

**Supplementary Submission on certain issues raised by LegCo Panel on 10 January 2002
by IFPI (Hong Kong Group) Ltd**

I refer to the LegCo Panel discussion with the copyright industry on 10th January 2002. I am pleased to learn that the WTO case regarding section 110 (5) of US Copyright Act was referred and discussed by the learned counsellors. No doubt, the learned Counsellors have now considered the matter in the context of international obligations on what appears to be a domestic legislation.

In this connection, I would like to take this opportunity to make further submission on the issues raised in the said WTO case and the implication thereof on Hong Kong Intellectual Property Laws.

My submission will be limited to the issues relating to the record industry and I would like to address the issues for your consideration as follows:

A. HONG KONG INTERNATIONAL OBLIGATIONS

1. World Trade Organization

World Trade Organization (“WTO”) was established and came into existence on January 1, 1995 pursuant to the Marrakesh Agreement of April 15, 1994 to implement the 1994 Uruguay Round Agreements. Hong Kong is one of the founder members of WTO and it became member on 1st January 1995. The People’s Republic of China was admitted to WTO in November 2001.

Pursuant to the Agreement on Trade Related Aspects of Intellectual Property Rights (the “TRIPS Agreement”) which is a major part of the WTO agreement, the Intellectual Property (World Trade Organization Amendments) Ordinance 1996 (11 Of 1996) was enacted in Hong Kong on 24th April 1996 in order to bring its domestic legislation into conformity with the standards and obligations under TRIPS Agreement.

The effect of non-compliance or breach of the TRIPS Agreement may result in levying of a special fee from nationals of defaulting Country in connection with border measures concerning goods of intellectual property right such as copyright goods.

2. International Treaties and Conventions

In addition to WTO, prior to the return of Hong Kong to People’s Republic of China, Hong Kong had through the United Kingdom be part of the following international conventions and treaties:-

- a. Convention for the Protection of Industrial Property, done at Paris on 20.3.1883, as revised in 1967 and 1979.
- b. Convention for the Protection of Literary and Artistic Works, done at **Berne** (Berne Convention) on 9.9.1886 as amended on July 24, 1971.
- c. Universal Copyright Convention (UCC), 6.9.1952, as revised in 1971.

- d. The Protocols of the Universal Copyright Convention (UCC), 6.9.1952, as revised in 1971.
- e. Patent Co-operation Treaty, 19.6.1970, as amended on 28.9.1979 and modified on 3.2.1984.
- f. Convention for the Protection of Producers of Phonograms Against Unauthorised Duplication of their Phonograms, 29.10.1971 (the “Phonogram Convention”)

After the return of Hong Kong to the People’s Republic of China, Article 13 of the Basic Law stipulates that the Central People’s Government of the People’s Republic of China is responsible for foreign affairs relating to Hong Kong. The People’s Republic of China has notified World Intellectual Property Organization that Berne Convention (in which she became a member on October 15 1992) and Phonogram Convention (in which she became a member on April 30 1993) do apply to Hong Kong. Article 153 further stipulates that international agreements to which the People’s Republic of China is not a party but which are implemented in Hong Kong may continue to be implemented in Hong Kong. The current view is that these treaties and conventions are still in force and are applicable to Hong Kong.

3. The Copyright Protection under TRIPS

Article 9 (1) provides that members shall comply with Articles 1 through 21 of the Berne Convention and the Appendix thereto and reiterates the basic principle of copyright protection.

4. Limitation and Exception to the exclusive rights of the Copyright Owners.

Article 13 of the TRIPS agreement, which incorporated the Three Step Test as laid down in Article 9 (2) of Berne Convention, allows exceptions and limitations to the exclusive rights:

- a. **to certain special cases** which
- b. **do not conflict with a normal exploitation of the work** and
- c. **do not unreasonably prejudice the legitimate interests of the rights holder.**

This is known as the Three Step Test which in general allows a narrow scope for copyright exception.

5. The Copyright Ordinance

Hong Kong enacted the Copyright Ordinance on 27th June 1997 which brought the copyright law up to date and was meant for the compliance of the International Obligations imposed on Hong Kong on Copyright and Rights in the Nature of Copyright.

6. The Three Step Test in Hong Kong

In Hong Kong, Division III of the Copyright Ordinance provides certain special cases which may attract fair use exemption or permit use of the copyrighted materials, these are :

- (i) Research or study (section 38);
- (ii) Criticism or review and news reporting (section 39);
- (iii) Incidental inclusion in an artistic work, sound recording, film, broadcast or cable programme (section 40);
- (iv) Education (sections 41-45), section 41(2) in relation to sound recording and film;
- (v) Libraries and archives (sections 46-53), section 50 (1)(C) in relation to sound recording and film;
- (vi) Backup copies of software (section 60);
- (vii) Public administration (sections 54-59);
- (viii) Recording for purposes of time-shifting (section 79);
- (ix) Photographs of television broadcasts or cable programmes (section 80);
- (x) Free public showing or playing of broadcast or cable programme (section 81);
- (xi) Others-See other relevant sections under Division III of the Copyright Ordinance.

7. Section 37 (3) further provides that All of the above activities do not constitute copyright infringement if
- (i) they are **not in conflict** with **a normal exploitation** of the work by the copyright owner and
 - (ii) **not unreasonably prejudice** the **legitimate interests** of the copyright owner.
8. Hong Kong government believe that the compliance of the TRIPS agreement and the aforesaid international treaties and conventions would help enhance Hong Kong's reputation as an international trade and service centre, and will also boost the confidence of investors, both from domestic and overseas, to create, manufacture and distribute in Hong Kong high tech or value added products covered by intellectual property rights.

B. United States of America

1. Chronology of Copyright Act.

United States became a party to the Universal Copyright Convention as revised at Paris 1971 on July 10, 1974.

On October 19, 1976 fourth general revision of the copyright law (Copyright Act) signed by President Ford which became effective on January 1, 1978

On March 1, 1989, United States adhered to the Berne Convention for the Protection of Literary and Artistic Works.

On January 1, 1995, United States became a member of WTO.

On October 1998, the Fairness in Music Licensing Act was enacted which, among other things, amended section 110(5) of the Copyright Act. It was signed by the President on 25th October 1998 and entered into force on 26th January 1999.

2. Section 110(5) of the Copyright Act

- a. While Section 110(5) of the Copyright Act applied to all kinds of copyrighted works before the 1998 amendment, the new section 110(5) as amended contains two distinct exemption, the so-called “**homestyle exemption**” under subsection A and a new exemption under sub-section (B) which is sometimes referred as the “**Business Exemption**”.
- b. The section 110(5)(A) “homestyle exemption” deals with the display or play of transmission or re-transmission embodying the performance display of a work (**other than non dramatic musical work**) intended to be received by the public, originated from a licensed radio or TV station, in an establishment which is open to public for the enjoyment of customer without consent of the right owner as long as such an establishment uses a single receiver or apparatus of a kind commonly used in private homes. The dramatic work includes operas, operettas Broadway musical shows etc. The right owners of such dramatic work are unlikely to grant any right to radio or TV station and the impact is minimal. This is less controversial.
- c. However section 110(5)(B) “business exemption” covers the non-dramatic music work and while “homestyle exemption” limits the exemption to the use of a single receiver or apparatus of a kind commonly used in private homes, this condition is completely absent in Business Exemption for cases where the establishment does not exceed a certain size (3750 square feet for restaurants and bars and 200 square feet for all other establishments). For all larger establishments the homestyle requirement has been replaced by much less stringent conditions in relation to the audio or TV equipment mainly on the number of loudspeakers which can be used. In any event, the use of professional equipment is perfectly permissible.
- d. In short, the “business exemption”, in certain circumstances, allows anybody to play non dramatic musical work such as pop music originating from radio or TV station in his establishment for the enjoyment of his customers without the consent of the copyright owner.

C. The European Communities complaints

1. The European communities and their members brought the complaint against the United States that while section 106 of Copyright Act gives the right owner of a copyrighted work the exclusive right to reproduce the work etc however section 110(5) is incompatible with the US obligations stemming from the TRIPS. The exception or limitation provided therein cause prejudice to the legitimate rights of copyright owners.

2. For the **first time** in a binding international proceeding the long standing but general **THREE STEP TEST** has been carefully interpreted and on June 15, 2000 the WTO panel concluded that the business exemption under section 110(5)(B) of the Copyright Act does not meet the requirement of Article 13 of the TRIPS Agreement. The scope of the business exemption is too wide and the United States has not demonstrated that the business exemption does not **unreasonably prejudice the legitimate interests of the rights holder**.
3. As regards the homestyle exemption, because of the common understanding of the parties that the operation of homestyle exemption as contained in the 1998 amendment has been limited to the works other than non dramatic musical works, and also because of the European Communities has not explicitly claimed that the exemption would currently cause any prejudice to the right holder, the Panel concluded that section 110(5)(A) meets the requirement of TRIPS.

D. The issue on the original version of section 110(5) before amendment

1. The original version of section 110(5) has not been challenged and test in any international dispute forum as U.S. only became a member of Berne Convention in 1989 and that there is no enforcement provision in Berne Convention.
2. WTO was established on January 1 1995 and US became a WTO member and a signatory to TRIPS agreement in 1995. By then U.S. had to reconsider and to re-examine its domestic legislations if the same has already complied with the TRIPS standards and to make any necessary amendment or change in order to bring the domestic legislation into conformity with its obligations under the TRIPS agreement.
3. It is in this context that the United States has amended, among other things, section 110(5) of the Copyright Act.
4. In the premises, with due respect, any suggestion that the original version of section 110(5) had been in compliance with any international obligations prior to the amendment is misconceived as there had not been any dispute resolution mechanism in place prior to the establishment of WTO.
5. However, the findings of WTO panel which for the first time the 3-step test has been carefully analysed in a binding international dispute has narrowed the application of fair use exemption or copyright exemption. Based on the reasons set out in EU/US case, it would not be surprised for WTO panel to conclude that the original version of section 110(5) would also fail to meet the standards of TRIPS had US not made any amendment thereto.

E. Applicability Of The Above EU/US Case On 3 Step Test In Hong Kong

As Hong Kong is obliged to comply with the standards and obligations as imposed on her by TRIPS and Hong Kong has accommodated the Three Step Test in the copyright legislation (section 37(3) of the Copyright Ordinance), the EU/US case would no doubt be applicable to Hong Kong. Any amendment made to the copyright law must comply with TRIPS and other international treaties and convention to which Hong Kong is a

party and in particular any such amendment must be subject to the 3 step test requirement and to demonstrate that any exemption must be

- i. **a special case** which
- ii **does not conflict with a normal exploitation of the work** and
- iii **does not unreasonably prejudice the legitimate interests of the rights holder.**

F. Free Public Showing or Playing of Broadcasts or Cable Programmes

Perhaps it may be desirable to revisit section 81 of the Copyright Ordinance which allows the showing or playing of the film or sound recording included in the broadcast or cable programme to an audience who has not paid for admission to the place where the showing or playing of the broadcast or cable programme is made without the consent of the copyright owners. We are of the view that the exemption is too wide and would cause unreasonably prejudice to the interest of the right owners.

G Conformity With International Obligations

1. Hong Kong is one of the signatories to the WTO Agreement concluded in the Uruguay Round of the General Agreement on Tariffs and Trade negotiations. The WTO has been established on 1 January 1995, and Hong Kong is one of the founder members. In fact the resident representative of the Hong Kong delegation to WTO was also elected Chairman of the WTO Council on Trade-Related Aspects of Intellectual Property Rights in 1995.
2. Hong Kong shall ensure every proposed amendment or changes in Copyright Law, regulations and practice made fully conform to the standards of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in the World Trade Organization (WTO) Agreement and the international treaties and conventions to which Hong Kong is a party.

H. Conclusion

In short, I hereby invite the learned Counsellors to re-examine all the issues and to take this opportunity to bring the Copyright Law into conformity with the standards under TRIPS and other international treaties and conventions. This will enhance the infrastructure for the building of the knowledge base industry in Hong Kong.

If you have any further question, please let us know.

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For and on behalf of International Federation
of the Phonographic Industry (Hong Kong Group) Ltd
29 January, 2002