-up copy for the purpose of his lawful use. But if the software licensing agreement prescribes conditions for making back-up copies, users must follow the relevant conditions.

3. Some enterprises expressed that in view of hardware support, they need to continue using out-dated versions of software product. If the software they use is pirated, and that the legitimate copies of the software are no longer available in the market, is there any legitimate way to solve this problem?

Enterprises can make use of the “downgrade” arrangement provided by the software publishers. According to the Business Software Alliance (“BSA”), most of its members provide flexible “downgrade” arrangement, so that users can continue using “pirated” out-dated versions of the software legally after they purchase new versions of the software. Users must contact

relevant software publishers directly to make the necessary arrangements.

4. Are there any concrete examples illustrating the corporate infringement of software copyright ?

Suppose a company engages in the sale of clothing. In support of its operation, the company buys one set of computer software which is licensed for use in one computer only, and installs the same software in the computer of each of its 50 employees. In this situation, 49 infringing copies of the software have been installed in the company's computers.

In another situation, if the company installs that set of software in a network server for shared use by its 50 employees, the copy of the software in the network server is an infringing copy since its installation in a network server for use by multiple computers contravenes the terms of the licence.

The company will commit a criminal offence under the above two circumstances.

5. Will the employees relevant to the infringing acts in question 4 incur liabilities?

Depending on the circumstances of the case, employees responsible for the infringement may also incur liabilities. For example, the IT manager of this company who arranges for the installation of the infringing copies of software in the computers of the company may commit a criminal offence. He cannot be exempted from liability by the fact that he acts on the instruction of the company's proprietor. In addition, employees who know that the software installed in their computers are infringing copies and who continue to use it may also be liable to criminal prosecution.

6. If an employee installs by himself pirated software in his computer for office duties, will the employer be liable?

If an employee incurs civil liabilities in the course of employment, the employer may be vicariously liable as his employer. If the

employee installs the pirated software with employer's consent, and the employer knows or has reason to believe that the software in question is an infringing copy, the employer may also be prosecuted. Employers should implement proper software asset management measures, and to ensure that all employees are aware of the requirement that only authorized software should be used. Companies should also conduct periodic software asset audit.

7. How to tell whether a software purchased at a shop is pirated or legitimate?

The following guidelines may be useful -

- Generally do not buy from unlicensed hawkers or temporary premises. Distributors of copyright works do not normally authorize such places to sell their products.
- By all means seek the best price for the product; but if the price is no more than a fraction of the price for which an authorized version of the product is normally sold, this is an indication that the copy may be pirated. If in doubt, approach the copyright owner for additional information. BSA also provides hotline for enquires.
- Exam whether there are licensing agreement and relevant documents such as manuals for the software. Legitimate software usually comes with such documents.

8. If one honestly believes that the infringing copy of a copyright work that he possesses for business is a licensed copy, will he incur liabilities?

It he does not know or has no reason to believe that the copy in question is an infringing copy, he would not commit an offence. In case that he is prosecuted, showing that he has acted according to the guidelines in the answer to question 7 and has taken relevant software asset management measures can help to demonstrate that he does not know and has no reason to believe that the copy is an infringing copy. The court will decide ultimately based on all relevant facts and circumstances.

9. A company bought a computer and the computer was pre-loaded with software by the computer vendor. Will the company incur liabilities?

According to the relevant provisions of the amended Copyright Ordinance, if a person knowingly uses infringing copies of copyright works (including pirated computer software) in business, he will commit a criminal offence. The company should check with the supplier and request confirmation that all software installed in the computer are legitimate and has been properly licensed for business purposes . All copyright infringing software should be removed. Do follow up with the supplier if it cannot provide all the licences of the software pre-loaded onto the computer.

10. Can a software be used in business as long as it is licensed or legitimate?

Licensed or legitimate software must be used within the terms of the licence. The installation onto multiple computers of a computer software licensed for use on a single computer violates the licence condition. This is tantamount to making infringing copies of the software. Possession of such infringing copies in business may be liable to criminal prosecution.

11. Is it an offence if someone uses infringing software for private and domestic purpose?

The use of infringing software for private and domestic purpose is not a criminal offence.

12. Will one be liable if he installs pirated software in his home computer so that he can use it to do office work as well as for private and domestic purpose?

If one knowingly installs pirated software in his home computer for domestic as well as business purposes, he may commit a criminal offence.

Downloading of information from the Internet

13. Does it constitute an infringing act if one uses “free-ware” or “share-ware” downloaded from the Internet?

If the downloading is authorised by the software copyright owner, it will not be an infringing act. It should be noted that the usage must be made in accordance with the licensed conditions. Some “free-ware” and “share-ware” products have a licence condition that says that they can be used for personal or private purposes at no charge, but one must pay if it is used for commercial purposes. User therefore must read carefully the licence conditions before downloading.

14. A employee of an accounting firm downloads from the Internet a picture that he likes and uses it as a wall-paper in his officer computer. But he does not have authorization for doing so, or he knows that the picture is an infringing article. Will he be criminally liable?

The infringing act in question is knowingly possessing infringing copy of a copyright work (an infringing picture). But since the act is not relevant to the business of the firm (i.e. accounting), and the infringing copy is for personal enjoyment of the employee, it is not an criminal offence.

15. How to tell whether a computer software purchased in the Internet is pirated or legitimate?

The followings are some useful guidelines:

- Try to make purchase at well-known and credible web sites as far as possible. One can also make enquiry to the software publishers for authorize web sites.
- By all means seek the best price for the product; but if the price is no more than a fraction of the price for which an authorized version of the product is normally sold, this is an indication that the copy may be pirated. If in doubt, approach the copyright owner for additional information or call BSA’s hotline.

16. How to tell whether a software freely downloaded from the Internet is pirated or legitimate?

If one does not know whether the relevant web site has permission from copyright owners to provide the downloading service, he should use reasonable judgement and make appropriate enquires. If he possesses an software which he does not know and has no reason to believe that it is an infringing software, he would not commit an offence. In case that he is prosecuted, showing that he has used reasonable judgement and made appropriate enquires can help to demonstrate that he does not know and has no reason to believe that the software is an infringing copy. The court will decide ultimately based on all relevant facts and circumstances.