

**Legislative Council Bills Committee**

**Copyright (Amendment) Bill 2001**

**New formulation to define the scope of liberalisation**

**Purpose**

This paper briefs Members on a new formulation to define the scope of liberalisation of parallel importation of articles which have embodied in them computer programs under the Copyright (Amendment) Bill 2001 (the 2001 Bill). The relevant draft Committee Stage Amendments (CSAs) incorporating this new proposal are at Annex. A separate paper has been prepared to explain all the CSAs that the Administration proposes to move.

**Background**

*Scope of liberalisation in the 2001 Bill*

2. In the Legislative Council brief for the 2001 Bill, our policy intention is to remove the civil and criminal liabilities under the Copyright Ordinance related to parallel importation of and dealings in articles which have embodied in them computer programs with or without other copyright works. The scope of liberalisation would cover all types of such articles, including those for educational and recreational purposes. On the other hand, taking account of the advice of the Legislative Council Panel on Commerce and Industry, we have excluded from the scope of liberalisation those articles whose principal use is to be viewed or played as a movie, a television drama, or a musical sound or visual recording

even though they have incorporated in them a copy of a computer program.

*Original formulations to define the scope of liberalisation*

3. We originally proposed to use a duration or economic value test to delineate the specified types of articles that will be excluded from the scope of liberalisation even though they have incorporated in them a copy of a computer program:

- (a) For movies and television dramas: An article which has embodied in it a computer program and a movie or television drama will be excluded from the scope of liberalisation if the viewing duration of the movie and television drama is more than 15 and 10 minutes respectively<sup>1</sup>. In any event, the movie or a television drama cannot be embodied in the article in its entirety.
  
- (b) For musical sound or visual recordings: An article which has embodied in it a computer program and a musical sound or visual recording will be excluded from the scope of liberalisation if the economic value of the article is predominantly attributable to the economic value of the musical sound or visual recording in the article.

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<sup>1</sup> We originally proposed 20 minutes for both movies and television dramas in the 2001 Bill. We have subsequently proposed to tighten up the test. The revised threshold is 15 minutes for movies and 10

*Excluding e-book from the scope of liberalisation*

4. Following further consultation with the publishing industry, we have subsequently agreed to exclude also e-books from the scope of liberalisation. To this end, we proposed an economic value test along the lines of that for musical recordings i.e. the parallel importation of an article which has embodied in it a computer program and specified works commonly found in an e-book (namely literary works, musical works, dramatic works and artistic works, and films and sound recordings accompanying these works for illustrative purpose) will be excluded from the scope of liberalisation, if the economic value of the article is predominantly attributable to the economic value of these works.

*Counter proposal from the industry*

5. We have had five rounds of meetings with the representatives of publishing, music and film industry<sup>2</sup> to discuss the formulation described in paragraphs 3 and 4 above. They considered the concept of economic value unclear and were opposed to its being used as a test. They also

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minutes for television dramas.

<sup>2</sup> The industry representatives represent the following organizations.

*Publishing*

Hong Kong Publishing Federation  
 The Anglo-Chinese Textbook Publishers Organization  
 The Hong Kong Educational Publishers Association  
 Hong Kong Reprographic Rights Licensing Society

*Record*

IFPI Asian Regional Office

*Film*

Motion Picture Industry Association Limited

pointed out that with the increasing trend towards the development of multi-media products incorporating different types of works, using different tests is inadvisable and not conducive to future developments in the industry. For instance, an article which has embodied in it some musical recordings, several clippings of movies or television dramas with a viewing duration for each movie or television drama not lasting for more than 15 or 10 minutes respectively, some written pieces, and a computer program facilitating the viewing or listening of these works may not meet the different tests individually and therefore may not be excluded from the scope of liberalisation, even though the principal use of the article is for the viewing or listening of the musical recordings and the clippings of movies or television dramas in the article.

6. The industry counter-proposed a single test to define the scope of liberalisation, i.e. parallel importation of an article containing a computer program and other works would be liberalised if the “essential object” of the article is the computer program. They pointed out that the concept of “essential object” is based on a provision protecting the rental right of computer program in the Copyright Act 1968 of Australia<sup>3</sup>, and was interpreted in an Australian court case in 2001<sup>4</sup>. The court case concerned the issue of whether “the essential object” of the rental of a DVD movie

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<sup>3</sup> Section 31 of the Act provides that in the case of a computer program, the copyright owner enjoys the exclusive right to enter into a commercial rental arrangement in respect of the program. However, the exclusive right does not extend to entry into a commercial rental arrangement “if the computer program is not the essential object of the rental” (our underlining).

<sup>4</sup> Australian Video Retailers Association Ltd v Warner Home Video Pty Ltd [2001] FCA 1719

was the computer program in the DVD. The Federal Court of Australia ruled that the phrase “the essential object of the rental” in the Act referred to the purpose of the commercial rental arrangement, and that the purpose of the rental of a DVD with a computer program and a movie embodied in it should be the movie, not the computer program which was used to facilitate the viewing of the movie.

### **The Proposed New Formulation**

7. We acknowledge that it will be difficult to clearly define the concept of economic value and a reasonable man test has to be applied. We also recognize that the originally proposed formulation is quite complicated involving different test for different types of works. With the subsequent need to delineate also e-books for exclusion from the scope of liberalisation, we have revisited the originally proposed tests. We note that with the many different types of e-books and different works contained therein, applying the concept of economic value to e-books will be more difficult as compared to the use of the test for musical recordings. We also note the industry’s view that adopting a single test will be much simpler and can better take into account the future development of multi-media products. However, we do not agree to the suggestion of the industry to use the essential object test as described in paragraph 6 above because:

- (a) the test will set out, in a positive manner, the types of articles (with a computer program incorporated) that fall within the

scope of liberalisation. Our proposal, however, is to liberalise the parallel importation of articles which have embodied in them a computer program save for a few specified types. An approach which sets out specific exceptions, as we proposed in the 2001 Bill, reflects more accurately this proposal; and

- (b) the term “essential object” is not clear. One may not find it easy to apprehend the meaning of the term without the necessary background of the Australian court case.

8. Taking into account the above considerations and the comments of the industry, we propose the following new formulation for exclusion from the scope of liberalisation:

- (a)(i) an article which has embodied in it a computer program and one or more of the works specified in (ii) below, and which is an article that if a person acquiring for his own use is likely to acquire for the purpose of acquiring the copies of works in (ii) below more so than for the purpose of acquiring the copies of other works that are embodied in the article;
- (ii) works referred to in (i) above are works found in an e-book, a movie or a television drama not otherwise covered by (b) below, a musical sound recording or a musical visual recording; and

- (b) an article which has embodied in it a computer program and a movie or a television drama in its entirety or substantially in its entirety, or with a viewing duration exceeding 15 minutes and 10 minutes respectively.

9. It should be noted that the purpose of the acquisition, is to be applied from the objective perspective of a hypothetical user.

10. We believe that the proposed test of likely purpose of acquisition is clearer and more straightforward than the test of economic value. It can better cater for multi-media products and meet the request of the industry. We also believe that the new formulation would equally meet our policy intention of liberalising parallel importation of business application software, software for educational purpose, and software for recreational purpose such as computer games. The computer programs in these kinds of articles usually provide a wide range of processing and interactive functions and we consider that a hypothetical user acquiring these articles would be doing so for the purpose of acquiring the computer programs rather than the other copyright works that may be embodied in them. In the case of articles whose principal attraction is a movie, television drama, musical visual or sound recording, or e-book, the processing and interactive functions of the computer programs embodied in the articles will be much less sophisticated and will constitute a much smaller part of the reason for acquiring that article, while the other copyright works, being relatively more important, will

constitute the main purpose of the acquisition by a user.

### **Consultation**

11. We have consulted the publishing, music, film and game industry on the new formulation and have invited comments from the Bar Association and Law Society on it. Representatives of the publishing, music and film industry support the draft CSA attached to this paper and we are awaiting replies from the Bar Association and Law Society. Regarding the game industry, we received one response from the Interactive Digital Software Association representing US interactive digital games publishers. They have not commented on the new formulation and only reiterated their objection to the inclusion of computer games in the scope of liberalisation. We remain of the view that the scope of liberalization should be as wide as possible so that more consumers can benefit from the proposed liberalisation. Hence, we consider that it is not appropriate to reduce the scope of liberalisation further..

### **Conclusion**

12. Due to technological convergence and development of multi-media products incorporating in them computer programs, it is not possible to define the scope of exclusion from the liberalisation proposal simply in quantitative terms or by reference to fixed technical characteristics. In particular, the distinction between e-books and some



educational software is not always a clear-cut one. However, we consider the proposed test in paragraph 8 above to be sufficiently clear and precise, and to be better able to cater for future developments in the industry.

Commerce and Industry Branch

Commerce, Industry and Technology Bureau

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**35A. Copy of a computer program, and of a work embodied in the same article as a computer program, not an “infringing copy” for the purpose of section 35(3)**

- (1) This section applies to a copy of a work that -
- (a) is a copy of a computer program; or
  - (b) except as provided in subsection (3) or (4), is a copy of a work other than a computer program, that is embodied in an article in which is also embodied a copy of a computer program,

and that, but for this section, would be an infringing copy for the purposes of section 35(3).

(2) A copy of a work to which this section applies is not an infringing copy for the purposes of section 35(3) if it was lawfully made in the country, territory or area where it was made.

(3) A copy of a movie or a television drama that is embodied in an article in which is also embodied a copy of a computer program (including any such copy forming part of an e-book for illustrative purposes), is not a copy of a work to which this section applies if –

- (a) the copy is a copy of a movie or a television drama in its entirety or substantially in its entirety; or
- (b) where the copy is a copy of part only of a movie or a television drama –
  - (i) all those parts of the movie or television drama

copies of which are embodied in the article together constitute the movie or television drama in its entirety or substantially in its entirety; or

- (ii) the viewing time of all those parts of the movie or television drama copies of which are embodied in the article is more than 15 minutes in aggregate, in the case of a movie, or 10 minutes in aggregate, in the case of a television drama,

and in paragraphs (a) and (b)(i), reference to a television drama, in the case of a television drama comprising one or more episodes, is reference to an episode of the television drama.

(4) A copy of a work other than a computer program, that is embodied in an article in which is also embodied a copy of a computer program, is not a copy of a work to which this section applies if –

- (a) the copy of the work is or forms part of –
  - (i) an e-book;
  - (ii) a copy of a movie (other than a copy to which subsection (3) applies);
  - (iii) a copy of a television drama (other than a copy to which subsection (3) applies);
  - (iv) a copy of a musical sound recording; or
  - (v) a copy of a musical visual recording; and
- (b) the article is an article that, if acquired by a person for his own use, is likely to be acquired for the purpose of acquiring the copies of works to which paragraph (a) applies more so than for the purpose of acquiring the

copies of other works that are embodied in the article, and in considering for the purposes of paragraph (b) the extent to which an article is likely to be acquired for the purpose of acquiring copies of works other than works to which paragraph (a) applies, no regard shall be had to those functions of any copy of a computer program that provide a means of viewing or listening to a copy of a work to which paragraph (a) applies (and, where the copy of the work is in encrypted form, of any decrypting that is necessary to enable such viewing or listening), or for searching for any specific part of such copy of a work.

(5) In this section, "e-book" means a combination of copies of works comprising –

- (a) one or more copies of each of –
  - (i) a computer program; and
  - (ii) a literary work (other than a computer program), a dramatic work, a musical work or an artistic work ("main work"),

so arranged as to provide for the copy of the main work to be presented in the form of an electronic version of a book, magazine or periodical; and

(b) where a main work is accompanied for illustrative purposes by any copy or copies of films or sound recordings, that copy or those copies.

[Note: The definitions for "movie", "television drama", "musical sound recording", "musical visual recording", and "lawfully made" are as follows:

- "movie" means a film of the kind commonly known as a movie;
- "musical sound recording" means a sound recording the whole or a predominant part of which consists of the whole or any part of a

musical work and of any related literary work;

- “musical visual recording” means a film with an accompanying sound-track, the whole or a predominant part of which sound-track consists of the whole or any part of a musical work and of any related literary work;
- “television drama” ( ) means a film of the kind commonly known as a television drama;”.
- “lawfully made”

A copy of a work that is made in a country, territory or area where there is no law protecting copyright in the work or where the copyright in the work has expired is not a copy that is lawfully made for the purposes of this Part.