

LAW SOCIETY OF HONG KONG

COMMENT'S ON THE CONSULTATION DOCUMENT BY THE COMMERCE AND INDUSTRY BUREAU:

REVIEW OF CERTAIN PROVISIONS OF COPYRIGHT ORDINANCE

1. INTRODUCTION

- 1.1 Amendments to copyright law have latterly become the classic “football of contending parties”. Strong lobbying to enhance the criminal provisions of the law on behalf of various copyright industries, such as the computer, recording and film industries, has at the same time raised concern among consumers, especially business consumers, about the scope of these provisions.
- 1.2 Law Society members represent all sections of the community and have differing views on the scope of the legislation. Nevertheless, it has to be said that the majority of activities associated with rampant piracy (ie organised counterfeiting activities) were fully covered as infringements (both civil and criminal) under the copyright legislation in force prior to the enactment of the Intellectual Property (Miscellaneous Amendments) Ordinance 2000. Where there has always been doubt is as to the scope of the fair use provisions and the various exemptions and defences to infringement under the Copyright Ordinance. We believe a balance should be drawn between clear infringing acts and reasonable fair use, exemptions and defences.
- 1.3 The fundamental copyright debate now is between powerful industry lobbies who wish to extend the reach of the criminal law to consumers and the right of consumers to have legal access to information and to use the same in a fair and reasonable manner. Law Society members have clients that have an interest in either aspect of this debate, but it is against this general background that we set out our comments.

2. CHAPTER 1 - CRIMINAL PROVISIONS RELATED TO END-USER PIRACY

- 2.1 The title of this chapter is misleading in several respects. It is not the use that is targeted (although in the case of software this may involve technical infringement) but possession of infringing copies for use in business. To what extent does this constitute “piracy”?
- 2.2 It may be said that this is just convenient shorthand and the terminology is not important, but legislators need to be aware that this language is deliberately employed by industry lobbyists to conjure a degree of severity to an activity for which a *criminal* sanction may be justified.
- 2.3 As indicated, use may very well be an infringement under the existing law (certainly if copying is involved), but it is questionable whether mere possession (which effectively only involves receiving something) in a business environment should be treated as equally culpable or that it needs to be a criminal offence.

- 2.4 Nevertheless, we fully accept that copyright infringement should be given very serious attention and we appreciate that criminal sanctions are a deterrent against infringement. For criminal liability, however, it is important to legislate so that only those in possession who have the necessary *mens rea*, guilty mind, are culpable. In this respect it should be noted that the civil and criminal provisions relating to possession are not the same.
- 2.5 Section 31(1)(a) of the Copyright Ordinance makes someone civilly liable if he possesses for the purposes, etc of trade or business an infringing copy of a copyright work. By contrast, the criminal provision in Subsection 118(1)(d) of the Copyright Ordinance require the further *mens rea* for an offence that someone possesses an infringing copy of a copyright work “with a view to committing any act infringing the copyright”. This must relate to some activity other than possession; otherwise the subsection would have to say “with a view to possessing” an infringing copy.
- 2.6 So, for criminal culpability, possession has to be with a view to committing some further act of infringement. Possession in itself (even in the course of business) is not sufficient. The provision cannot therefore be a deterrent against any person, such as an employee, even knowingly in possession of an infringing copy not otherwise intending to infringe copyright.
- 2.7 In practice, we consider that continuing public education and licensing is necessary to encourage legitimate behaviour before resorting to extending criminal sanctions. In particular we think it is very important to review the fair use provisions and exemptions to clarify the extent to which, for example, reasonable photocopying and recording may be carried out privately, in the course of business and by schools, religious bodies and other charities. Licensing schemes should also be urgently established to legitimise what might otherwise be criminal behaviour, where there is no option to act legitimately.
- 2.8 In response to the issues raised in the summary (paragraph 1.11), we comment as follows:
- (a) The law as it stood before amendment had no exemption for non-profit “business” activities and copyright infringement does not usually depend upon whether or not any profit is made. However, since the law has been expanded (perhaps beyond what was envisaged) to cover non-profit organisations, the question is raised whether to exempt these organisations? We would prefer to define more clearly what activities the legislation is supposed to prohibit. It has already been observed that the words “in connection with” any trade or business may expand the scope of activities beyond what is necessary (namely commercial activities of some sort). If those words were omitted we believe this would sufficiently limit the scope of the provision which should apply equally as long as a trade or business activity is taking place.
 - (b) For the same reason we do not favour the exemption of employees who should be treated in the same way as they are with respect to infringement under existing legislation. Employees are not automatically liable because they are employees. They will have to have the necessary *mens rea* (ie an intent to infringe) to be liable.
 - (c) It is a matter of policy whether to extend “end-user” provisions to all types of copyright work, although logically and for certainty we feel that the provisions

should apply to all types. In cases of rampant piracy, more resources can be allocated to deal with the problem. If certain activities are to be exempted, these should be covered by the fair dealing provisions (for example possession of documents such as evidence in the course of legal and administrative, including Trade Marks Registry proceedings, as to which there is currently some doubt).

- (d) We are not in favour of introducing criminal sanctions (other than those already on the statute books) for mere possession of photocopies, website images, etc. Neither copying nor downloading is a criminal offence (unless for sale or hire) and recording a television news report is not even an infringement, so why should possession be? We believe the proper course is to specify clear fair use provisions where possession is not for commercial purposes. At the same time, there should be an acceptable licensing regime for activities where there may be commercial advantages, so that copyright owners are adequately rewarded under the existing civil copyright provisions.
- (e) We favour removing the words “in connection with”. We have some misgivings that even the words “in the course of” could cover unnecessarily broad activities such as the receipt of unsolicited material in the course of business. We do indeed wonder why the original wording “for the purpose of” does not suffice. The concern that this might somehow exempt businesses not otherwise involved in infringing activity is already covered by the existing wording that it is “immaterial.....whether or not the trade or business consists of dealing in infringing copies of copyright works.” We are prepared to further consider accepting the words “in the course of” provided that the scope of the fair use provisions are appropriately elaborated and clarified.

3. **CHAPTER 2 – PERMITTED ACTS FOR EDUCATIONAL PURPOSES**

- 3.1 The existing law for educational purposes is very restrictive and uncertain. We believe that greater flexibility should be given to the use of copyright works for the purposes of education provided that such use does not unduly prejudice the commercial interests of copyright owners. There are arguments both for a statutory formula and non-statutory guidelines. A statutory formula will be of great assistance in specifying what is and what is not permissible. Guidelines would allow flexibility to make prompt changes to reflect local and international trends and practice.
- 3.2 In response to the issues raised in the summary (paragraph 2.13), we comment as follows:
 - (a) Legislation should set out principles to clarify the meaning of “to a reasonable extent” and “passages” in Section 41 and 45 of the Copyright Ordinance. These may be modelled on the Library Regulations. In addition, educational institutions and publishers should try to agree guidelines within the principles covering specific publications such as newspapers and magazines.
 - (b) The formula should logically cover the number of pages, the percentage of the work and the number of copies permitted.

- (c) We consider that, as a matter of principle, any exemption or fair dealing should apply whether or not a licensing scheme is in force.
- (d) We recommend the provision of a new permitted act to facilitate the uploading of copyright works to a school Intranet for access within the school and that similar principles to those above should apply to works made available over the Internet. This will be defined as part of the fair use dealings.

4. **CHAPTER 3 – PERMITTED ACTS FOR VISUALLY IMPAIRED PERSONS**

- 4.1 As under the PRC Copyright Law, there is an argument for extending the existing exemption in Hong Kong in respect of those with physical or mental disability to the visually impaired, assuming no commercial transcription is available.
- 4.2 There might be concern that such material could find its way into commercial channels either as parallel exports or an internal parallel trade. We believe that existing legislation controlling such parallel trade should be retained or specific provisions introduced to make it clear that a copyright owner's rights are not exhausted by virtue of this exemption.
- 4.3 In response to the issues raised in the summary (paragraph 3.4), we comment as follows:
 - (a) A new permitted act should be provided for the transcribing of works in the printed format into Braille, large print, talking or other specialised formats by non-profit-making bodies for the exclusive use of visually impaired persons where no such transcriptions are commercially available in Hong Kong within a reasonable time or a reasonable price provided that such transcribed works are:
 - (i) made available to the visually impaired at a price which reflects this exemption; and
 - (ii) not permitted to be made available commercially in Hong Kong.
 - (b) If there is to be an exemption, we suggest that it should logically continue to apply notwithstanding that a licensing scheme is in force.

5. **CHAPTER 4 – PERMITTED ACTS RELATING TO FREE PUBLIC SHOWING OR PLAYING OF BROADCAST OR CABLE PROGRAMME**

- 5.1 It is an anomaly that underlying copyright in a broadcast or cable programme may be infringed in circumstances where copyright in the broadcast or cable programme itself or in any sound recording or film is not infringed. The owners of the underlying right receive compensation from the broadcaster or cable programmer and from the makers of the sound recording or film. We therefore believe this anomaly should be removed subject to satisfactory arrangements concerning the definition of payment for admission.
- 5.2 As regards payment for admission, we understand that the present wording is meant to cover situations where the payment is for admission and not for some other service (such as medical, hotel or taxi services). Clarifying the legislation to give effect to this understanding would not on that basis be extending the exemption.

- 5.3 A formula based on prices “substantially attributable to the facilities for seeing or hearing the broadcast or programme” may lead to abuse since many commercial entertainment establishments charge no entrance fee without any clear indication that this is covered by the price of food and drink, for example, whilst benefiting commercially. Another option might be to exempt only those establishments where the provision of the broadcast or programme was only incidental to the provision of other services.
- 5.4 In response to the issues raised in the summary (paragraph 4.9), we comment as follows:
- (a) We see no justification why the underlying copyright works included in the broadcast or cable programme should be treated differently and consider that the statutory exemption should be extended to cover such underlying works. We are however aware that this extension of exemption may contravene the requirements under the Berne Convention and TRIPS and caution that this should be more carefully looked into.
 - (b) The exemption should not apply where goods or services are supplied at prices which are substantially attributable to the facilities afforded for seeing or hearing the broadcast or programme, or where the provision of the broadcast or programme is not incidental.
6. **CHAPTER 5 – PARALLEL IMPORTATION OF COPYRIGHT WORKS OTHER THAN COMPUTER SOFTWARE**
- 6.1 We first take issue with the definition of parallel importation in paragraph 5.2 as usually meaning importation without permission of the copyright owner of a copy of a work lawfully made outside Hong Kong. A copyright owner has no right to prevent parallel importation as such.
- 6.2 Intellectual property laws may be used to restrict goods made under a licence in one jurisdiction from infringing IP rights in other jurisdictions where no licence has been given. One member of our Committee argued that the world-wide exhaustion of rights proposed under the Trade Marks Ordinance logically means that copyright restrictions on parallel imports should be relaxed.
- 6.3 However, it should be noted that in the case of copyright, although parallel imports are thought of as genuine copies of works made outside Hong Kong, the Copyright Ordinance does not define them in these terms. It is axiomatic under Hong Kong copyright law that a copyright owner has the exclusive right to make copies in Hong Kong. That right may be infringed by the unauthorised making of copies in Hong Kong and by the importation of copies of works not authorised to be made in Hong Kong.
- 6.4 It is noteworthy that this definition of infringement by importation is the same whether or not the copies are lawfully made outside Hong Kong. As a result, provisions restricting the ambit of liability for unauthorised parallel imports, including the “18 month” rule (and the position as regards threats), apply equally to fake imports as to parallel imports. The legislation should be amended to cure this clearly unintentional result.

6.5 The Consultation Document betrays a clear bias in favour of abolishing restrictions on parallel imports. The reasons given (and our possible objections) are as follows:

(a) *It will be in line with free-market philosophy by facilitating the free flow of goods.*

Facilitating the free flow of goods is, however, in conflict with a copyright owner's right to choose his manufacturer for a particular market and to protect his exclusive right to manufacture in Hong Kong.

(b) *It will increase competition and the availability of products in the market.*

However, copyright owners should not have to compete with their own products, made and sold more cheaply elsewhere. In practice in the absence of price control, it is very difficult for copyright owners to control the output of foreign manufacturers. It is very easy to offer goods at a cheaper price to traders who know they can legitimately sell these goods more expensively in Hong Kong.

(c) *It will result in more choice and lower prices.*

By definition, there is no choice with parallel goods (though the quality may be different, this may not be apparent). It is true that prices may be lower, but that is not in itself a justification for relaxing copyright restrictions. Fakes are undoubtedly very cheap.

(d) *It is in step with the growing popularity of purchases through the borderless Internet.*

It is a great misconception to assume that sales through the Internet somehow abolish the laws of copyright. It is of course becoming more common for legitimate sales to be made in this manner, but many if not most of the transactions, whether by the electronic dissemination of sound recordings and videos or distributing parallel imports, are equally infringing works.

6.6 Whilst we do not believe the case for abolishing copyright restrictions on parallel imports has been made out, we are not so clear as to the need to impose criminal sanctions, including for possession. Our position in answer to the issues raised in paragraph 5.14 is therefore as follows:

(a) In the absence of clear evidence that lifting the copyright restrictions on parallel imports would benefit the public (both business and consumer) other than by simply reducing prices (which has apparently not happened in Singapore), we are in favour of retaining at least the existing civil liability. With respect to any exemption, consideration should be given to amending the legislation to make it clear that parallel imports are only concerned with copies of works made by someone under the authority of the copyright owner but not authorised to be manufactured by that person in Hong Kong.

(b) We would not object to reducing the current 18-month threshold for criminal sanction or removing this sanction altogether. In practice we are not aware of any enforcement of this provision and doubt its deterrent effect.

- (c) We would support removing any liability for possession of parallel imports in business, but not other use if this involves infringing the law as it stood before the amendment (eg importing other than for private use and making copies).

7. **UNAUTHORISED RECEPTION OF SUBSCRIPTION TELEVISION PROGRAMMES**

- 7.1 The existing law on the use of unauthorised decoders and unauthorised reception of encrypted signals is very obscure. The Copyright Ordinance states that a service provider has the same rights and remedies with respect to manufacture and dealings in unauthorised decoders as a copyright owner has in respect of an infringement of copyright. How this is to be determined in practice is far from clear. The law should be amended to state more clearly the basis of liability.
- 7.2 We agree with the submission of Hong Kong Cable Television Limited that those who purchase unauthorised decoders are fully aware that unauthorised reception deprives the service provider from its lawful income. There appears to be justification for imposing sanctions against fraudulent reception and use of unauthorised decoders.
- 7.3 Our position in answer to the issues raised in paragraph 6.12 is therefore as follows:
 - (a) Criminal sanctions should be imposed against fraudulent reception of subscription television programmes.
 - (b) Civil remedies against fraudulent reception should also be introduced
 - (c) The introduction of civil and criminal sanctions for possession may be justified, but limited to possession for the purposes of commercial use.
 - (d) Consideration should be given to allow for criminal sanctions under the existing Section 273 which covers devices designed to circumvent copy-protection devices.

8. **LICENSING BODIES**

- 8.1 Arbitration is increasingly being seen as an option open to resolve contractual (and by agreement non-contractual) intellectual property disputes and we would support measures to encourage its usage as an alternative to the court process. It is not necessary to replace the Copyright Tribunal with an arbitration system, but both arbitration and in some cases, mediation, can be alternative means of resolving disputes concerning IP issues.
- 8.2 We agree that costs associated with the existing Copyright Tribunal might not necessarily be saved by arbitration. However, legislation providing for arbitration as a method of resolving disputes with licensing bodies might be attractive if the parties wished to maintain confidentiality and it would allow greater flexibility in choosing an appropriate arbitrator or panel as well as providing a less formal forum for resolving disputes.
- 8.3 In addition, consideration may be given to expanding the role of the currently misnamed Copyright Tribunal to hear all first-instance copyright disputes, taking advantage of appointing members to the Tribunal with relevant legal experience in copyright matters.



- 8.4 On the issue of registration of licensing bodies the views of the Law Society's Intellectual Property Committee are mixed. Some consider that the costs of administering and maintaining a registration system would outweigh any the benefits. Others would like to see greater transparency and a channel for voicing complaints through a registration system. If the only purpose of registration is to obtain publication of royalty charges, this may be more simply achieved by changing the law to require the disclosure of an existing tariff to any interested party.
- 8.5 Our position in answer to the issues raised in paragraph 7.13 is therefore as follows:
- (a) We do not think it is necessary to replace the Copyright Tribunal with an arbitration system, although arbitration may be considered as a method of resolving disputes with licensing bodies. Consideration may be given to expanding the role (and composition) of the Copyright Tribunal to cover other copyright disputes
 - (b) Mandatory registration of licensing bodies may be useful, but such bodies should in any event be required to publish their scale of royalty charges.

The Law Society of Hong Kong

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