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17 June 2003

Ms. Connie Szeto
Legislative Council
Legislative Council Building
8 Jackson Road, Central, Hong Kong

Dear Ms. Szeto,

**Re: Bills Committee on Copyright (Amendment) Bill 2001 and Copyright
(Amendment) Bill 2003**

I refer to your letter dated 22 May 2003.

1. Submissions

I attach Submissions prepared by the Law Society's Intellectual Property Law Committee dated 17 June 2003.

In addition, the Law Society re-iterates its Submissions dated 11 September 2002, particularly in relation to the points on "*lawfully made*". A copy of the submissions is also attached for easy reference.

2. Bills Committee meeting on 2003 Bill on 4 July 2003

The Law Society will be represented by Mr. Anthony Evans (顏偉仕), a member of the Law Society's Intellectual property Law Committee.

Yours sincerely,

Joyce Wong
Director of Practitioners Affairs
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c.c Intellectual Property Law Committee
Encl.



COMMENTS BY THE INTELLECTUAL PROPERTY COMMITTEE ON THE COPYRIGHT (AMENDMENT) BILLS 2001 and 2003

PRELIMINARY CONCERNS

- 1 The Law Society was invited by the Bills Committee to make comments on Committee Stage Amendments (CSAs) to the Copyright (Amendment) Bills 2001 and 2003. By letter of 22 May 2003 we were invited to provide our views by 21 June 2003. Subsequently the Commerce and Industry Branch (CIB) of the CITB proposed further amendments to the Copyright (Amendment) Bill 2001 to exclude so-called "e-books" from the ambit of parallel import liberalisation. These proposals were provided to us by letters of 3 and 5 June 2003 requesting our comments by 11 June 2003.
- 2 We are aware of the tight legislative timetable, but are concerned that we have not been given adequate time to review the proposed amendments which are complex and confusing in nature. We have noted a number of errors but cannot be expected to correct all errors and fear that any legislation passed in its present form will be defective.
- 3 Indeed, we have to say that we are very concerned about the form of the proposed amendments and the effect of these in relation to unlicensed use (including parallel imports) of computer programs (especially through the Internet and other on-line services), which are the backbone for the converging media industries.
- 4 The policy behind the drafting of the 2001 Bill is to dilute copyright in respect of computer programs (although it is unclear what present evil this addresses), but at the same time to recognise the legitimate commercial concerns of the movie, music, television and, most recently, publishing industries. The unfortunate result is that the structure of the proposed legislation is to take away rights and then restore them as exceptions. Consequently, the drafting process is often very convoluted and difficult to follow. We observe this as lawyers. The general public will undoubtedly be even more confused.
- 5 We propose an alternative solution in paragraphs 14 and 15 below.
- 6 The public's understanding of the proposed legislation will depend upon the way it is presented. A clear example of this was the outcry following the passing of the 2001 amendments, notwithstanding prior consultation, and the subsequent bowing to pressure with the passing of the Copyright (Suspension of Amendments) Ordinance.
- 7 Now, the stated aim of the Bills is to make permanent the suspension arrangements and to liberalise the law with respect to parallel imports of articles embodying computer programs and end-user liability. Our concern is that the legislation will again be misunderstood as

liberalising copyright restrictions at a time when the government should be promoting more effective remedies.

- 8 The effect of the Bills if passed will be largely to dilute the existing rights of copyright owners, whereas what is urgently required are more effective provisions to protect creativity and technological developments. In particular, the legislation does not address industry concerns such as internet piracy of software, anti-circumvention measures, business end-user software piracy, cable and satellite piracy, and the production, distribution and sale of pirated or counterfeit products, including the imposition of landlord liability. From our experience as practitioners, copyright owners are generally unhappy with the lack of progress in addressing these matters.
- 9 New technological developments will undoubtedly arise. Internet and other computer based digital applications are likely to expand, for example in the area of mobile telecommunications and broadcasting. The present proposals respond to those industries today with the loudest voice and assume that other copyright owners (such as newspapers, photo galleries and engineers) do not or will not need similar protection in respect of unlicensed use or their computer based products in the future.
- 10 The government argues that by liberalising parallel import restrictions on computer programs consumers will be able to replace pirated copies with legitimate cheaper parallel imported copies. We view this with some cynicism since the use of parallel imported computer programs will still be controlled under end-user licence agreements with territorial restrictions. The argument is therefore likely to be more imagined than real.
- 11 We note that the views of the games industry represented by the Interactive Digital Software Alliance (IDSA) have not been taken into account in the proposed amendments simply on the basis that "the scope of liberalisation should be as wide as possible" and that "it is not appropriate to reduce the scope of liberalisation further" (paragraph 11 of the CIB June 2003 briefing paper to the Bills Committee). This is not further explained and we fail to see the force of this argument.
- 12 The proposed liberalisation will have a psychological impact reducing the ability of enforcement bodies to tackle the ever increasing problem of end user piracy. Consequently, the piracy problem may be aggravated rather than improved under the proposed amendments unless a serious effort is made by the government to rigorously enforce and prosecute cases of business end- user piracy. We would urge the government to look closely at other remedies to control the piracy problem.
- 13 We are concerned about the complexity of the law now proposed and observe that the attempt to liberalise the law has not led to any simplification of its provisions. We also note that the interrelation between the two Bills is sometimes difficult to follow. For example, proposed Section 118A in the 2001 Bill is not the same as proposed Section 118A in the 2003 Bill. We do therefore recommend a thorough review of the proposed legislation in its entirety taking into account the provisions of both Bills.

AN ALTERNATIVE (SIMPLER) PROPOSAL FOR THE 2001 BILL

- 14 We offer a much simpler approach to the policy proposal of the 2001 Bill. Assuming the policy is that only parallel imported computer programs "as such" are to be removed from the ambit of copyright legislation, a provision to this effect could very simply be drafted.
- 15 The provision would properly define what a parallel import is by reference to a positive definition of "lawfully made" (as opposed the negative one proposed). It would state that there should be no restrictions under the Copyright Ordinance with respect to any dealing or use in Hong Kong of any parallel import of a computer program "as such" (similar to the Patents Ordinance provision on computer programs). This would leave open the door to protecting both existing and future technologies substantially protected as copyright works in their own right whether or not also comprising computer programs as backbones. The provision would therefore state that such technologies must "substantially comprise" or be "reasonably treated" as embodying such works.

OUR COMMENTS ON THE BILLS

COPYRIGHT (AMENDMENT) BILL 2001

- 16 The purpose of the 2001 Bill is to remove civil and criminal liability under the Copyright Ordinance with respect to parallel imported copies of computer programs and other copyright works with which they are embodied in articles.
- 17 Amendments are proposed to exclude from the ambit of liberalisation any article, the principal use of which is to be viewed or played as a movie, television drama, musical sound or visual recording, or as an e-book. As stated above we do not see any need to limit the exclusions as long a computer program "as such" is within the ambit of liberalisation. This allows for future technological development.
- 18 The words "an infringing copy for the purposes of section 35(3)" at the end of Section 35A(1) and in Section 35A(2) do not appear correct. What purpose is served? In the 2003 Bill, the wording used is "an infringing copy by virtue only of Section 35(3)" which we believe is what is intended (see for example Section 118(2)(a) proposed in the 2003 Bill. The wording at the end of Section 35A(1) could be amended to "and that, but for this section, would be an infringing copy by virtue only of Section 35(3), and was lawfully made...." etc.
- 19 There is no definition of "lawfully made" and we believe there should be one. Otherwise it could be argued that works made in breach of any law were outside the scope of liberalisation. Moreover, lawfully in this context means "genuine goods" i.e. made with the authorisation of the Hong Kong copyright owner, whether or not there is a corresponding copyright law in the place of making. We therefore suggest the following definition :

"Lawfully made" in relation to a work means made whether in Hong Kong or elsewhere either by the owner, or a person authorised by the owner, of copyright in the work in question which the owner is entitled to protect under this Ordinance"

With this definition it would not be necessary to exclude a copy of a work made in a place where there is no copyright law or copyright has expired as proposed in Section 198(3). It is a matter of fact not law whether the making is authorised or not.

- 20 The provisions relating to "e-book" (Section 35A(5) and Section 35A(3)) are unclear. The definition of "e-book" in Section 35A(5), sub-paragraphs (a) and (b) is cumulative so as to include any e-book accompanied "for illustrative purposes" by any copy or copies of films or sound recordings. It is not clear why any accompanying film or sound recording must be for illustrative purposes. For example, this definition does not allow for audio e-books illustrated by artistic works, since sound recordings are not included in the list of "main works" and copies of artistic works are not included in the list of works for "illustrative purposes". This seems very arbitrary. It would be clearer (and fairer) to include films and sound recordings in the list of main works and delete sub-paragraph (b).
- 21 The opening words of Section 35A(3) in brackets: ("including any such copy forming part of an e-book for illustrative purposes") are not clear. The section refers to a copy of a movie, television drama and computer program. "Such copy" could therefore refer to any of these copies but, since it is "for illustrative purposes", it presumably refers to the copy of the movie or television drama. With the proposed amendment above, "illustrative purpose" is no longer necessary or relevant and these words may be omitted. The words "(including any such copy forming part of an e-book)" should then be placed after the opening words as follows: "A copy of a movie or television drama (including any such copy forming part of an e-book) that is embodied...."
- 22 Section 35A(3) deals with the quantitative test for a movie or television drama. We do not find this concept helpful and wonder why it is so important to exclude "movies" shorter than 15 minutes and "television dramas" shorter than 10 minutes. Moreover, the scope of Section 35A(3)(b) is unclear. How can part of a movie constitute the movie in its entirety? Does this refer to movies with sequels/prequels (like "Star Wars")? In this case, the section should refer to a movie (or television drama) intended to be viewed in such parts (or the word "episode" could be used).
- 23 We would prefer to have the proposed liberalisation of restrictions on parallel imported computer programs drafted by reference simply to a computer program "as such", which would avoid the need for the tortuous provisions of the Bill. However, even if the present approach is to be adopted, so far as "movies" and "television dramas" are concerned, the proposed definitions of these words in Section 198 are distinctly unhelpful and circular. Section 35A(4)(b) is likewise difficult to interpret and apply, since the purpose for which an article is acquired by a person for his own use is not something with which a parallel importer should be concerned.
- 24 As suggested above, a better approach would be to refer to the article as an article that "substantially comprises or is reasonably treated as an article to which paragraph (a) applies".

COPYRIGHT (AMENDMENT) BILL 2003

- 25 We note the purpose of the 2003 Bill to address the proper long-term approach to imposing criminal liability for the use of pirated copyright works in business. The Copyright (Suspension of Amendments) Ordinance 2001 confined criminal liability to four categories of copyright works (computer programs, movies, television dramas and musical recordings). It will expire on 31 July 2003 and new legislation is required. E-books are now proposed to be

added to the four categories and amendments are required to reflect this (eg Section 118A(1)(a) only refers to the four categories).

DEALINGS "FOR THE PURPOSE OF DISTRIBUTING FOR PROFIT OR FINANCIAL REWARD"

- 26 The proposal to impose liability for dealings with infringing copies under Sections 30 and 31 and Section 118 where done for the purpose of "distributing for profit or financial reward" seems unnecessarily narrow, since it could easily be argued that there was no such purpose or that there was or would be no profit or financial reward. In practice, it will be more difficult to prove intent or motive under this proposal than to show that the activity was for the purpose of or in the course of any trade or business.
- 27 The expression "for the purpose of or in the course of any trade or business" has been retained for end user liability under section 118A and it has not been clearly explained why this wording (other than excluding "in connection with") has not been retained to cover manufacture, imports, exports and other dealings under Section 118. It is said that spelling out the offences makes the position clearer, but the effect is to limit the scope of infringement.
- 28 Accordingly, we consider that the relevant provisions of Sections 30, 31 and 118 should be amended to impose liability for acts done "for the purpose of or in the course of any trade or business or to such an extent as would affect prejudicially the owner of the copyright".

DEFINITION OF MOVIE

- 29 Section 118A(1)(a) refers to "feature film". This should be "movie" to be consistent with the 2001 Bill. E-book should be added.

TRANSPORTING OR STORING

- 30 The relevant provisions of Section 118(1) (and presumptions Sections 118(4) and (5)) should be amended to cover making, transporting or storing an infringing copy in the course of any trade or business or to such an extent as would affect prejudicially the owner of the copyright.
- 31 Transporters and storers are in a different position from others affected by the criminal provisions of Section 118. They may well be unaware that they are transporting or storing infringing copies. The defences under Section 118B are not sufficient because they only relate to knowledge of that the copy in question was an infringing copy and involve extensive enquiries under sub-sections (2) and (3). We suggest a defence for such a person charged to prove that he honestly did not know and had no reason to believe that he was or would be transporting or storing an infringing copy.

DEFENCES AND LACK OF KNOWLEDGE

- 32 Section 118A(5) repeats existing provisions under the suspension Ordinance but we do not understand it. The effect is to permit possession for the purpose of or in the course of any trade or business of an infringing copy (including a pirated copy) of a computer program in

printed form or in the nature of an Internet operating program. This exclusion should not apply to pirated copies.

- 33 There is an existing defence in criminal proceedings under Section 118B and in civil proceedings under section 36 based on lack of knowledge or reason to believe that the copy was an infringing copy. In respect of imported infringing copies by virtue of Section 35(3) there is a high threshold to prove lack of knowledge by a regime of enquiries. The LegCo Brief suggests that these provisions are limited to parallel imports but they are not.
- 34 Sections 118B(2) and (3) repeat the existing provisions. Subsection (2) refers to the supposed parallel import exclusion under Section 35(4). However, this exclusion only applies to parallel imports imported after 18 months from first publication in Hong Kong or elsewhere. Prior to that parallel imports are not excluded by Section 35(4) and pirated imported goods are in any event not excluded. Sections 118B(2) and (3) therefore apply to parallel imports during the 18 month period and to pirated imported goods at any time. In the case of the defence under Section 36 (civil liability), the reference is only to imported infringing copies under Section 35(3) and there is no distinction between parallel and pirated imports. The threshold for proving lack of knowledge in the case of parallel and pirated imported copies is therefore much higher than for other dealings in pirated copies. It is not clear whether it is intended to relate only to parallel imports. If so, the relevant sections must be amended.

THREATS ACTIONS

- 35 Section 187 is headed "Groundless threat of proceedings in relation to parallel import" but refers to "proceedings for infringement of copyright under sections 30 and 31 in respect of a copy of a work which is alleged to be an infringing copy by virtue only of section 35(3)". There is no reference to Section 35(4) and it is therefore equally applicable to parallel imports and pirated imports. The legislation should be amended by adding "and was lawfully made in the country, territory or area where it was made".

CONCLUSION

- 36 As indicated, we find the proposed legislation difficult to follow and unnecessarily complex in its drafting. We have not examined every provision (in particular the transitional provisions and consequential amendments). We recognise that the drafting process has resulted from industry lobbying and that the resulting legislation is an attempt to reflect the views of many. However, it is important not to lose sight of one of the fundamental principles of copyright law - to provide economic reward for creations that might otherwise be exploited by copying. The government is urged to introduce legislation to improve the regime for protecting copyright, which the present proposals do nothing to achieve.

**The Law Society of Hong Kong
Intellectual Property Committee**

17 June 2003

68899

COMMENTS ON THE COPYRIGHT (AMENDMENT) BILL 2001

1. **DOES THE BILL ACHIEVE ITS OBJECT?**
 - 1.1 We understand that the proposal under the draft Bill is to remove civil and criminal liability for copyright infringement in respect of "parallel imports" of computer programs and associated works embodied therein.
 - 1.2 We do not believe the draft Bill succeeds in doing this.
2. **"LAWFULLY MADE"**
 - 2.1 The principal amendment of Section 35(A)(1) is based on the existing wording of Section 35(4) of the Copyright Ordinance. This purports to exclude criminal liability for works published for more than 18 months and "accessory works" by referring to a copy of a work "lawfully made" in the place in which it was made.
 - 2.2 Amended Section 35A(1) likewise states that a copy of a computer program or associated work is not an infringing copy if it was "lawfully made" in the place in which it was made. In other words, a computer program or associated work is an infringing copy if it is **unlawfully** made.
 - 2.3 "Lawfully made" is not defined. "Lawful" is not limited to lawful under any relevant copyright law. Accordingly, something is unlawfully made if the making of it breaches any law, including the law of contract.
 - 2.4 A manufacturing licence which specifies that a computer program should only be made for sale in an overseas market and not shipped, directly or indirectly, to Hong Kong is breached if it is made for shipment, directly or indirectly, to Hong Kong (ie as a parallel import). Its making for such purpose is in breach of contract. It is not "lawfully made" and it is an infringing copy under the law even after the amendment as proposed.
3. **WHEN ARE THE RIGHTS EXHAUSTED?**
 - 3.1 Lawfully made is not the same as lawfully **put on the market** (which is the concept adopted for exhaustion of rights under the common law Betts v Wilmot principle). Under the latter concept, goods lawfully put on the market may be exported without restriction, whatever contractual restrictions there may be on subsequent sales elsewhere. If the first sale was lawful, so are subsequent sales.
 - 3.2 In contrast, the concept of "lawfully made" is ambiguous. As presently worded, Section 35(A)(1) clearly allows copyright owners to draft licences in such a way as that products made for sale in Hong Kong are not "lawfully made" and therefore continue to be "infringing copies".

4. **SUGGESTED AMENDMENT**

- 4.1 If on the other hand it is intended to legalize all parallel imports of computer programs and associated works, the provision should be differently worded
- 4.2 It may for example be expressed by reference to contractual restrictions. It may be stated that a copy of a computer program or associated work made outside Hong Kong is not an "infringing copy" by virtue only of any term in any contract with the owner of copyright in the work in Hong Kong restricting or prohibiting the import or sale of such copies in Hong Kong.

5. **ASSOCIATED WORKS**

- 5.1 Under Section 35A(2), a copy of an "associated work" is a copy of a work "embodied" in a computer program. Section 35A(1) provides that an associated work is not an infringing copy if it was "lawfully made".
- 5.2 However, the Section does not require (as presumably it should) that the copy of the associated work was "lawfully embodied". Imports of unlawfully embodied associated works should still be infringing copies.
- 5.3 For the purpose of defining "associated work", it is not clear why films and musical sound recording/visual recording are treated differently from other copyright works.
- 5.4 Moreover a "feature film" does not seem to include a comedy or documentary. Is this intentional?
- 5.5 In relation to Section 35A(3) defining the type of feature film to be excluded, it is difficult to understand how the 20 minutes duration is determined. It seems that this figure is wholly arbitrary.

6. **CRIMINAL LIABILITY AMBIGUITIES**

- 6.1 It is noted that as amended Section 118A removes criminal liability for breach of any contract restricting use of a program or associated work in Hong Kong. However, this only applies to the meaning of "**lawful user**" under section 60(2) and does not apply to the meaning of "**lawfully made**" under Sections 35A and 35(4).
 - 6.2 Moreover, the wording of Section 118A(1) is ambiguous and confusing. Section 118(1) refers to infringement by making for sale or hire, importation and exportation other than for private and domestic use, possession in the course of or for the purpose of trade etc. Section 118A(1) should therefore be clarified to refer only to importation and use of the genuine parallel imported copies in Hong Kong. The provision is only intended to avoid contractual territorial restrictions with respect to genuine, not pirated, copies.
 - 6.3 The same clarification should also apply to associated works under Section 118A(1)(b). We do not believe that it is the intention of the legislation to allow general copying and adaptation of the underlying associated work, such as making a Chinese translation of an English language encyclopedia contained in a computer program.
7. The Section 35A amendment has not been incorporated in S.118. It is not clear why not. As worded it is still a criminal offence to import "parallel imports" within 18 months of publication.

8. **CONTINUING EXCEPTIONS**

- 8.1 Under the existing Section 35(9) of the Ordinance, "lawfully made" does not include the making of a copy in places where there is no copyright law or the copyright has expired. This should be extended to exclude places recognizing exclusions or defences which Hong Kong does not recognize under the Copyright Ordinance (eg exclusions for government use and compulsory licences). These should continue to be infringements in Hong Kong.
- 8.2 The proposed amendments do not cover the situation where a copy is "lawfully made" by the owner of copyright overseas who is different from the owner of copyright in Hong Kong? If this is intended to continue to be an infringement (which it is submitted it should) the provision should be amended by adding "lawfully made by or on behalf of the owner of copyright in the work in Hong Kong".

9. **REASONABLENESS DEFENCE FOR PIRATED GOODS?**

- 9.1 The Law Society has previously noted that the existing Section 36 defences apply to both parallel imports and pirated goods. This is clearly not intended to relate to all defences, in particular reasonableness of supply under the provisions of Section 36(3); otherwise someone who was refused supply on reasonable terms would have a defence to infringement by importing pirated goods.
- 9.2 This point was previously raised with the Intellectual Property Department who agreed that the drafting is defective, but to date no amendment has been proposed.
- 9.3 Section 36(1) It should at least be amended by adding after the reference to Section 35(3) "and which was lawfully made by or on behalf of the owner of copyright in the work in Hong Kong".

10. **CONTINUING EXCEPTIONS**

- 10.1 Under the existing Section 35(9) of the Ordinance, "lawfully made" does not include the making of a copy in places where there is no copyright law or the copyright has expired. This should be extended to exclude places which recognize exclusions or defences not recognized under the Copyright Ordinance (eg exclusions for government use and compulsory licences). These should continue to be infringements in Hong Kong.
- 10.2 The proposed amendments do not cover the situation where a copy is "lawfully made" by the owner of copyright overseas who is different from the owner of copyright in Hong Kong? If this is intended to continue to be an infringement (which it is submitted it should) the provision should be amended by adding "lawfully made by or on behalf of the owner of copyright in the work in Hong Kong".

**The Intellectual Property Committee
The Law Society of Hong Kong
11 September 2002**