Association of American Publishers, Inc.
www.publishers.org

50 F Street, NW, 4th Floor
Washington, D.C. 20001
Telephone: (202) 347-3375
Fax: (202) 347-3630

Patricia S. Schroeder
President and
Chief Executive Officer

By Electronic Mail (laura tsoi@cib.gov.hk) and Facsimile
Ms. Laura Tsoi
Assistant Secretary for Commerce and Industry
Commerce and Industry Bureau
Government of the Hong Kong Special Administrative Region
Level 29
One Pacific Place
88 Queensway
Hong Kong SAR

Re: Comments of The Association of American Publishers (AAP) on the Consultation Document - Review of Certain Provisions of Copyright Ordinance

The Association of American Publishers (AAP), with some 310 members located throughout the United States, is the principal trade association of the book publishing industry. AAP members publish hardcover and paperback books in every field - fiction, general non-fiction, poetry, children's literature, textbooks, reference works. Bibles and other religious books, and scientific, medical technical, professional and scholarly books and journals. Our members also publish audio and video tapes, computer software, looseleaf services, electronic products and services including online databases, CD-ROM and a range of educational materials including classroom periodicals, maps, globes, filmstrips, and testing materials. AAP appreciates this opportunity to provide the Commerce & Industry Bureau with our comments on the Consultation Document Review of Certain Provisions of the Copyright Ordinance. While virtually all the issues raised in the Consultation Document affect publishers, we will focus on Chapters 1 (Criminal Provisions Related to End-User Piracy), 2 (Permitted Acts for Educational Purposes), 5 (Parallel Importation of Copyright Works Other Than Computer Software), and 7 (Licensing Bodies).

Summary of Conclusions

- With respect to "Criminal Provisions Related to End-User Piracy" (Chapter 1 of the Consultation Document), AAP supports maintaining the provisions in the Copyright Ordinance as amended by the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 (the "Amending Ordinance") after the suspension expires in July 2002. The failure to criminalize end-user piracy of published materials in Hong Kong results in harm on a "commercial scale." places Hong Kong out-of-step with international norms, and raises questions about Hong Kong's fulfillment of its international obligations. The Suspension Ordinance should simply be allowed to lapse, and vigorous enforcement against end-user pirates of books and other published materials should be undertaken.

- With respect to "Permitted Acts for Educational Purposes" (Chapter 2 of the Consultation Document), AAP supports the concept of "fair use" and the genera1 principles embodied in thc Berne "tripartite" test. The best method for clarifying the boundaries between copying that is permissible (without the authorization of the rights owner) and impermissible in the educational context is not through legislation but rather through voluntary licensing negotiations between right owners and educational institutions (and/or their respective representatives). With regard to digitization to and networked access to, copyrighted materials in the educational environment (including the proposal on uploading copyright works to school intranets), AAP urges the Hong Kong government to undertake a careful examination of this topic prior to considering legislating in this area.

- With respect to "Parallel Importation of Copyright Works Other Than Computer Software" (Chapter 5 of the Consultation Document), AAP believes that civil liability and criminal sanctions against parallel importation of and subsequent dealing in all types of copyright work should be maintained. AAP urges the government of Hong Kong to carefully consider the possible consequences of removal of parallel import protection in Hong Kong, and to proceed with extreme caution.

- With respect to "Licensing Bodies" (Chapter 7 of the Consultation Document), AAP is not aware at this time of any need to alter the current structure, although we do believe the government of Hong Kong bas a role to play to ensure that organizations wishing to license uses of published works work with RROs, agents, retailers and others to enter into negotiated licenses.

Comments to Chapter 1 (Criminal Provisions Related to End-User Piracy)

AAP supports maintaining the provisions in the Copyright Ordinance as amended by the Amending Ordinance after the Copyright (Suspension of Amendments) Ordinance 2001 (the "Suspension Ordinance") expires in July 2002. AAP would also support specific enforcement measures aimed at unauthorized commercial users of books and similar published materials, e.g., copy shops, against whom proof of copying might be difficult, but proof of possession of infringing copies would be straightforward. Making the effects of the Suspension Ordinance permanent without changes to provide adequate protection for books and other published materials would, on the other hand, be devastating to Hong Kong and foreign publishers who need such protection to fight against increasingly rampant piracy. Such a move would also send the wrong signal to people and businesses in Hong Kong, as well as to the rest of the world, about the Hong Kong SAR government's commitment to fight publications piracy. Such a move or, worse yet repeal of all the end-user crimina1 provisions in the Copyright Ordinance, would not only cut against international trends but also might implicate Hong Kong's current international obligations.

Failure to Criminalize End-User Piracy of Published Materials in Hong Kong Results in Harm on a "Commercial Scale," Incompatibility With IntErnadona1 Trends, and Implicates Hong Kong's International Obligations

Prior to enactment of the Amending Ordinance, Hong Kong's copyright law featured what the Consultation Document refers to as a "'perceived 'gap' ... whereby a person possessing an infringing copy of a copyright work would be prosecuted only if he is found to be 'dealing in' (e.g., buying and selling) the infringing copy." Consultation Document, para. 1.3. While the Copyright Ordinance made subject to criminal sanctions one who "makes for sale or hire" an infringing copy of a copyrighted work (including published materials), as well as one who "possesses [such a copy] for the purpose of trade or business with a view to committing any act infringing the copyright" in thc work, Section 118(1)(d), it was far from clear that these prohibitions covered other activities closely associated with commercial piracy of publications and other works. These include, for example, the knowing possession by a commercial copy shop of numerous infringing copies of a popular book, or the knowing possession by a for-profit company of multiple illegal copies of valuable training materials for use by its employees. Both activities warrant criminal treatment, however. They both contribute directly to the profitability of the illegal possessor: the copy shop has an inventory available for unauthorized sales, and the company saves costs and increases productivity for its profit-making activities. Furthermore, both activities cause "commercial scale" harm to legitimate right holders. Other examples abound, including those involving not-for-profit entities. For example, the unauthorized copying by a university on its own equipment of hundreds of copies of textbooks for distribution to its students inflicts harm on a commercial scale on legitimate right holders, such as a Hong Kong textbook author who is deprived of royalty payments.

The Amending Ordinance was intended to fill this gap by prohibiting knowing possession of an infringing copy of a publication (or other copyright work) for the purpose of, in the course of, or in connection with any trade or business. However, in June 2001, those amendments, as to published materials, were suddenly suspended by the Suspension Ordinance. This left Hong Kong in the unusual position of providing unequal treatment for different works, or even for different aspects of piracy of the same commercial product. (Many AAP member companies, for example, publish educational or training packages for both students and workers that include both computer programs and related text publications. A for-profit company in Hong Kong today presumably could be found criminally liable if found in possession of numerous unauthorized copies of the computer programs for use by its employees, but not for possession of unauthorized multiple copies of the accompanying text for the same purpose.)

We are pleased that the government is now consulting with relevant parties, so that it can carefully consider the conclusions it reached hastily in June 2001, and so that it may weigh the options and reach conclusions resulting in a consistent law, compatible with both international trends and Hong Kong's current international obligations. AAP applauds this approach.

There are several reasons why Hong Kong should reinstate criminalization of end-user piracy of published materials and should treat all copyright works equally in this regard. First, published materials must not be relegated to second-class status among copyrighted works in fighting end-user piracy; there is simply no basis for such unequal treatment. Indeed, as demonstrated by the several examples given above, severe commercial harm to publishers is a virtual certainty unless adequate means are taken to fight end-user piracy of published materials. Equality of protection is also the international norm. The International Federation of Reproduction Rights Organisations (IFRRO) recently concluded a comparative analysis of criminal provisions relating to use of works in a business or trade, and of the countries surveyed, the criminal provisions applied universally to all categories of copyrighted works; not one country carved out certain classes of works as unworthy of protection, as Hong Kong has done in the Suspension Ordinance (to the detriment of the protection of published materials).

Second, Hong Kong's failure to criminally outlaw end-user piracy of published materials places it out of step with other common law jurisdictions. The IFRRO comparative analysis found that criminal liability for "possession, custody or control"' of infringing copies in the course of trade or business is found in Australia, Ireland and New Zealand, for example.

Third, TRIPS Article 61 requires Hong Kong to provide adequate and effective criminal procedures at least in cases of "copyright piracy on a commercial scale." In some instances involving infringing reproductions, proof of copying may be difficult or impossible, meaning that criminalizing unlawful possession is necessary to provide an adequate and effective criminal

remedy. For example, in the training materials example described above, it may be impossible to prove who specifically made the unauthorized copies, or that the proprietor of the business possessed the copies "with a view to committing" infringement, as required for criminal liability. Maintaining the provisions in the Copyright Ordinance as amended by the Amending Ordinance after the suspension expires in July 2002 is the best way to prevent piracy on a commercial scale and punish those who cause such clear commercial harm that would otherwise go without an adequate and effective remedy.

The Nature of the Business Activity Should Not Determine Whether Criminal Sanctions Apply (Response to Section 1.6(a))

The Consultation Document assumes that those in favor of applying criminal sanctions to "educational, charitable or government organisations" hold this opinion only because they believe such organizations "should uphold the same high standard of respect for intellectual property rights as commercial organisations." While this is true. it is not the most compelling reason for applying crimina1 sanctions to organizations regardless of the nature of their business. Rather, it is because such an organization can, just as easily as a for-profit organization, inflict severe economic harm on a "commercial scale" through possession of infringing copies of works. As demonstrated in the example given, the fact that a university is a non-profit entity has little to do with whether its unauthorized activities inflict commercial harm on legitimate right holders. Similarly, the company referred to above that hands out infringing copies of valuable training materials to its employees could be a non-profit institution; the harm inflicted on legitimate right holders, who might otherwise look to that institution as a paying customer, is the same. It must further be noted how vulnerable publishers in particular would be to mass piracy if a distinction were made between for-profit and non-profit organizations. The products of many publishers are specifically targeted to the non-profit market. A textbook publisher would not expect to sell many, if any, copies to customers other than educational institutions. A publisher of medical reference materials would naturally find a great deal of its market among non-profit hospitals and similar institutions. To excuse non-profit institutions from liability because of their status could inflict devastating harm, of a commercial scale, on these publishers.

The Law Should Not Exclude Whole Classes of Defendants (i.e., Employees) (Response to Section 1.6(b))

As with other criminal provisions in the Hong Kong Copyright Ordinance, criminal liability applies to persons, including natural as well as legal persons, who commit specific offences. Once the elements of the offence are proved, such persons (natural or legal) can be brought to justice through criminal procedures. While it would often not be desirable to prosecute employees who are merely

acting on instructions of their employers, and, as the Consultation Document notes, where the employees have "little clout to bargain with the employer if they wish to keep their job," there may also be instances, such as where the employee engages in the piratical acts without the employer's knowledge, or in which the employee not only knows about the infringement but supervises others in infringing activities, where it may be appropriate to prosecute that individual. Rather than excluding an entire class of defendants, we assert that prosecutors and courts are fully capable of using their common sense to ensure that these criminal provisions, like any others, are not abused or used heavy-handedly. We also note that section 118(3) of the Copyright Ordinance exculpates from criminal liability anyone who had no reason to believe that an infringing copy was involved in the activity that gave rise to the prosecution. This is a fully adequate safeguard against overreaching prosecutions of employees.

The Phrase "Afflicted by Rampant Piracy" is Subjective and Unwieldy in Its Application (Response to Section 1.6(c))

The Consultation Document queries whether only those works "afflicted by rampant piracy" should be subject to the criminal prohibition on end-user piracy. Certainly the question of what is "rampant piracy" will be a subjective one, and for that reason alone, it should be rejected as a standard for determining which works deserve protection against end-user piracy. Once again, publishers recognize that criminal liability must be reserved for egregious cases. It will be up to prosecutors to use their discretion wisely, and publishers assume that for the most part, only the most serious cases of end-user piracy will be prosecuted. The examples given in this response are some that publishers might expect to result in criminal prosecution, e.g., a copy shop in possession of enormous inventory of infringing copies of published materials, or a company which blatantly refuses to license copies of valuable training materials, instead providing unauthorized copies of such materials to its workforce, etc.

On the other hand, it is also the case that, if the carved-out categories in the Suspension Ordinance are indicative of works which the government of Hong Kong believes are "afflicted by rampant piracy," published materials must be included in that category. Since enactment of the Suspension Ordinance, publishers report a rampant increase in copy shops boldly and openly advertising copy services for entire books, including textbooks, scientific, technical and medical materials, as well as trade books. The piracy has become so egregious that shops even apply stickers to the finished product, openly advertising who they are and where they are located. It is clear that these shops have no fear that they will be raided, and engage in rampant, blatant piracy of publishers' works. If "rampant piracy" is to be the dividing line between works that are fully protected (including by criminal sanctions) against end-user piracy, and those that are not, publishers seek the assurance of the Government that their products will be located on the 'full protection' side of the line.

End-Users Should Not Be Exempt From Criminal Liability Solely Because They Do Not Enjoy Commercial Advantage or Private Financial Gain (Response to Section 1.6(d))

As noted above, the nature of the business activity should not determine whether criminal sanctions apply, because a non-profit organization or a person enjoying no commercial advantage can inflict just as much commercia1 harm on a legitimate right holder as a for-profit commercial enterprise. Therefore, blanket exemptions of activities not resulting in commercial advantage or private financial gain must be avoided.

The Consultation Document points out certain activities such as "photocopying a newspaper article" as being unauthorized under the Amending Ordinance. This observation is not relevant to the point of whether end-user pirates of materials published by AAP member companies should be exempted from criminal liability, since these companies do not publish newspapers in Hong Kong. We note that current law provides certain exceptions with regard to fair dealing that may apply to some of this activity (see, e.g., sections 38 and 39 of the Copyright Ordinance). As the Consultation Document mentions, those and any other exceptions must meet the Berne "tripartite" test, namely, they must be limited to special cases, they must not conflict with a normal exploitation of the work, and they must not unreasonably prejudice the legitimate interests of the right holder. If there are problems in photocopying newspaper articles, or the lack of a licensing mechanism for these activities, these problems must be kept separate from the query at hand, and they are irrelevant to the question of whether there is justification for eliminating outright the criminal remedy with regard to end-user piracy of books and similar published materials.

The Phrase "in connection with" Can be Removed (Response to Section 1.6(d))

AAP does not object to the deletion of the phrase "in connection with" from the Copyright Ordinance provisions outlawing end-user piracy. The phrases "for the purpose of" and "in the course of" provide effective coverage of end-user piracy of published materials, including the examples discussed herein.

Comments Chapter 2 (Permitted Acts for Educational Purposes)

AAP supports the concept of "fair use" and the general principles embodied in the Berne "tripartite", test We offer the following general comments concerning the proposals contained in this chapter.

While we agree that the current law does not sharply define the boundaries between copying that is permissible (without the authorization of the rights owner) and impermissible in the educational context, the best method for clarifying these boundaries is not through legislation, but rather through voluntary licensing negotiations between right owners and educational institutions (and/or their respective representatives). AAP understands and supports the licensing terms freely negotiated with primary and secondary schools by the local reprographic rights organization, and notes that similar terms are currently under negotiation with tertiary institutions in Hong Kong. These terms provide a clear and workable definition of the copying activities of educational institutions for which right owners must be compensated. Because they are contained in a license agreement rather than a statute, these terms are also flexible and can easily accommodate change and adjustment in the future, in response to technological developments and marketplace changes. In such an environment, it may well be counter-productive to fossilize in the statute the relevant definitions, as well as the concept that educational institutions are free to spurn license negotiations with respect to certain copying activities that fall beneath a rigidly defined level. Public policy should foster and encourage the negotiation and enforcement of voluntary licensing. The proposed definitions and statutory changes could have the opposite effect and create a disincentive for the parties to establish and maintain a stable contractual relationship. The Hong Kong government should conduct further study of the potential consequences of these statutory changes before it legislates in this area.

This note of caution is particularly important with regard to the proposal on uploading copyright works to school intranets. Digitization of, and networked access to, copyrighted materials in the educational environment is an exceptionally complex topic. In this area, striking the proper balance among the interests of right owners, educators and students, and the requirements of international legal norms, is a difficult task. AAP and its members well know this because of our experience in the United States. Years of discussion and negotiation of these issues among publishers, educators, public officials and other interested parties led to an extensive, congressionally mandated study on "distance education" by the U.S. Copyright Office, completed in May 1999. When the recommendations of this study were incorporated into proposed legislation, further negotiations ensued. The resulting compromise legislation, supported by virtually all interested parties, is currently under consideration by the U.S. Congress. This experience tells us that it is far too early for Hong Kong's legislators to consider enacting a sweeping exception for the uploading of copyrighted materials to a school intranet. As proposed, such an overly broad exemption as to all works would violate Hong Kong's international obligations under TRIPS and the Berne Convention, and would erode the fundamental rights of the copyright owner - not only the reproduction right, but also the public communication right - to an

unacceptable degree. We also note that educational institutions in Hong Kong can obtain blanket licenses from the local reprographic rights organization which would include digital rights of reproduction (i.e., scanning), upload, and making available to the public. Without such licenses, schools engaging in such activities would infringe copyright. The incentive to negotiate such licenses should not be eliminated by legislative fiat.

Rather than rushing to legislate in this complex area. AAP urges the Hong Kong government to undertake a carefu1 examination of the use of copyrighted materials in digital networked environments for educational purposes. AAP and its members stand ready to participate in a thoughtful process of examining the interests at stake and seeking consensus solutions, which we believe should rely predominantly on voluntary licensing agreements among rights owners and educational institutions.

Comments to Chapter 5 (Parallel Importation of Copyright Works Other Than Computer Software)

AAP believes that Civi1 liability and criminal sanctions against parallel importation of and subsequent dealing in all types of copyright work should be maintained.

Protection against parallel importation in Hong Kong over the years has served several vital purposes. First, it keeps all unauthorized product out of Hong Kong - that includes pirated copies of works (which arc often shipped with parallel imports in order to hide them), counterfeits, as well as copies of works that are not authorized to be imported into Hong Kong. Second, parallel import protection preserves free market-principles, most notably, the freedom to contract, by permitting well-working and long-honored business models to continue, including territorial distribution and exclusive distributorships (which directly benefits Hong Kong's business people who participate in such arrangements). Third, parallel import protection allows for quality and control, helping to assure consumers that products purchased in Hong Kong can be trusted as to quality and source. Fourth, there is no evidence that parallel import protection in Hong Kong decreases availability of product.

The Consultation Document states that "[r]emoving the restrictions on parallel importation for all types of copyright work would . . .facilitate free flow of goods." Consultation Document, para. 5.8. In fact, the anecdotal evidence suggests that removing parallel import protection may result in more shipments - of illegal goods. Press repots from New Zealand, which two years ago removed protection against parallel imports, indicate that pirates hide pirated copies in the same shipments as parallel imported copies. In addition, in Australia, piracy rates for sound recordings have doubled since the removal of parallel import protection of such works in 1998. The Consultation Document further touts "lower prices for the consumer" if protection against parallel imports is lifted. Id. Again, experience of other countries would suggest otherwise.

In Australia, there is hard evidence that since restrictions against parallel imports of sound recordings were lifted, the price to consumers has remained stable. thus, no benefit in terms of reduced pricing has been passed along to consumers.

The ability to differentially price books is an important result of parallel import protection, with particular importance for Hong Kong. Many publishers already have special pricing for authorized editions intended for distribution solely within the People's Republic of China. These low-priced editions, even with protection for parallel imports at current levels in Hong Kong, make the most attractive product for illegal parallel importers into Hong Kong, and AAP is beginning to note that low-priced PRC-only editions are leaving the mainland and entering into Hong Kong. If this continues to occur, eventually, publishers will have no choice but to make available fewer and fewer titles at special prices in the PRC. Consumers in China will eventually have little access to these works and/or would be more likely to resort to outright piracy with all the social ills that accompany it. If Hong Kong proceeds to remove parallel import protection, it will hurt not only its own legitimate distributors - many of whom are Hong Kong nationals trying to make a legitimate living in Hong Kong - but it will also have a devastating effect on the nascent publishing industry in the PRC. AAP urges the government of Hong Kong to carefully consider the possible consequences of removal of parallel import protection in Hong Kong, and to proceed with extreme caution. It may be wise to conduct a study at this stage to determine the risks to legitimate distributors in Hong Kong of removal of parallel import protection, as well as the eventual effect on the Greater-China publishing market of such a drastic change. This would be preferable to taking hasty action, only to find that the outcome of removal of protection was unexpected and unwelcome.

Comments to Chapter 7 (Licensing Bodies)

Voluntary collective licensing of rights through a ‘reprographic rights organization’ (RRO) is a very important mechanism for compensating right holders for uses of their works. Hong Kong has a nascent PRO that is entering into license agreements with users. AAP is not aware at this time of any need to alter the current structure, although we do believe the government of Hong Kong has a role to play to ensure that organizations wishing to license uses of published works work with RROs, agents, retailers and others to enter into negotiated licenses. Specifically, we do not know of any reason for the Copyright Tribunal to be replaced with an arbitration system to adjudicate disputes between copyright users and licensing bodies, nor are we aware of the need to mandate the registration of licensing bodies (although we note that the Hong Kong RRO is registered and publishes its licensing fees and royalty rates).

Conclusion

AAP thanks you for this opportunity to express the views of publishers on the vitally important questions you have raised in the Consultation Document. Please do not hesitate to contact me if I can provide further information or answer any questions.

Respectfully submitted,

President and
Chief Executive Officer