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Report on
Copyright (Amendment) Bill 2001
by
the Bills Committee on Copyright (Amendment) Bill 2001
and Copyright (Amendment) Bill 2003

Purpose

This paper reports on the deliberations on the Copyright (Amendment) Bill 2001.

Background

2. Parallel importation of a copyright work, e.g. a computer program, usually means the importation into Hong Kong without the permission of the copyright owner, of a copy of that work which was lawfully made in the country of origin. At present, there are restrictions on parallel importation of copyright work. Under section 35(3) of the Copyright Ordinance (Cap. 528) (the Ordinance), a copy of parallel imported copyright work is regarded as an infringing copy if its importation would have either infringed the copyright in that work or breach an exclusive licence agreement relating to that work. The combined operation of sections 35(4) and 118(1) of the Ordinance is that it is a criminal offence, inter alia, to import (otherwise than for private and domestic use) or sell a copy of copyright work which is an infringing copy by virtue of its parallel importation if the work has been published for 18 months or less. The maximum penalty for such a criminal offence under section 119(1) of the Ordinance is a fine of \$50,000 per infringing copy and four years' imprisonment. In general, the parallel importation or subsequent sale of a copy of the work which has been published for more than 18 months will not attract criminal liability but civil remedies e.g. injunction, delivery up and damages are still available to the copyright owner.

3. The Administration conducted a consultation exercise in May 2001 and found that there was wide support from users of computer software in the business community and from the Legislative Council to remove the current restrictions on parallel importation of computer software. It is believed that liberalization will increase competition and availability of products in the market, resulting in more choices and lower prices for consumers. It will particularly help ease the financial burden on small and medium enterprises in replacing their pirated computer software with legitimate products in order to comply with the amendments in the Intellectual Property (Miscellaneous Amendments) Ordinance 2000¹ which criminalizes the possession of pirated copies of copyright work in the course of business.

The Copyright (Amendment) Bill 2001

4. The Administration introduced the Copyright (Amendment) Bill 2001 (the 2001 Bill) into the Legislative Council on 19 December 2001. The 2001 Bill seeks to remove the civil and criminal liabilities under the Ordinance related to parallel importation of and subsequent dealings in articles which have embodied in them computer programs with or without other copyright works. The proposal aims to exclude any copy of a computer program and an associated work from the scope of section 35(3) of the Ordinance so that parallel imported of such copies of computer program with or without an associated work lawfully made in the country of origin will no longer be infringing copies, and hence importation or subsequent sale of such copies will not attract criminal or civil liability under the Ordinance. Nevertheless, the proposal excludes certain copies of works, i.e. feature films (movies and television dramas), music sound recordings and musical visual recordings as defined in the proposed new Section 35A, from being regarded as copies of associated works. The objective is to circumscribe the scope of the proposed liberalization, so as to avoid unintentionally lifting the restrictions on parallel importation of products whose principal use is to be viewed or listened as a movie, television drama, or a musical visual or sound recordings.

¹ The Intellectual Property (Miscellaneous Amendments) Ordinance 2000 makes the knowingly possession of an infringing copy of copyright work for the purpose of, or in the course of, any trade or business an criminal offence. Its implementation in April 2001 has aroused serious public concern about end-user liability of copyright works. The Copyright (Suspension of Amendments) Ordinance 2001 was enacted to suspend the amendments. To address the concerns in the longer term, the Administration conducted a public consultation in late 2001 to review certain provisions of the Copyright Ordinance. The proposed legislative amendments to remove end-user liability have been incorporated in the Copyright (Amendment) Bill 2003 which was introduced into the Legislative Council on 12 February 2003.

The Bills Committee

5. At the House Committee meeting on 4 January 2002, members agreed to form a bills committee to study the 2001 Bill. The Bills Committee, under the chairmanship of Hon SIN Chung-kai, commenced work in July 2002. On 12 February 2003, the Administration introduced the Copyright (Amendment) Bill 2003 (the 2003 Bill) into the Legislative Council to address the concerns arising from the Intellectual Property (Miscellaneous Amendments) Ordinance 2000¹. As both the 2001 Bill and the 2003 Bill contain provisions relating to parallel importation, the House Committee agreed on 14 February 2003 that the same Bills Committee should study both bills in order to avoid possible confusion and to achieve consistency in drafting. The membership of the then Bills Committee on the 2001 Bill was re-opened and the name of the Bills Committee revised. The membership list of the Bills Committee is in **Appendix I**.

6. The Bills Committee decided to complete scrutiny of the 2001 Bill first. As at 12 June 2003, the Bills Committee has held 11 meetings to deliberate on the 2001 Bill. It has also invited views from interested parties including the industries concerned. A list of organizations which have submitted views to the Bills Committee on the 2001 Bill is in **Appendix II**.

Deliberations of the Bills Committee

The scope of liberalization of computer software products

7. The Bills Committee notes that there is strong support from the business community and the general public to liberalize parallel importation of and subsequent dealings in computer software products. Besides the advantages of widening the choices of goods and lowering prices for consumers and business enterprises, liberalization is in line with Hong Kong's free market philosophy and also in step with the growing popularity of purchases through the Internet.

8. As regards the types of products that will fall within the scope of liberalization, members note that these will include software products for business application; publications in electronic format, i.e. e-books, which generally contain computer programs and embody with them other copyright works like literary works, artistic works and films and sound recordings for illustrative purpose; and software products for educational and entertainment purposes such as instructions on cooking or playing golf; and interactive computer software such as computer games. The last two categories of products may contain computer programs and embody with them films and music recordings for audio and visual effects.

9. The Bills Committee has deliberated at length the scope of liberalization of computer software products and the various ways in defining the scope with a view to avoiding unintentionally lifting restrictions on parallel importation of certain products which embody a computer program. In this connection, the Bills Committee notes that there was overwhelming public support during the Administration's consultation in May 2001 for liberalizing parallel importation of all types of computer software products including educational and recreational computer software. Some members are also of the view that the scope of the liberalization should be as wide as possible so as to maximize the benefits of parallel imports to consumers.

Business software and computer games

10. Despite the general support for liberalization of parallel imported computer software products, some industries have expressed concern and even opposed to liberalizing software products relating to their trade. The software industry as represented by Business Software Alliance does not object to the liberalization, but cast doubt on the benefits to consumers as vendors generally apply universal pricing for products around the world, hence providing limited room for lowering prices in the market. Liberalization however may affect local distributors which provide after sale services. The games industry opposes to the inclusion of computer games in the scope of liberalization as this will hurt distributors' business and discourage investment in marketing and product investment in Hong Kong. Both industries point out to the Bills Committee that the liberalization proposal may increase the supply of pirated software products and that there is difficulty to distinguish parallel imported software products from counterfeits.

11. The Bills Committee has examined whether there is evidence to suggest that the proposed liberalization would adversely affect the industries concerned. The Administration reiterates the importance of widening the scope of liberalization to benefit more consumers. Inclusion of computer games software in the scope will allow more computer software products for entertainment purpose to come onto the market. The Administration considers that there is no evidence that such liberalization would hamper the development of the industry.

12. As regards the possible increase in the supply of pirated software products, the Administration reiterates that parallel imported computer software products is made with the licence of the copyright owner and that they are genuine copyright works. The Administration considers that there is no concrete evidence suggesting that piracy will increase as a result of allowing parallel importation as confirmed by the Consumer Council's finding that the liberalization of parallel importation of musical recordings in Australia has not led to any increase in piracy.

13. On the difficulty in distinguishing parallel imported software from counterfeits, the Administration stresses that through the Consumer Council, the Government would step up efforts on consumer education on parallel imported products and recommend consumers not to buy from unlicensed hawkers or temporary premises. The Administration also takes note of the Bills Committee's urge for stepping up enforcement against piracy and counterfeiting in collaboration with copyright owners.

Computer software products containing music and film clips

14. The Bills Committee is aware of the grave concern of the music and movie industries about the possible impact of the liberalization on their interests. In particular, these industries are concerned that technological convergence is creating computer software products that contain both computer programs and other copyright works such as music and film clips. For instance, movie and music recordings are increasingly packaged and sold as digital multi-media products that can be shown or played in a computer. Some members share the industries' concern that if computer software products embodied with copies of the above works are to be allowed for parallel importation, the interests of these industries will be jeopardized. These members consider the proposed liberalization will seriously undermine the development of these industries and is inconsistent with the Government's policy to promote the development of creative industries in Hong Kong. These members are therefore of the view that since the main reason for liberalizing computer software products is to facilitate the business community in obtaining legitimate business software products at lower prices, the scope of liberalization should be confined to cover only commercial or business computer software.

15. In this respect, the Administration maintains that if liberalization of parallel importation of computer software products is confined to commercial or business computer software products, this will deprive other users such as educational and household users of computer software products from the benefits of the liberalization. To address the concern relating to copyright protection for movies and music products, the Administration affirms its policy of maintaining the current restrictions on parallel importation of these products. In meeting this policy objective and having regard to the advances in technology where a computer software product often embodies other copyright works such as music and film recordings in addition to the computer program, the Administration has proposed in the 2001 Bill a "duration test" and an "economic value test" respectively for excluding movie and music clips embodied in computer software products from the scope of liberalization.

16. In respect of the “duration test”, the Administration explains that the approach draws reference from an Australian bill relating to liberalization of parallel importation of certain copyright products and aims to prevent a copy of full-length movie or television drama disguised as a computer software product from being parallel imported into Hong Kong. The Administration’s proposal in the 2001 Bill is to exclude an article which has embodied in it a computer program and a movie or television drama of viewing duration of more than 20 minutes from the scope of liberalization. The “economic value test” is adopted for musical sound or musical visual recordings under which an article embodying a computer program and such recordings will be excluded from the scope of liberalization if the economic value of the article is predominantly attributable to the economic value of these recordings. The Administration believes that the two tests will strike a right balance between protecting the interests of the music and the movie industries and addressing the practical need to allow a limited amount of audio-visual content in computer software products.

17. To enhance protection for movies and television dramas, and address the industry’s concern about unscrupulous merchants breaking down a full-length movie or television drama into several parts to circumvent the duration test, the Bills Committee has requested the Administration to tighten up the test. In response, the Administration has agreed to propose Committee Stage amendments (CSAs) to revise the thresholds to 15 minutes for movies and 10 minutes for television dramas. Moreover, an article which has embodied in it a computer program and a movie or a television drama in its entirety or substantially entirety will also be excluded from the scope of liberalization. The Bills Committee welcomes these amendments.

18. As to members’ suggestion to introduce a percentage limit test to exclude computer software products embodied with movie clips exceeding a prescribed percentage of the length of a movie, the Bills Committee notes the Administration’s view that since a movie may be released with different lengths in different markets and different channels, the test will be difficult to apply and may create enforcement problems.

19. The Bills Committee has also studied the feasibility of disallowing the parallel importation of any computer software products incorporating a movie or music clip unless the licence for the use of such covers Hong Kong. This idea came from the music and movie industries. However, the Administration considers that the proposal will create uncertainty for parallel importation of computer software products incorporating movie or music clips. Apart from the difficulty for a parallel importer to ascertain whether a movie or music clip incorporated in the software is properly licensed or not, the proposal will affect a large number of educational and entertainment software and will defeat the objective of the liberalization exercise.

Electronic publications

20. The intended liberalization of e-books, i.e. books, magazines and periodicals in electronic form, has met with opposition from the publishing industry. The industry is concerned that as e-books published in the Mainland are of lower prices, the parallel importation of e-books into Hong Kong will adversely affect publishers' business in Hong Kong. Local e-book industry has good potential to develop, but taking into account the market condition in the Mainland, the industry believes that liberalizing parallel importation of e-books would significantly hamper the development of the industry.

21. After detailed discussion on the subject, the Administration has agreed to exclude e-books which incorporate copyright works from the scope of liberalization. To achieve this, the Administration proposes to apply the "economic value test" along the line of that for musical recordings for e-books. In other words, the parallel importation of an article which has embodied in it a computer program and copyright works commonly found in an e-book such as literary works, musical works, artistic works will be excluded from the scope of liberalization, if the economic value of the article is predominantly attributable to the economic value of these works.

New formulation to define the scope of liberalization

22. Although the term "economic value" is used in section 35(8) of the Ordinance, members still consider the concept unclear and may give rise to difficulties in application. They remain concerned about the use of such a test for excluding certain works embodied in computer software products from the scope of liberalization. Moreover, the relevant industries are concerned that adopting different tests for different types of products may not be able to cater for the development of multi-media products. For instance, an article incorporating all forms of works, such as several movie clips with a viewing duration of each movie not lasting for more than 15 minutes, some music clips, some written works, and a computer program for viewing or listening of these works, may not pass the different tests on different forms of works individually and may therefore be parallel imported, even though the principal use of the article is for the viewing or listening of the music clips and the movie clips in the article.

23. By making reference to a relevant provision in the Copyright Act 1968 of Australia, the industries have counter-proposed to adopt the concept of "essential object" as a single test in determining the scope of liberalization. They point out that in an Australian court case (Australian Video Retailers Association Ltd. v Warner Home Video Pty. Ltd. [2001] FCA 1719) where the provision was interpreted in 2001, the court has ruled that the "essential object" of an article referred to its purpose. Following the court's ruling, the

industries proposed to allow the liberalization of those articles where the essential object of acquiring the articles is the computer program embodied in them. Some members opine that the “essential object” test is a better test as it will clearly set out that computer program is the focus of liberalization. They have requested the Administration to consider the proposal.

24. However, the Administration points out that the concept of “essential object” is unclear and its meaning is ambiguous without referring to the background of the Australian law and the relevant court case. Nevertheless, having recognized the concern about the difficulties involved in the “economic value test” and the complication of applying different tests for different types of works, the Administration has proposed a new formulation which involves the use of a “likely purpose of acquisition test” to exclude certain copyright works embodied in computer software products from the scope of liberalization. Under the test, works found in an e-book, a movie or a television drama, a musical sound recording or musical visual recording (“first mentioned works”) embodied together with a computer program in an article will be excluded from the scope of liberalization if a hypothetical user, in acquiring the article, is likely to acquire it for acquiring the first mentioned works more so than for all other works (including the computer programs except those whose function is to provide a means of viewing or listening or searching the first mentioned works) in the article. In addition, for movies and television dramas embodied in a computer software product, the revised duration test will also apply. The Administration explains that the new formulation will better meet the policy intent of liberalizing parallel importation of articles which have embodied in them a computer program save for a few specified types. Business application software, software for educational purpose, and software for recreational use such as computer games will fall under the scope of liberalization. The computer programs in these kinds of articles usually provide a wide range of processing and/or interactive functions where the likely purpose of a user in acquiring these articles will be for acquiring the computer programs more than acquiring the other copyright works that may be embodied in them. Since the test has specifically excluded e-books, movies, television dramas, musical sound recordings and musical visual recordings from the scope of liberalization, the interests of the movie, music and publishing industries are safeguarded. To give effect to this new proposal, the Administration will move CSAs to Clause 3 to replace the proposed section 35A by the new formulation.

25. The Bills Committee agrees that the “likely purpose of acquisition test” is clearer and more straightforward than the “economic value test” and will better cater for multi-media products and meet the request of the industries. It also notes the industries’ support for the new formulation. In the light of the Hong Kong Bar Association’s comments, the Administration has made drafting amendments to the proposed section 35A to better reflect the policy intent.

26. Some members point out that there is similarity between the “essential object test” and the “likely purpose of acquisition test” in a sense that both tests adopt a purposive approach. Nonetheless, they note that the Administration’s approach has set out, in a negative manner, the types of articles that fall outside the scope of liberalization, while the industries’ approach will set out, in a positive manner, the types of articles (with a computer program incorporated) that fall within the scope of liberalization. These members consider that providing in the law clearly the types of articles that fall within the scope of liberalization will achieve greater clarity as to the rights and obligations of copyright owners to be affected. They also note that The Law Society of Hong Kong supports the positive approach in defining the scope of liberalization.

27. The Bills Committee however accepts the Administration’s explanation that the negative approach is more appropriate. It is because save for the specified exceptions, parallel importation of other articles which have embodied in them computer program will be liberalized. Members agree that the Administration’s approach is more in line with the policy of liberalizing parallel imports of computer software products as far as possible to enhance consumer choice, and not restricting the beneficiaries of liberalization to some software users only.

The concept of “lawfully made”

28. The Law Society of Hong Kong has expressed concern that the concept of “lawfully made” in the proposed section 35A(1) is ambiguous. It could not allow parallel import of copies of computer programs made in violation of contract terms such as those in manufacturing licence restricting copies made and subsequently to be sold in Hong Kong. The Bills Committee however, notes the Administration’s explanation that the concept of “lawfully made” is already used in the Ordinance. Section 35(4) of the Ordinance provides that an infringing copy of a copyright work which was lawfully made outside Hong Kong is not an infringing copy for the purposes of the criminal provisions under sections 118 to 133, if inter alia the copyright work has been published for 18 months or more. Despite a manufacturing licence prohibiting the licensee to import to Hong Kong copies of a computer program made, if at the time of making copies of that computer program, the licensee does not intend to import them to Hong Kong, those copies will be lawfully made even though they are subsequently parallel imported to Hong Kong by a third party. Thus, provided that the copies of the computer programs were lawfully made, the 2001 Bill will allow their importation into Hong Kong.

The need for a definition for “computer program”

29. To facilitate defining the scope of liberalization of computer software products, the Bills Committee has examined the need of providing a definition on the term “computer program”. Members are of the view that such a definition will help users understand the subject matter that will fall within the scope of liberalization. However, it notes the Administration’s explanation that due to rapid technological development, it is difficult to devise a comprehensive definition for the term. Without a definition, the meaning of the term could be automatically updated according to prevailing technology and determined by the courts. Moreover, the term is currently used in the Ordinance without a definition based on the recommendation of the Law Reform Commission Report in 1993. No interpretation problem has been encountered by courts so far. The Bills Committee also notes that although a limited number of overseas jurisdictions provide the definition in their copyright laws, many others have not done so.

Geographical restriction on use of computer software

30. The use of computer software products usually requires the installation of the software into the user’s computer in the first place which involves the copying of the whole or part of the software into the computer’s hard disk. The act of copying is restricted by the Ordinance and requires permission from the copyright owner. In practice, the permission is granted in the end-user licence agreement related to the software. Section 60 of the Ordinance provides that a lawful user of a computer program may make a back-up copy of the program if it is necessary for his lawful use and section 61 provides that the lawful user may copy or adapt the program if it is necessary for his lawful use.

31. To avoid developers of computer software defeating the effect of the proposed liberalization by imposing a condition in the end-user licence agreement prohibiting the use of the software product in Hong Kong, Clause 4 adds a new section 118A to provide that for the purpose of any proceedings for an offence under section 118(1), i.e. offence of parallel importation, the acts permitted under sections 60 and 61 will be permitted in relation to a copy of a computer program despite any term of the end-user licence agreement prohibiting or restricting the use of the program in Hong Kong.

32. The Bills Committee supports Clause 4 to remove the end-user liability that arises as a result of the violation of such a geographical restriction so as to ensure that the objective of the liberalization will not be defeated. It is because if the restriction is imposed on the use of computer software, the copying of the software in Hong Kong will become unauthorized, and any copies thus made will be infringing copies subject to criminal liability under the Ordinance.

33. Regarding the software industry's concern that the proposed section 118A is wider in scope than intended and may affect the criminal liability arising from licensing conditions other than those on geographical restriction, the Bills Committee welcomes the Administration's CSAs in Clause 4 to clarify that section 118A will apply to geographical restriction only.

34. The Bills Committee is aware of the concern expressed by some organizations that civil liability in relation to violation of geographic restriction is to be maintained. As such, there is still possibility that the objective of liberalization will be defeated. The Administration points out that the removal of civil liability will mean an intervention into a private contract between a copyright owner and an end-user and is a serious matter requiring careful consideration and full justification. Since there is no evidence of a market practice of inserting geographical restriction to circumvent the purpose of liberalization, members note the Administration's view that it is not justifiable to remove the end-user civil liability in relation to breaching of geographical restriction at the present stage. However, the Administration has undertaken to review the issue as when necessary.

Transitional arrangements

35. Clause 5 adds new provisions to provide for transitional arrangements and the application of the amendments to existing parallel imported copies. The Bills Committee notes that as far as criminal liability related to parallel importation of and subsequent dealings in computer software products is concerned, the 2001 Bill will have retrospective effect on infringing acts committed before its commencement where no conviction has yet been recorded. Moreover, outstanding end-user criminal liabilities arising from violation of the geographical restriction condition in the end-user licence agreement will also be removed. The Bills Committee supports this provision as it means the removal of outstanding criminal liabilities. As regards civil liability, the Bills Committee notes that copyright owners will retain all their rights under the prevailing law in relation to any infringing acts committed before the commencement of the amendments. For the avoidance of doubt, there is a provision to provide that the rights of action available to copyright owners in relation to any infringing acts done before the commencement are not affected.

36. In order to enhance clarity on the transitional provisions relating to the 2001 Bill and to ensure consistency with the transitional arrangements for the 2003 Bill, the Administration has proposed CSAs to amend Clause 5 and to add a new Clause 6, i.e. the new Schedule 6, to incorporate these provisions. The Bills Committee notes that the provisions have been refined and re-arranged but there is no change in their legal effects.

Committee Stage Amendments

37. The Bills Committee has examined and raised no objection to the CSAs proposed by the Administration. The Bills Committee has not proposed any CSAs.

Recommendation

38. The Bills Committee supports the resumption of the Second Reading debate on the 2001 Bill on 2 July 2003.

Consultation with the House Committee

39. The House Committee at its meeting on 20 June 2003 supported the recommendation of the Bills Committee to resume the Second Reading debate on the 2001 Bill on 2 July 2003.

Council Business Division 1
Legislative Council Secretariat
23 June 2003

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

Membership list

Chairman	Hon SIN Chung-kai
Members	Hon Kenneth TING Woo-shou, JP Hon Cyd HO Sau-lan Hon Margaret NG Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP Hon HUI Cheung-ching, JP Hon CHAN Kam-lam, JP Dr Hon YEUNG Sum Hon YEUNG Yiu-chung, BBS Hon Timothy FOK Tsun-ting, SBS, JP Dr Hon LAW Chi-kwong, JP Hon Audrey EU Yuet-mee, SC, JP Hon MA Fung-kwok, JP
	(Total : 13 members)
Clerk	Ms Connie SZETO
Legal Adviser	Miss Anita HO
Date	4 March 2003

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

**List of organizations/individuals which have submitted views
to the Bills Committee on the 2001 Bill**

Organizations

1. The Hong Kong Academy for Performing Arts
2. International Federation of the Phonographic Industry (Hong Kong Group) Limited
3. Business Software Alliance
4. Hong Kong Information Technology Federation
5. Hong Kong Small and Medium Enterprises Association
6. Movie Producers And Distributors Association of Hong Kong Limited
7. The Law Society of Hong Kong
8. Hong Kong Kowloon & New Territories Motion Picture Industry Association Limited
9. Federation of Hong Kong Industries
10. The Open University of Hong Kong
11. Institute of Electrical and Electronics Engineers Hong Kong Section Computer Chapter
12. Equal Opportunities Commission
13. Hong Kong Society of Accountants
14. Motion Picture Association
15. Consumer Council
16. Vocational Training Council
17. The Institution of Electrical Engineers Hong Kong
18. Chinese Manufacturers' Association of Hong Kong
19. Hong Kong Blind Union
20. Hong Kong Bar Association
21. The Chinese General Chamber of Commerce
22. Era Home Entertainment Limited
23. Asian Patent Attorneys Association Hong Kong Group
24. Hong Kong Retail Management Association
25. Hong Kong General Chamber of Commerce
26. Music Publishers Association of Hong Kong Limited
27. Interactive Digital Software Association
28. Alta Multimedia Limited
29. Hong Kong Publishing Federation Ltd.
30. Hong Kong Book & Magazine Trade Association Ltd.
31. Hong Kong Book & Stationery Industry Association Co., Ltd.

32. Hong Kong Publishing Professionals Society
33. Hong Kong Educational Publishers Association Ltd.
34. 香港基督教出版聯會
35. Hong Kong Publishers & Distributors Association
36. The Anglo-Chinese Textbook Publishers Organisation
37. Educational Booksellers' Association Ltd.

Individuals

1. A Sai Kung District Council member
2. A Eastern District Council member