

18 December 2001

Commerce & Industry Bureau
Level 29, One Pacific Place
88 Queensway
HONG KONG

Attention: Ms. Laura Tsoi, Assistant Secretary

Dear Sir/Madam

COPYRIGHT ORDINANCE – CONSULTATION PAPER ON CRIMINAL LIABILITY FOR END-USER COPYRIGHT INFRINGEMENT & RELATED ISSUES

Thank you for inviting IFRRO to comment on the Consultation Paper. This submission should be read as being supplementary to those forwarded in May this year (copies are attached for your easy reference).

While IFRRO would prefer to see the provisions of the Intellectual Property (Amendment) Ordinance re-introduced into force in Hong Kong in relation to literary and artistic works, IFRRO recognises that there are concerns in Hong Kong about whether this Ordinance went too far. Accordingly IFRRO would like to assist the Bureau in exploring other options with a view to ensuring that the interests of all stakeholders are taken into account without unfairly resulting in any prejudice to the legitimate interests of authors of literary and artistic works and their publishers.

This submission is intended to be read generally in relation to the Consultation Paper as a whole, and particularly in relation to Criminal Provisions Related to End-User Piracy, Permitted Acts for Educational Purposes, and Licensing Bodies, particularly from the perspective of photocopying (reprography) and digital usages that are substitutes for photocopying.

1. The Consultation Paper makes clear that the extent of protection for copyright works is under fundamental review in Hong Kong because of criticisms arising in relation to the Intellectual Property (Miscellaneous Amendments) Ordinance. As a result, there is potential for the balance between the rights of copyright owners and users in the territory to be permanently altered.
2. If the reform process is such as to leave copyright owners of literary and artistic works (whether in a digital or analogue format) in a very much worse off position than existed prior to the introduction of that Ordinance, then we believe it will severely hamper Hong Kong's nascent copyright publishing and authorial industries and will undermine the territory's intentions of entering and competing in the emerging global Knowledge Economy.

3. One cannot expect trade in analogue and digital versions of copyright works and products to flourish when the domestic market is unsustainable because of a public policy decision to grant wide unremunerated exceptions in relation to the use of copyright works in schools, universities, libraries and by businesses generally.
4. The matters currently under consideration present opportunities for Hong Kong to take a different path in its legislative model. For instance, concerns have been expressed with respect to whether it is reasonable to characterise some unlawful acts of photocopying as “criminal” when the young RRO, HKRRLS, does not have a comprehensive local repertoire and is thus unable to grant comprehensive blanket licences to users, including educational institutions and Universities.
5. As suggested by Copyright Agency Limited in its submission, a compulsory statutory licensing regime could provide a workable solution for Hong Kong, enabling it to negate criticisms levelled by critics of the Intellectual Property (Amendment) Ordinance, as well as maintaining an appropriate level of protection for literary and artistic works and complying with international obligations under the Berne Convention and the newly in force WIPO Copyright Treaty.
6. Such a licensing regime could grant:
 - (a) a comprehensive repertoire for the defined purpose (photocopying) to the nominated collecting society charged with administering the rights in question;
 - (b) immunity from prosecution, in respect of both the civil and criminal standards, to any user who agrees to undertake a licence with the nominated collecting society in accordance with the “Scheme”.
7. The “Scheme” could be defined as an agreement granted in accordance with a “Scheme” agreed by the collecting society with a class of users or, in default of agreement, as approved by the Copyright Tribunal. Classes of users could encompass, for instance, groups that have similar interests and natural affinities, such as universities, schools, libraries and government departments and instrumentalities.
8. By making the regime apply to classes of users rather than to individuals, transaction costs for both users and the collecting society (and the copyright owners represented by it) will be reduced. For instance, the costs of negotiating and granting licences will be reduced because it will not be necessary to negotiate individual terms for every school or university, the referrals of matters to the Copyright Tribunal would be for the most part confined to matters of substantial importance, enabling the resources of the Copyright Tribunal to be used more efficiently and effectively. Furthermore, the costs of proceedings would spread across the class and would thereby permit proceedings to be conducted economically by both users and owners.
9. As to whether such a compulsory licensing regime could extend to classes of users within the business community, IFRRO makes no comment because – other than equipment and operator levies (see below) - there are no such compulsory licenses in operation in the world at the moment.
10. Compulsory statutory licensing regimes have become more common throughout the world, particularly in circumstances when there is only a small local publishing community and when it is evident that:

- ◆ the voluntary collecting agency is unlikely to be able to acquire a comprehensive repertoire without some kind of “legal back-up”¹;
 - ◆ the sheer number works and numbers of copyright owners with whom users (or classes of users) must deal would otherwise be so numerous that it would be impracticable and too expensive to deal with them on an individual basis;
 - ◆ the value of the individual usages examined in isolation are very low, but which are valuable when aggregated usages are taken into account.
11. Compulsory licensing regimes are particularly effective to satisfy the needs of users requiring unplanned and immediate access to copyright works of both local and foreign origin as well as copyright owners. In many cases, copyright owners are happy for their works to be used, provided the terms of access are fair. Of fundamental importance in determining “fairness” of course is whether or not remuneration is paid for the usage. Finally, such regimes satisfy international obligations by ensuring that the famous “three-step test” in the Berne Convention is honoured.
 12. Countries adopting the compulsory licensing model, in one form or another, include Australia, Singapore, France, Germany, Netherlands, Switzerland, Spain, Belgium, Norway, Sweden, Denmark and Finland as well as many of the territories of the former Central and Eastern European states (who have adopted the German “equipment levy” model).
 13. Countries of the European Union will be implementing compulsory statutory licences when implementing the Directive on Copyright in the Information Societies to ensure that equitable remuneration is paid by users to copyright owners for usages permitted under the exceptions set out in the Directive. We note that the European Union’s approach to “exceptions” is such that users are not permitted to make free, unremunerated access to the works under the exceptions, rather equitable remuneration must be paid. This is a very strong signal that “de minimis” exceptions are narrowing rather than expanding in the digital environment, and hence that any moves toward greater, unremunerated exceptions in Hong Kong law would run counter to the tide internationally. In our opinion, any attempt to characterise systematic photocopying of so-called “small scale” usages, or digital copying usages in substitution for photocopying, as “exceptions not justifying the payment of a royalty would be misguided and wrong as a matter of international obligation.
 14. The international experience clearly demonstrates that the aggregated value of so-called “small scale” usages are sufficiently substantial to render them worthy of payment by users and collection by collective management organisations such as RRO’s. Collective management makes it viable for such royalties for usages to be collected and distributed to copyright owners efficiently and effectively. The success of RRO’s throughout the world means that is beyond question that “small scale” usages *do* conflict with a normal exploitation of a work and *unreasonably* prejudice the copyright owners legitimate interests.
 15. Noting CAL’s submission that compulsory statutory licences for the educational and governmental sectors facilitated the rapid building of repertoire for the voluntary licensing of business enterprises in Australia, it is clear that a decision to implement a statutory licensing regime even on a basis co-extensive with that currently operating in Australia would permit information to be disseminated without inhibiting

¹ As appears to be the case in Hong Kong (see CAL’s submission at paragraph 4 entitled “Provision of Protection From Civil and Criminal Liability for User”)

education, commerce and trade, indeed it would foster the development of a market for the licensing of works as well as other markets in publishing, including the development of authorial resources in Hong Kong both for original works and translations into Chinese languages².

16. There is a massive, but largely untapped, market in the publication and distribution of books, journals etc. and digital media of educational and other publications in Chinese languages. This market consists of populations living in Mainland China, Hong Kong as well as the USA, Canada, South-East Asia and elsewhere.
17. Tailoring copyright products and services to satisfy such markets requires both authorial and publishing skills that are currently available in Hong Kong only on a very limited basis. Adverse developments in the development of copyright law in the territory is likely to cause a flight of those skills to other places and may thus result in frustration of Hong Kong's ambitions to participate at a high level in the global Knowledge Economy.
18. General descriptions of other kinds of statutory licensing models in existence throughout the world are available from IFRRO' website,³ including the so-called "extended collective licensing model" used in Nordic countries, "obligatory collective management" as used in France and "Equipment Levy" models.
19. The equipment levy approach may also be of interest in Hong Kong, because it was developed to deal with situations of a kind that are currently causing so much concern in Hong Kong. Such levies are imposed by Governments that accept that remuneration is payable for all uses of copyright material, but that alternative arrangements must be made in relation to licensing single copies for private and personal use that cannot be tracked.
20. Equipment levies are collected from manufacturers and importers of photocopying machines, computers, faxes, scanners and other products and equipment that can be used to reproduce copyright literary and artistic works without the permission of copyright owners. Countries operating such equipment levies also may provide for the imposition of an "operators fee" to require payment of levies in accordance with the number of pages copied by professional copy shops. Implicit in such licensing regimes is the principle that even the smallest usages of copyright material require equitable remuneration to paid even though it is not possible to track each individual usage. Equipment levies and operator levies apply without distinction to all sectors of the community for all usages because they are levied at the point of manufacture and/or importation (in the case of the equipment) and at the point of photocopying in copy shops operated for profit.

Please let me know if we may be of any further assistance, as we would be most happy to explain these submissions further or to provide any other information.

Yours sincerely



Stephanie Faulkner
Acting Secretary General.

² It should be recalled that authors of "authorised" translations obtain copyright in their translations, so such an industry would contribute to building the skill base and intellectual property industries based in Hong Kong.

³ See <http://www.ifrro.org/papers/operat.html#3.1.2>

18 April 2001

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Dear Mr Tung,

**INTELLECTUAL PROPERTY (MISCELLANEOUS AMENDMENTS)
ORDINANCE 2000**

It has been brought to my attention that urgent measures are currently in train within the Hong Kong Legislative Council to suspend the implementation of the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 in relation to the reproduction rights in newspapers, magazines, periodicals and books in both the analogue and digital environments.

If the reports are correct, this suspension will cause immense damage to authors, visual artists, photographers and publishers worldwide and will totally undermine the efforts currently being made by them to stem the tide of piracy in the SAR and elsewhere in the region. Although it may be an unintended consequence, such action by the Hong Kong government will send a very clear signal to infringers and pirates throughout the region that the Hong Kong government is beholden to the software industry but is not serious about combating other forms of piracy: that all forms of unauthorised reproduction of literary and artistic works will not only be tolerated but that indeed it may be done without risk of any penalty or censure.

IFRRO, as the international non-profit association representing reprographic collecting societies and authors and publishers throughout the world, is particularly disturbed that the suspension is being rushed through the Council with alarming haste during this current month. I was in Hong Kong as recently as 3, 4 and 5 April and met with Mr. Stephen Selby and Mr. Peter Cheung of the Intellectual Property Department on two occasions during that visit. At no time during the meetings was there any suggestion that the Council was considering suspension of the Ordinance. I have no doubt that they would have advised me of the impending developments had there been any thought to suspend the Ordinance at that time. As my meetings took place a mere two weeks' ago, it is accordingly with dismay that I now learn of the recent developments in Hong Kong.

The fledgling reprographic rights licensing society – HKRRLS – will be fatally compromised if the Legislative Council proceeds to suspend the Ordinance. I doubt that HKRRLS will ever be able to recover from such a blow. Its operations will be totally undermined with users, who already photocopy beyond the limits permitted under the fair dealing provisions with the confidence of knowing that the earlier Ordinance has no teeth whatsoever. It will also undermine HKRRLS' efforts to persuade rightsholders to voluntarily give it the mandates that would enable it to provide a licensing service both for users and rightsholders. I doubt that HKRRLS will ever recover from such a blow, moreover I doubt whether a voluntary model of administration of reprographic rights will ever be able to get off the ground after such politically and commercially damaging action by the Hong Kong government.

Commercial piracy of text books on a scale unimaginable at present will also be unleashed as a result of any such suspension. It is more than likely that commercial profiteers based in other territories will see great merit in relocating to Hong Kong, where the official attitude to piracy of books etc. will be proven by the suspension to have been less than serious and committed.

IFRRO accordingly objects in the strongest terms to the proposed suspension and deplores the Government's secrecy and failure to consult with the industries and rightsholders whose rights will be so dreadfully compromised by this most unfortunate retrograde action. It is not an adequate response to single out the publishing and reprographic industries in this fashion merely because of public ire at finally having a legislative model of which businesses must take notice.

The solution of allowing the Amending Ordinance to remain partially in effect, but only in relation to industries that are perceived as having more clout, is the worst of all worlds and will reflect extremely badly on Hong Kong both at home and abroad.

IFRRO will, of course, be raising this matter with its members throughout the world and will also be urging governments and their agencies to take action in appropriate forums should the Ordinance in fact be suspended. In particular, we will urge that Governments lodge complaints in the World Trade Organization without delay, since we believe that publishers and authors will suffer permanent and serious continuing damage as a result of any precipitate suspension of the Ordinance. Indeed, the losses will be far greater than would have been the case had the Government not introduced the Amending Ordinance at all, since the Government will be seen to have singled out the publishing and reprographic industries as being an industries whose rights and interests may be disregarded and ignored with impunity.

Please, Mr. Chief Executive, do everything necessary to prevent such ill considered, partisan and damaging action by the Legislative Council. Hong Kong's international reputation depends upon it.

Yours sincerely

Stephanie Faulkner
Secretary General

**INTELLECTUAL PROPERTY
(MISCELLANEOUS AMENDMENT) ORDINANCE 2000**

PROPOSED SUPENSION

COMPARATIVE ANALYSIS OF CRIMINAL PROVISIONS

1. The Intellectual Property (Miscellaneous Amendment) Ordinance 2000 came into effect on 1 April 2001. Due to certain concerns within the Legislative Council (“LegCo”), however, moves have been taken to suspend the operation of the Ordinance in so far as, inter alia, copyright works in books, magazines and periodicals and copyright works made available to the public via the internet.
2. From discussions held with various Honourable members of the LegCo, it appears that some members suspect that the Ordinance goes too far and provides for an excessive level of protection under provisions for criminal liability. In order to address these concerns, IFRRO’s Secretary General undertook to prepare a comparative analysis of criminal provisions in other jurisdictions and to supply a copy of the research. The results of these researches are set out below.
3. To whatever extent possible, the precise provisions of various national laws are set out in Appendix A.
4. As will be seen from the analysis below and the extracts from various laws, the approach in Hong Kong’s Ordinance is not unique, rather it is very similar both as to its express language and its spirit as laws in other common law jurisdictions. In particular, the provision that has apparently caused the gravest concern in Hong Kong – possession of an article containing an infringed copyright work for use in the course of trade – is without doubt also prohibited in the laws of other countries that share a similar legal tradition.

5. For instance, such possession is expressly prohibited under New Zealand law. Acts such as distribution, possession and use of infringing copies otherwise than in the course of business to the prejudice of the copyright owner are also expressly prohibited under Australian law, while the laws of the UK, Ireland and Canada prohibit non-business associated distribution of infringing articles. The use of the words “to the prejudice” of the copyright owner reflect the language of Article 9(2) of the Berne Convention and thus potentially criminalize a very broad range of activities resulting from making/use/possession of infringing reproductions of copyright works in excess of the “de minimis” threshold.¹

United Kingdom

6. The approach taken in the UK’s Copyright, Designs & Patents Act (1988) is not dissimilar to that taken in Hong Kong:
 - a) the criminal provisions apply universally to all categories of copyright works without differentiation,
 - b) there is a requirement for “mens rea” (ie. the person must know or have reason to believe that they are dealing with infringing articles),
 - c) criminal liability applies to similar categories of usages as in Hong Kong, there are no quantitative limits for classifying particular behaviour as a criminal copyright offence,
 - d) both the UK and Hong Kong provisions impose criminal liability for distributing infringing articles otherwise than in the course of business in such a way as to prejudicially affect the owner of copyright.
7. Unusually, it is also possible for offenders to be criminally culpable for infringement of the “publication” right (that is, in relation to publication of printed materials containing non-copyright works).
8. Under a long standing practice under the general law (rather than under the provisions of the Copyright, Designs & Patents Act, it is possible in the UK for private prosecutions to be conducted, so that collecting societies etc. may commence criminal proceedings without involving public authorities. This freedom to

¹ See the Report of the Panel in US S.110(5) Copyright Act as to the meaning of Article 9(2) Berne Convention (http://www.wto.org/english/tratop_e/dispu_e/1234da.pdf)

commence criminal proceedings has been found to be particularly useful because it enables collecting societies holding rights for copyright owners on a non-exclusive basis to commence criminal proceedings in circumstances when they could not commence civil proceedings in their own right (ie. civil proceedings may only be commenced in the name of the copyright owners themselves or the name of their exclusive licensees). It also enables rightsholders and collecting societies to initiate criminal proceedings when the resources of public authorities are otherwise engaged.

Australia

9. The Australian provisions are similar in many respects, but also go further for some purposes, to the Hong Kong provisions. In particular:
 - a) the criminal provisions apply universally to all categories of copyright works without differentiation,
 - b) there is a requirement for “mens rea”, although in Australia the mental element can be inferred constructively. That is, whereas in Hong Kong (and the UK) the test of mens rea is subjective viz. the person must known or have reason to believe that they are dealing with infringing articles), in Australia mens rea can be established constructively by showing that the Defendant “knew or ought reasonably to have known” that they were dealing with infringing articles. According to Australian case law, such constructive knowledge goes beyond “notice of facts” and hence the threshold for criminal culpability in Australia is wider than in Hong Kong or the UK:

“Constructive knowledge focuses attention on the reasonableness of the conduct of the alleged infringer: ie whether acting reasonably the “infringer ought to have made further inquiries which would have resulted in it acquiring the requisite knowledge. The question is not simply whether there were reasonable grounds to suspect or believe, though this can be part of the exercise” (per Tamberlin J in *Raben Footwear Pty. Ltd v Polygram Records Inc.* [1997] 37 IPR 417 at pg 426.

This approach to “mens rea” appears to be unique to Australia, as the UK standard also appears in the Hong Kong, Irish and New Zealand provisions.
 - c) criminal liability applies to all categories of copyright works when “made”, “possessed”, “used” or “distributed” in the course of trade as well as for any other purpose to an extent that will affect prejudicially the owner of the copyright in the work (ie. the commercial element which is fundamentally

required for most offences in the Hong Kong copyright provisions is not essential under Australian law). In some circumstances, distribution is treated as though “for sale” (see section 103 of the Australian Act),

- d) Penalties in Australia appear to be more severe, especially in the case of corporations,
- e) there are no quantitative limits for classifying particular behaviour as a criminal copyright offence,

The provisions of Sections 103 and 132 (Australian Copyright Act) are substantially set out in Appendix “A” and exemplify the approach taken under Australian law (Note: the Act contains other criminal provisions than these provisions).

Ireland

10. The new Irish Copyright Act provides:

- a) for the criminal provisions to apply universally to all material categories of copyright works without differentiation and also to the making available right (ie. immaterial distribution via services such as the internet),
- b) for requisite “mens rea” in relation to possession, custody or control of articles designed or adapted for making copies of a work (ie. the person must know or have reason to believe that the articles have been, or could be, used to make infringing copies),
- c) no quantitative limits for classifying particular behaviour as a criminal copyright offence,
- d) criminal liability for having possession, custody or control, or for making available in the course of a business, trade or profession copies of infringing works,
- e) additionally, if a work is made available otherwise than in the course of a business, trade or profession so as to prejudice the interests of the owner of copyright, then an offence is committed (see Section 140(1)(e)).

New Zealand

11. Although the New Zealand Copyright Act is largely based on the UK Act of 1988, the provisions dealing with criminal offences are far more detailed than in the UK legislation:
- a) the criminal provisions apply universally to all categories of copyright works without differentiation,
 - b) As in the Hong Kong Ordinance, a person is guilty of an offence if they have in their possession infringing objects “for use in the course of a business” (s.131(2)(b)),
 - c) Criminal liability applies for distributing infringing copies in the course of a business (s.131(1)(d)) and for distributing otherwise than in the course of a business, if the distribution prejudicially affects the copyright owner (s.131(1)(d) and (e)).

Canada

12. The approach taken in the Canadian Copyright Act (R.S. 1985, c. C-46) is quite similar to that taken in Hong Kong:
- a) the criminal provisions apply universally to all categories of copyright works without differentiation,
 - b) there is a stricter requirement for “mens rea” than is the case in the UK, Australia and Hong Kong (ie. the person must knowingly do the particular infringing offence),
 - c) criminal liability applies to similar categories of usages as in Hong Kong, there are no quantitative limits for classifying particular behaviour as a criminal copyright offence,
 - d) as in the case of the UK, Australian and Hong Kong, the Canadian provisions impose criminal liability for distributing infringing articles otherwise than in the course of business in such a way as to prejudicially affect the owner of copyright,
 - e) “possession” of infringing copyright works is not, per se, an infringing act.

United States

13. Under section 506 of the US law, criminal copyright infringement appears to apply universally to all categories of copyright. Successful criminal proceedings depend on their being a valid copyright in existence under US law, infringement by means of reproduction or distribution and wilfulness. Evidence of reproduction or distribution do not of themselves provide evidence of criminal wilfulness (by implication reproduction and distribution may provide evidence of wilfulness). Criminal liability applies if the offence is committed for commercial purposes or for private financial gain. Violations involving less than 10 copies or articles having a total retail value of less than \$2,500 are regarded as misdemeanours and punishable by up to one year in gaol. All violations above these limits during any 180 day period is punishable as a felony, and attract prison sentences of up to five years and/or fines of US\$250,000.