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Comments on
Preliminary Proposals on Various Copyright-Related Issues
In Response to Request from the Legislative Council Panel on Commerce and Industry

11 July 2005

The Commerce, Industry and Technology Bureau conducted a public consultation exercise for the review of certain provisions of the Copyright Ordinance from mid December 2004 to mid February 2005. The Business Software Alliance ("BSA") submitted a paper dated 15 February 2005 in response to the consultation. A copy of this paper is attached. As a result of public submissions received, the Bureau has now drawn up its preliminary proposals to the Legislative Council Panel on Commerce and Industry ("Proposals"). On 23 June 2005, the BSA was invited by the Panel to provide views on the Proposals.

BSA welcomes the opportunity to provide further comments on proposals to review the Copyright Ordinance. We do not intend to address all the points raised in the Proposals, but will only focus on 5 main issues, namely (1) employees' and certain professionals' defence against end-user criminal liability, (2) directors'/partners' criminal liability, (3) proof of infringing copies of computer programs in end-user liability cases, (4) fair dealing for education and public administration, and (5) circumvention of technological measures for copyright protection. Moreover, we have not included a comprehensive discussion of these issues but rather have highlighted a number of the key policy considerations. We look forward to providing more detailed comments as the legislative process moves forward.

1. Employees' and certain professionals' defence against end-user criminal liability

1.1 It is proposed that a new defence for employees against end-user criminal liability be introduced, on the basis of a concern (raised over four years ago) that criminal sanctions may be too harsh for employees under certain circumstances as they are in a weak position to bargain with their employers for fear of losing their job. The BSA submits that this specific defence would be an inappropriate and unnecessary rollback of the law.

1.2 The current Copyright Ordinance already affords a defence to anyone (whether employees or employers) if they do not know or had no reason to believe that the copyright work provided to them was in fact an infringing copy – this alone

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provides ample protection to "innocent" employees. Where the employees knowingly possess and use pirated software, it is unclear as a matter of principle why such employees should be exempted from liability for using the pirated software whereas they will still be penalized for, for example, handling stolen goods under the Theft Ordinance. The proposed defence would wrongly send the message to the public that one form of theft is of lesser consequence than another. Also, the presence of an express employee defence would create a disincentive for employees to refuse or object to the use of infringing software.

1.3 Moreover, experience over the last four years has shown that the expressed concern is unfounded. There is no indication that existing laws operate unduly harshly upon lower-level employees or that such employees are being unjustly targeted by enforcement authorities. On the contrary, of the handful of cases involving business end-user piracy that have been prosecuted, we do not know of any that have involved charges against lower-level employees.

1.4 On the other hand, there is real concern, based on actual enforcement experience to date, that an employee defence would allow decision-makers in businesses to insulate themselves from liability. Further, if such an exemption were provided, employees would have no motivation to object to using infringing copies of copyright works in a business environment.

1.5 Importantly, as it currently stands, the law on end user liability has proved to be totally ineffective in practice. It is a fact that there has not been a single case involving the use of unlicensed software in business that has been successfully prosecuted where a defendant has pleaded not guilty and contested the trial. Indeed, BSA members understand that decisions have been made not to proceed with prosecutions in a number of cases – following a raid action – based upon the theory that persons in positions of responsibility generally lack direct involvement in software procurement and installation and therefore lack the requisite knowledge for criminal liability. These cases highlight the further difficulties that would be introduced with a specific employee defence.

1.6 In a global software piracy study conducted by the international technology research firm International Data Corporation (IDC) released in May 2005 (www.bsa.org/globalstudy/), the software piracy rate in Hong Kong in 2004 was estimated to be 52%, resulting in losses to the industry of US$116 million. Hong Kong's piracy rate is well above those of other developed economies in the Asia Pacific region including Taiwan (43%), Singapore (42%), Japan (28%), South Korea (46%), Australia (32%), and New Zealand (23%). A 52% software piracy rate is far too high for an economy with Hong Kong's level of development and will certainly inhibit Hong Kong's aspirations of further developing into a knowledge-based economy and building itself into an IT hub

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for the region. The software piracy rate in Hong Kong over the last four years (since the enactment of the April 2001 amendments criminalizing business end user piracy) has remained essentially unchanged. This trend, coupled with the lack of any successful prosecutions in contested cases, demonstrates a need for Government to refine current legislation to ensure that the end result is a law that is effective in application.

1.7 Even if it were determined that a specific employee defence should be introduced – despite clear indications of the need to strengthen rather than rollback copyright protection – BSA submits that the Proposal as currently structured creates potential for abuse. The Proposal excludes from the proposed employee defence employees who are "in a position to influence or decide on the acquisition or removal of the infringing copies for use in business"; such wording remains susceptible to various loopholes for those wishing to avoid liability. In particular, the word "influence" is vague and the reference to "acquisition or removal" is too narrow, disregarding those relevant acts of installation, use and other dealings by the employee.

1.8 For any employee defence to be workable, it is of utmost importance that the onus be on employees wishing to avail themselves of the defence to first establish that (i) they are employees as defined under the Employment Ordinance, and (ii) they are not directors, corporate officers, proprietors, or managers or employees having managerial functions or in a decision-making or advisory role.

1.9 Further, as a pre-condition, employees need also to be required to identify the person who actually provided the infringing copy to them. Based on the employee defence rationale, the source of the infringing copy must be identified as the employer himself or someone acting on his behalf as part of this pre-condition.

1.10 Finally, we note that a specific employee defence is not available under similar circumstances pursuant to copyright legislation in other markets, including the United Kingdom, United States, Singapore and Australia. It is unclear why Hong Kong would choose to break new ground in this area, given the rampant problem of business end-user piracy and the fact that Hong Kong has now fallen well behind its neighbours in addressing this serious form of IPR crime. The Government would be sending the wrong message to the local and international community in relation to its stance on intellectual property rights protection if it were to do so, undermining positive steps Hong Kong has taken over the years to improve its image in this area – as well as to comply with its obligations as a signatory of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights.

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1.11 Apart from an employee defence, it is also proposed that defences for those that need to possess and review infringing products during investigations, or when providing legal advice, be introduced. We recognise that a company which specializes in purely investigative work on behalf of IP clients must be able to access and review infringing products. However, it is important to build in caveats to prevent unscrupulous corporate end-users from using "investigative work" (a broad generic term not confined to professional private investigation firms) as a guise for infringement.

1.12 Similarly, we appreciate that lawyers working on behalf of IP clients must be able to access and review infringing products when building and advising upon a case. However, it is difficult to envisage legitimate uses of infringing copies in certain scenarios – for example, where a law firm possesses multiple infringing copies of the same title (presumably, one copy would have been sufficient for legal analysis) or installs infringing software within the firm's computer network (as opposed to a standalone computer for analysis purposes). Such acts should not be protected under the proposed defence. Careful drafting is therefore required to prevent abuse.

2. Directors'/ partners' criminal liability

2.1 BSA agrees with the Administration that corporate accountability and responsible governance are important to Hong Kong as an international finance and service centre. It is therefore crucial that directors of body corporate and partners of partnership should not authorize or condone and should not be seen to authorize or condone any infringing act, including those that attract business end-user criminal liability.

2.2 In Hong Kong, directors and partners are typically the ones who approve budgets for the acquisition of company assets, including software licences. It is common knowledge that purchasing a license to install software on a single machine does not entitle the licensee to install the same program on multiple computers in the workplace. The market price of legitimate software is also commonly known and easily ascertained. We understand that a person would not be convicted under the legislative measure described in the Proposal unless his software copy were an unauthorized one.

2.3 Whether a defendant director or partner has paid the required licence fee to cover his organisation's usage is a matter likely to be within the knowledge of the defendant or a matter to which he has ready access. It is very unlikely that a defendant who is not possessing in the course of business an unauthorized

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software would have any difficulty to rebut the presumption.

2.4 We therefore support the Proposal that if a body corporate or a partnership has done an act attracting the business end-user criminal liability, the directors of the body corporate or the partners of the partnership should be equally liable in same case unless there is evidence to the contrary, showing that the directors or partners have not authorized the infringing act to be done.

2.5 We view this Proposal as potentially being one legislative means for addressing challenges with the enforcement and prosecution of operators of businesses using infringing software. However, for this legislative provision to be workable, it must expressly be stated that a court should take into account whether the infringing company/partnership had in place any software asset management processes. Without consideration of this relevant fact, we may find directors/partners who simply pay lip-service to this provision and take disingenuous or cursory measures (eg. an informal note tacked onto a bulletin board) as "evidence" to later assert that they had not authorised the use of infringing software in their organisation.

3. Proof of infringing copies of computer programs in end-user liability cases

3.1 The Administration has declined to propose the inclusion of recording keeping obligations on corporate users until further enforcement experience is accumulated. This is disappointing, given that we have already had four full years of enforcement experience and in that entire period there has not been even one successful prosecution in a contested case. Delay in addressing deficiencies in the law will only further erode Hong Kong's reputation and result in ever-increasing financial losses to right holders in Hong Kong. It is therefore critical that any amendments to the legislation be aimed at strengthening, rather than weakening, protection so as to facilitate criminal prosecution in appropriate cases and provide a meaningful deterrent against piracy in general.

3.2 We understand that those who have objected to maintaining proper records of licensed software do so because they assume it will have time and cost implications. Such concerns are unfounded. Businesses are already legally obligated to keep various records to comply with the Companies Ordinance and the Inland Revenue Ordinance. The Companies Ordinance makes it mandatory for companies to keep proper books of account with respect to assets and liabilities of the company, monies expended and received etc. for a period of 7 years, while the Inland Revenue Ordinance requires that books of account recording, *inter alia*, receipts and payments to be kept for a period of 7 years, regardless of whether a tax benefit has been claimed with respect to that expenditure. In the latter case, the Inland Revenue Department has issued

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guidelines to indicate that taxpayers must retain records that record and explain all purchase and expense payment transactions and receipts should include information such as the date they bought each asset and how much the assets cost them. Hence, a business entity which is carrying on a business in Hong Kong is currently required to keep records of their software purchases (in the form of receipts or invoices etc) for at least 7 years from the date of purchase.[1]

3.3 We therefore have urged the Administration and now urge LegCo to include a provision in the Copyright Ordinance to expressly allow the court to take into account all circumstances of the case in determining whether a computer program found in a user's computer is an infringing copy, including but not limited to the fact of whether the user in question has maintained proper records as required under the Companies Ordinance and the Inland Revenue Ordinance and related guidelines issued thereunder.

3.4 This minor refinement to the Copyright Ordinance will not result in any additional administrative or other burdens upon businesses. It is simply a reference to existing legislation. It encourages responsible corporate governance by Hong Kong businesses and reinforces current laws. Based on BSA's extensive experience in supporting enforcement authorities over the years, BSA submits that this refinement will significantly help to facilitate the successful enforcement and prosecution of business end-user cases. BSA also submits that this small measure strikes a fair balance between the interests of users and rights holders and urges the Government to adopt this measure to render our copyright laws more effective in application.

3.5 Under its TRIPS obligations, Hong Kong is required to "ensure that enforcement procedures ... are available ... so as to permit *effective* action against any act of infringement of intellectual property rights ... including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements" (emphasis added). Pursuant to TRIPs, the Government shoulders an important responsibility in creating a legislative infrastructure, and providing adequate resources for enforcement, to protect IPR.

3.6 Commenting on the suggestion in the Proposal that the software industry should incorporate technological measures into computer programs to guard against and prove unlicensed usage, we submit that BSA members have indeed invested and will continue to invest considerable resources (through R&D expenditure, personnel cost, etc.) in the development of anti-piracy technologies, including

[1] In our earlier submission "Comments on Review of Certain Provisions of Copyright Ordinance Consultation Document. Commerce, Industry and Technology Bureau" dated 15 February 2005, we set out current record-keeping obligations upon various entities at paragraphs 4.9 to 4.12. A copy of this submission is attached hereto.

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digital rights management solutions and other tools that help in determining whether copies of certain types of software are genuine or infringing. These measures constitute an important part of the overall solution to the piracy problem. However, for several reasons set out in BSA's submission of 15 February 2005 (attached) it is not feasible at this stage for the software industry to develop technology solutions that will completely address the challenges the Government has faced in its enforcement efforts or wholly eradicate piracy. Importantly, enforcement officials in Hong Kong have attempted to pursue criminal end user prosecutions in cases involving software that includes sophisticated anti-piracy technologies (such as mandatory registration and activation), and even in those cases there has not seen a single successful prosecution.

4. Fair dealing for education and public administration

4.1 BSA supports the Proposal and agrees with the Administration that the current exhaustive approach of listing all the copyright exempted acts should be maintained because it is clear, effective and provides legal certainty.

4.2 However, the Proposal also proposes the adoption of a non-exhaustive fair dealing approach for use of copyright works for education and public administration. It is difficult to evaluate this proposal in the abstract, or to envisage the factual circumstances under which an educational institution or public administrative body would require a fair use exemption in relation to the use of otherwise unlicensed software. BSA has a serious concern that an exception along these lines would be subject to abuse and have an inadvertent negative effect in IPR protection in Hong Kong. Moreover, BSA objects to treating for-profit and not-for-profit institutions differently in determining the appropriate scope of the law on end user piracy. TRIPs clearly requires the criminalization of commercial scale piracy – and as recognized by both the drafters of the original April 2001 amendments and LegCo, that includes piracy carried out in a business context by not-for-profit institutions.

4.3 Moreover, in looking at the Proposal, we see that the stated exemption may be misinterpreted to include profit-making educational institutions such as tutorial and computer training centres which would not be aligned with the Administration's apparent intent. .

4.4 Further, the Administration suggests the need for an exception to allow public bodies or the Judiciary in the course of and for the purpose of their efficient administration or "urgent business" to use copyright materials without licence. Again, it is not clear how this need would arise in relation to software and such a provision runs the risk of creating further confusion and ambiguity in a law that

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has already proved to be ineffective. We therefore object to this aspect of the proposal.

5. Circumvention of technological measures for copyright protection

5.1 BSA is generally supportive of the Proposal and appreciates the Administration's efforts to strengthen protection against circumvention of technological measures for copyright protection.

5.2 We note the proposal to give both copyright owners and their exclusive licensees the same entitlement remedies, and agree that this is essential to the effective administration of justice. However, we note that paragraph 31of the Proposal only makes reference to the ability for exclusive licensees to take action against any person who interfere with RMI. We assume that it was also the intention of the Administration that all remedies available under paragraphs 29 and 32 of the Proposal should also be made available to exclusive licensees of copyright owners, and hope this will be clarified in the drafting process.

Conclusion

The BSA appreciates this opportunity to provide initial comments on the latest Proposal by the Administration. We look forward to continued participation in the consultation process and to working with the Government, LegCo, and interested members of the community on these important issues going forward. We also look forward to the opportunity to review and comment on the actual bill in the course of its development.

Business Software Alliance
Hong Kong Committee

11 July 2005

[redacted]

BSA
BUSINESS SOFTWARE ALLIANCE

Comments on
Review of Certain Provisions of Copyright Ordinance Consultation Document
Commerce, Industry and Technology Bureau

15 February 2005

In December 2004, the Commerce, Industry and Technology Bureau (CITB) published a Consultation Document on certain provisions of the Copyright Ordinance to invite views from the community on several important copyright issues, namely (1) fair use exemption; (2) expanding the scope of criminal provisions; (3) relaxing criminal and civil liability pertaining to parallel imported copies of copyright works; (4) defense for employees against end-user criminal liability; (5) proof of infringing copies of computer programs in end-user piracy cases; (6) strengthening protection against circumvention of technological measures; (7) rental rights for films; and (8) expanding the rights of performers and authors of underlying works in phonograms.

1. Introduction

1.1 As an initial matter, the Business Software Alliance (BSA) welcomes the steps taken by CITB to engage in public consultation on these important issues. We do not address each point raised in the Consultation Document but rather have focused our remarks on a number of key issues of particular relevance to the software industry and broader ICT sector in Hong Kong. In particular, we have previously voiced our overarching concerns on the effectiveness and adequacy of the Copyright Ordinance in providing copyright protection against business end-user piracy, and make reference to those past submissions.[1]

1.2 BSA notes with concern that in its lengthy (and in many respects comprehensive) Consultation Document the government does not make meaningful reference to the fact that IP-related crime remains a significant problem in Hong Kong. As one illustration of the scale of the problem, in a global software piracy study conducted by the international technology research firm International Data Corporation (IDC) released in July 2004 (www.bsa.org/globalstudy/), the software piracy rate in Hong Kong in 2003 was estimated to be 52%, resulting in losses to the industry of US$102 million. Hong Kong's piracy rate is well above those of other developed economies in the Asia Pacific region including Taiwan (43%), Singapore (43%), Japan (29%), Korea (48%), Australia (31%), and New Zealand (23%). A 52%

[1] See (i) BSA submission to the Legislative Council dated 30 June 2003, (ii) BSA response to 7 January 2004 letter from CITB dated 12 February 2004, and (iii) BSA response to 26 August 2004 letter from CITB on review of the Copyright Ordinance dated 2 November 2004

software piracy rate is far too high for an economy with Hong Kong's level of development and will certainly inhibit Hong Kong's aspirations of further developing into a knowledge-based economy and building itself into an IT hub for the region.

1.3 Nor does the Consultation Document highlight the difficulties faced by the Hong Kong Customs & Excise Department in enforcing current provisions of the Copyright Ordinance, including in relation to business end user piracy. Indeed, the Consultation Document omits mention of the fact that there has not been a single successful contested prosecution against business end-users who use unlicensed or pirated software within their organizations. In light of this record, it is not surprising that the software piracy rate in Hong Kong over the last four years (since the enactment of the April 2001 amendments criminalizing business end user piracy) has remained essentially unchanged.

1.4 Background information on the extent of business end user software piracy in Hong Kong (including in relation to Hong Kong's neighbors and competitor economies) and the serious problems faced in addressing the problem through enforcement would have given the public a much fuller appreciation of the challenges faced by industry, the negative impact of piracy on Hong Kong's image, reputation and capacity to create an environment in which innovation can flourish, and the need for refinements to the existing legislative infrastructure for enforcement.

1.5 Under the circumstances and as addressed more fully below, BSA's position is that legislative proposals that reduce the scope of protection for copyright works would run counter to the Government's renewed pledge to promote the development of cultural and creative industries, including the computer software industry[2], and the Government's efforts to render Hong Kong a piracy-free destination[3]. Particularly given the high profile publicity brought about by the Government's "No Fakes Pledge" and "Hong Kong – The Real Experience" campaigns in March and April last year, the content of the Consultation Document suggests that the Government may be shifting in the wrong direction – at least with regard to certain categories of piracy -- and sending conflicting messages to the public on the importance of IP protection.

1.6 An annual survey released by the Intellectual Property Department on 18 January 2005 found that a majority of respondents (82%) considered the protection of IP rights to be very/quite helpful to the development of local creative industries and 85.5% considered it definitely/quite necessary for the Government to put more resources in developing creative culture and industries.[4] This is in keeping with an IDC economic impact study commissioned by BSA and released in April 2003 (www.bsa.org/idcstudy) which confirms that reducing the software piracy rate can have a significant positive impact on local economic development and the growth

[2] See http://www.policyaddress.gov.hk/2005/eng/index.htm

[3] See http://www.ipd.gov.hk/eng/pub_press/press_releases/press_release_22032004.pdf

[4] See http://www.ipd.gov.hk/eng/promotion_edu/annual_survey/ipr_biz_summary_2004.pdf

of the IT industry as a whole. In that study, IDC determined that Hong Kong's IT sector, driven by a commercial software industry that has grown about 11% a year, has clearly helped to fuel the overall economy. Sales of domestic software and IT services have averaged 6.7% growth per year, adding US$920 million to the local economy and creating 4,800 new IT jobs between 1995 and 2001. The IDC study also demonstrated that the effective protection of IP rights is an essential ingredient in the continued development of a vibrant IT industry. Indeed, IDC concluded that reducing the software piracy rate in Hong Kong by 10 points could add another US$630 million to the Hong Kong economy and increase local industry revenues by more than half a billion U.S. dollars by 2006. The study also concluded this would generate an additional US$40 million in tax revenues for Hong Kong's government and create nearly 1,500 new high-wage, high tech jobs. A concrete example of the economic benefits of piracy reduction is in the case of Taiwan, which successfully reduced its piracy rate by 23 points to 43% from 1996 to 2002, and saw its software industry more than triple from US$224 million to US$698 million. The multiplier effect resulting from this growth in the software sector helped Taiwan's IT sector pump an additional US$2.45 billion into the economy and create an additional 43,000 jobs.

1.7 Current provisions of the Copyright Ordinance on business end-user software piracy have proven to be ineffective, as demonstrated by the fact that not even one contested end-user case has resulted in a conviction since those provisions came into place in April 2001. It is therefore critical that any amendments to the legislation be aimed at strengthening, rather than weakening, protection so as to facilitate criminal prosecution in appropriate cases and provide a meaningful deterrent against piracy in general. We urge the Administration in developing legislative amendments to ensure that the end result is a law that is effective in application, consistent with Hong Kong's international obligations under the TRIPS Agreement.

2. Copyright Exemption – Fair Use

2.1 BSA suggests that the Government refrain from introducing a general fair use defense without first strengthening the existing law. We note that in discussing the possible introduction of a fair use regime the Administration makes reference to systems in other countries, including the United States. Markets like the U.S., however, have benefited from many years of jurisprudence that has provided the community with considerable clarity on the boundaries of fair use. Moreover, it bears emphasis that the successful implementation of fair use principles depends largely on the extent to which end-users in the community generally understand and have adequate respect for IP rights. In Hong Kong, while there is clearly a growing awareness of the importance of IP (as reflected in IPD's latest annual survey) this has yet to translate to widespread respect for IPR among the general public – as a result of which the piracy rate in Hong Kong continues to far exceed that of many other developed markets (e.g., with regard to software, the piracy rate in Hong Kong is roughly double that of the U.S.). Introducing a fair use system in

the Hong Kong context would be a dramatic shift that runs the risk of creating substantial ambiguity on the parameters of the law. There is a significant danger that, to many, a fair use regime may be misconceived as a free ticket to copying. At a minimum, there would be confusion over the relative rights and obligations of copyright owners and end-users, and significant opportunities for abuse. As exemplified by the high software piracy rate (52%) in Hong Kong, it would be premature at this stage to embrace any non-exhaustive regime of copyright exemption without first ensuring that existing laws can be effectively enforced.

2.2 BSA suggests that the current approach of expressly listing all exceptions to the right of reproduction be maintained to give clear guidelines to end-users as to what will or will not constitute copyright infringement. For end-users, this approach provides greater certainty and avoids unnecessary disputes and litigation. It also strikes a fair balance between the interests of rights holders and end-users. However, we take this opportunity to note that in determining whether an act of copying for research or private study purposes is fair dealing, both a quantitative and qualitative test should be used. Merely using a quantitative test (for example a fixed percentage of work, a number of chapters or a number of words) to determine fair dealing is often unworkable and does not reflect the spirit of fair dealing in its true sense.

3. Defense of Employees Against Criminal Liability for Business End-user Piracy

3.1 The Consultation Document indicates that the Administration is considering adopting an "employee defense" against criminal liability for business end user piracy. For a number of reasons, BSA submits that the introduction of an express defense for certain classes of employees would an inappropriate and unnecessary rollback of the law.

3.2 BSA appreciates the policy objective behind the suggestion of introducing this defense. The proposal is based upon concerns raised over four years ago that intended to address the purported danger that lower-level employees who are given an infringing copy of a copyright work in the course of their employment may be subject to unfair treatment under the law. Experience over the last four years, however, has shown that this concern was unfounded. There is no indication that existing laws operate unduly harshly upon lower-level employees or that such employees are being unjustly targeted by enforcement authorities. On the contrary, of the handful of cases involving business end user piracy that have been formally charged, we do not know of any that have involved charges against lower level employees.

3.3 There is, however, a very real concern that an employee defense would allow decision-makers in businesses increased opportunity to insulate themselves from liability – for example, businesses could be structured in a way that would allow senior members of the organization to deliberately distance themselves from the IT

operations of the business, or to argue that they did not occupy a sufficiently managerial role in the business and thus should be exempt from liability under the employee defense. Further, if such an exemption were provided, employees would have no motivation to object to using infringing copies of copyright works in a business environment.

3.4 Importantly, this is not just a theoretical concern but a reflection of experience in actual cases in Hong Kong. As noted, the Government faces real obstacles in the prosecution of businesses for the use of unlicensed software, and the managers of those businesses. The result is that fewer cases are being pursued by justice and enforcement officials, resulting in a law with little or no deterrent impact. Indeed, BSA members understand that decisions have been made not to proceed with prosecutions in a number of cases – following a raid action – based upon the theory that persons in positions of responsibility generally lack direct involvement in software procurement and installation and therefore lack the requisite knowledge for criminal liability. These cases highlight the further difficulties that would be introduced with a specific employee defense.

3.5 In any case, the current Copyright Ordinance already affords a defense to anyone (whether employees or employers) if they do not know or had no reason to believe that the copyright work provided to them by their employers was in fact an infringing copy – this alone provides ample protection to innocent employees. Where the employees knowingly possess and use pirated software, it is unclear as a matter of principle why such employees should be exempted from liability for using the pirated software whereas they will still be penalized for, for example, handling stolen goods under the Theft Ordinance[5]. The proposed defense would wrongly send the message to the public that one form of theft is of lesser consequence than another. Also, the presence of an express employee defense would create a disincentive for employees to refuse or object to the use of infringing software.

3.6 BSA remains concerned that if an employee defense were introduced, senior members of business organizations could take advantage of the defense and unjustly escape liability by claiming not to have held a sufficiently managerial role so as to preclude the defense from being available to them, or to have delegated IT responsibilities to third parties. And given the reality in Hong Kong that in many small companies even lower-level employees may carry the title of "manager" (whereas those in control of the company may not), such a defense has the potential to create even greater difficulties for the prosecution and would further hinder the effective enforcement of IP rights.

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[5] Under the Theft Ordinance, a person handles stolen goods if (otherwise than in the course of the stealing) knowing or believing them to be stolen goods he dishonestly receives the goods, or dishonestly undertakes or assists in their retention, removal, disposal or realization by or for the benefit of another person, or if he arranges to do so. Any person who handles stolen goods shall be guilty of an offence and shall be liable on conviction upon indictment to imprisonment for 14 years.

3.7 Finally, we also note that a specific employee defense is not available under similar circumstances pursuant to copyright legislation in other markets, including the United Kingdom and the United States. It is unclear why Hong Kong would choose to break new ground in this area, given the rampant problem of business end user piracy. The Government would be sending the wrong message to the local and international community in relation to its stance on IP protection if it were to do so, undermining positive steps Hong Kong has taken over the years to emerge as a regional leader in IPR.

3.8 Rather than include an express employee defense which would be problematic for reasons we have identified, as set forth in the Consultation Document another means of addressing the policy concern in relation to lower level staff would be to introduce "whistle blower" protection for employees. Employee protection provisions can be designed to prohibit an employer from discharging or otherwise discriminating against any employee with respect to the employee's compensation, terms, conditions, or privileges of employment because the employee engaged in specified "protected" activities. The protected activities typically include initiating, assisting or participating in proceedings for the enforcement of applicable law. Suggested text for a provision of this type is included at Appendix 1.

3.9 Even if it were determined to introduce a specific employee defense -- despite clear indications of the need to strengthen rather than roll back copyright protection – BSA submits that the defense would need to be carefully structured so as to minimize the potential for abuse. For example:

3.9.1 The onus would need to be on employees wishing to avail themselves of the defense to first establish that (i) they are employees as defined under the Employment Ordinance, and (ii) they are not directors, corporate officers, proprietors, or managers or employees having managerial functions; and

3.9.2 As a pre-condition, employees would also need to be required to identify the person who actually provided the infringing copy to them. Based on the employee defense rationale, the source of the infringing copy must be identified as the employer himself or someone acting on his behalf as part of this pre-condition. (As indicated in the Consultation Document, one of the concerns with the proposed employee defense is that it would not require the employee to identify the person within the business who provided them with the infringing copy, thus leaving enforcement authorities without a personal defendant against whom action can be taken.)

Without precautionary mechanisms such as those suggested in this paragraph, an express employee defense would be easily abused and would inevitably create even more obstacles to IPR enforcement. Under the structure proposed above, "whistle blower" protection for employees who have valid information about piracy would be an important addition to the law, and would also promote corporate accountability, responsible governance, and ethical business conduct..

4. Proof of Infringing Copies of Computer Programs in End-user Piracy Cases

4.1 Experience to date demonstrates that enforcement efforts against business end user piracy have stalled or been unsuccessful in part due to the fact that such cases frequently do not involve direct evidence (e.g., testimony from live witnesses) that a computer program installed in a computer is an infringing copy. As indicated in the Consultation Document, these cases often turn on circumstantial evidence, but frequently even circumstantial evidence – whether inculpatory or exculpatory – is difficult to obtain. One reason, as referred to in the Consultation Document, is that there is currently no requirement for businesses to keep records demonstrating that the computer programs being used are legitimate copies. As a result and as noted, few cases have proceeded to trial and every contested case that has gone to verdict has resulted in acquittal. As far as BSA is aware – in an environment where over half of business software in use is pirated -- there is now only 1 criminal end-user software piracy case that will proceed to trial in the near future.

4.2 It is apparent that the lack of progress of business end-user software piracy enforcement and prosecutions is in no small measure due to the challenges associated with applying the law in its current form. The current legislation has clearly proved an ineffective deterrent to business end-user piracy; it is not a solution (as suggested in the Consultation Document) to maintain the status quo and await further enforcement experience before determining whether refinements to the law ought to be made, particularly while industry continues to suffer losses and Hong Kong continues to fall behind other developed economies in the Asia Pacific region in its efforts to reduce its piracy rate.

4.3 Nor is it feasible to rely solely upon industry to address the piracy problem in Hong Kong through technological measures. To be clear, BSA members have invested and will continue to invest considerable resources (through R&D expenditure, personnel costs, etc.) in the development of anti-piracy technologies, including digital rights management solutions and other tools that help in determining whether copies of certain types of software are genuine or infringing. These measures are an important part of the overall solution to the piracy problem. However, for a number of reasons it is not possible at this stage for the software industry to develop technology solutions that will completely address the challenges the Government has faced in its enforcement efforts or wholly eradicate piracy. The Consultation Document seems to suggest that this could be achieved (e.g., through a system of mandatory end-user registration) by industry with little difficulty and in a manner consistent with market forces; this does not reflect the commercial reality, particularly in light of consumer expectations in relation to software that is deployed across hundreds of millions of PCs around the world.

4.4 First, there are literally thousands of software developers worldwide and tens of thousands of software programs on the market. It is simply not technologically or economically feasible for software developers to re-engineer all of their products

on a prospective basis to include the type of anti-piracy technologies envisaged by the Government. To obligate all software developers to do so would have global ramifications, and may impact the ultimate price of software.

4.5 Second, even if this were possible, and although BSA's member companies have invested and will continue to invest in research and development to safeguard their software products against piracy, as quickly as software developers deploy anti-piracy technologies, increasingly sophisticated cyber-criminals attempt (and, unfortunately, sometimes ultimately succeed) to circumvent them. Indeed, it is in recognition of this problem that the Hong Kong Government and many other governments have incorporated anti-circumvention provisions into legislative regimes, and the Administration is now considering further expanding those provisions (see discussion below).

4.6 Third, even assuming the existence of fool-proof anti-piracy technologies that all software developers could affordably develop and incorporate into new releases, such technologies would do nothing to address the piracy problem in relation to products currently on the market and for which there is now -- and for some time in the future will be -- large consumer demand.

4.7 Fourth, the Consultation Document overlooks the experience in actual business end-user software piracy cases in Hong Kong. There are currently enforcement challenges - and a lack of prosecution success – in Hong Kong even with respect to software which already embodies sophisticated anti-piracy technologies, including mandatory registration and activation.

4.8 Finally, we note that under its TRIPS obligations, Hong Kong is required to "ensure that enforcement procedures ... are available ... so as to permit *effective* action against any act of infringement of intellectual property rights ... including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements"[6] (emphasis added). Pursuant to TRIPs, the Government shoulders an important responsibility in creating a legislative infrastructure, and providing adequate resources for enforcement, to protect IPR. We also note that IPD's most recent annual survey of the public demonstrated that nearly half of people surveyed believe that the government should play the dominant role in improving the IP situation (with only 7.8% of respondents believing that copyright owners should play a dominant role).

4.9 Turning now to BSA's proposal for the introduction of a record-keeping provision in the Copyright Ordinance, we would like to highlight that software end-user piracy is an extremely technical offence, the proof of which is inextricably tied to applicable software licenses and the ability of users to demonstrate whether they are properly licensed to use software they have deployed. BSA believes that – in recognition of the primacy of the licensing relationship in these cases – one possible solution is to amend the law to include provisions requiring businesses to

[6] Article 41, Section 1, Part III of Agreement on Trade-related Aspects of Intellectual Property Rights

retain records relating to their software assets for a reasonable period of time. BSA submits that this would not impose undue burden on end-users and would be consistent with Hong Kong's overall regulatory framework. Indeed, there are currently laws in place such as the Companies Ordinance, which make it mandatory for companies to keep proper books of account with respect to assets and liabilities of the company, monies expended and received etc. for a period of 7 years[7], while the Inland Revenue Ordinance requires that books of account recording, *inter alia*, receipts and payments to be kept for a period of 7 years, regardless of whether a tax benefit has been claimed with respect to that expenditure.[8] In the latter case, the Inland Revenue Department has issued guidelines[9] to indicate that taxpayers must retain records that record and explain all purchase and expense payment transactions and receipts should include information such as the date they bought each asset and how much the assets cost them. Hence, a business entity which is carrying on a business in Hong Kong is currently required to keep records of their software purchases (in the form of receipts or invoices etc) for at least 7 years from the date of purchase.

4.10 In the circumstances, we suggest bringing across existing record-keeping obligations under the Companies Ordinance and Inland Revenue Ordinance into the Copyright Ordinance by introducing language set out in Appendix 2, and clarifying that software-related records are records that companies are currently required to retain. As software assets are one type of corporate asset, record-keeping obligations relating to corporate assets (including software), and applicable penalties for the failure to comply with those obligations, should be consistent between the Companies Ordinance and Inland Revenue Ordinance on

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[7] Under section 121 of the Companies Ordinance, every company shall cause to be kept proper books of account with respect to- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (b) all sales and purchases of goods by the company; and (c) the assets and liabilities of the company. Any books of account which a company is required by this section to keep shall be preserved by it for 7 years from the end of the financial year to which the last entry made or matter recorded therein relates. If any person being a director of a company fails to take all reasonable steps to secure compliance by the company with the requirements of this section, or has by his own willful act been the cause of any default by the company thereunder, he shall, in respect of each offence, be liable to imprisonment and a fine, provided that - (a) in any proceedings against a person in respect of an offence under this section consisting of a failure to take reasonable steps to secure compliance by the company with the requirements of this section, it shall be a defense to prove that he had reasonable ground to believe and did believe that a competent and reliable person was charged with the duty of seeing that those requirements were complied with and was in a position to discharge that duty; and (b) a person shall not be sentenced to imprisonment for such an offence unless, in the opinion of the court dealing with the case, the offence was committed willfully

[8] Section 51C of the Inland Revenue Ordinance provides that every person carrying on a trade, profession or business in Hong Kong shall keep sufficient records in the English or Chinese language of his income and expenditure to enable the assessable profits of such trade, profession or business to be readily ascertained and shall retain such records for a period of not less than 7 years after the completion of the transactions, acts or operations to which they relate. "Records" includes - (a) books of account (whether kept in a legible form, or in a non-legible form by means of a computer or otherwise) recording receipts and payments, or income and expenditure; and (b) vouchers, bank statements, invoices, receipts, and such other documents as are necessary to verify the entries in the books of account referred to in paragraph (a). Any person who without reasonable excuse fails to comply with the requirements of section 51C shall be guilty of any offence. Penalty - a fine at level 6 (HK$100,000) and the court may order the person convicted within a time specified in the order to do the act which he has failed to do

[9] http://www.ird.gov.hk/eng/tax/bus_rbk.htm - A Guide to Keeping Business Records, Part 4 - Records of purchases and expenses

the one hand and the Copyright Ordinance on the other to avoid confusion when it comes to asset management. This would provide greater certainty not just for enforcement authorities and Courts when it comes to determining whether an entity is using legitimate software, but it would also provide certainty to the end-user entity. Under this proposal, a defendant would be able to discharge its obligation by production of any combination of the following which may be considered acceptable proof of license:

(i) Receipts evidencing purchase of software programs
(ii) License agreements
(iii) Certificates of authenticity with product identification codes.

The adequateness of such retained records would then be a relevant consideration for a court when determining the end-user offence[10]. It is envisaged that this record-keeping provision would have prospective application.

4.11 Apart from those companies and business entities governed by the Companies Ordinance and Inland Revenue Ordinance, there are other types of entities and vehicles which have certain record keeping obligations under their respective legislation:

4.11.1 Societies[11] - Registered societies may be required, by request of the Societies Officer, to furnish such information as he may reasonably require for the performance of his functions, which may include the income, the source of the income and the expenditure of the society or its branch.[12]

4.11.2 Schools are obliged to maintain proper books of account and other financial and accounting records and auditors of schools are entitled to inspect the books of account and all vouchers, receipts, invoices, documents and records in the committee's control which are relevant to the financial transactions of the management committee.[13]

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[10] We note that the presence and adequateness of software records is a relevant consideration in jurisdictions such as Taiwan. In a recent Taiwan case against Archlead Technology Co., Ltd., Tseng Chieh-hsiang, Pei Chia-yu and Sheng Fieh-kang (2003 Yi Tzu No 1276), the defendant Tseng Chieh-hsiang was found guilty of illegally reproducing computer software (through multiple installation) because, amongst other things, he failed to provide the court with genuine optical disks or diskettes, software end-user licensing agreements, manuals or Certificates of Authenticity or legal serial numbers for verification.

[11] The Societies Ordinance (Cap 151) section 2 defines "society" (社團) as any club, company, partnership or association of persons, whatever the nature or objects, to which the provisions of this Ordinance apply - which may include charitable societies and political societies.

[12] Societies Ordinance (Cap 151) section 15(1) - (1A).

[13] Education Ordinance (Cap 279) section 40BB.

4.11.3 Universities, which are exempted from the Education Ordinance, have their own ordinances that require proper accounts to be maintained regarding the expenditure and assets of the university.[14]

4.11.4 The college councils of post secondary colleges are required to make all "books of accounts, receipts, vouchers, etc." available for inspection by the Permanent Secretary for Education and Manpower.[15]

4.12 To be clear, this is not in any way a proposal to shift the burden of proof, as the onus of establishing a case to meet the high standards of criminal prosecution would still lie with the Prosecution. Based upon extensive experience in working with enforcement authorities in Hong Kong, BSA submits that the imposition of record-keeping obligations upon business software end-users would indeed greatly help to facilitate successful enforcement and prosecution in this area. The proposal relating to record-keeping strikes a fair balance between the interests of users and rights holders. The obligation to keep records of software assets would not be unduly burdensome on companies and businesses and is in fact consistent with their current record-keeping obligations.

5. Circumvention of Technological Measures for Copyright Protection

5.1 The BSA notes with concern the increasing availability of circumvention devices in Hong Kong. A circumvention device (which can include a computer program) is one which is primarily designed or adapted for the purpose of circumventing a technological measure that effectively controls access to a protected copyright work. To circumvent a technological measure would include the descrambling of a scrambled work, decrypting an encrypted work or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner. A technological measure effectively controls access to a work if the measure, in the ordinary course of its operation, requires the application of information or a process or a treatment, with the authority of the copyright owner, to gain access to the work.

5.2 The WIPO Copyright Treaty requires the provision of "adequate legal protection and effective legal remedies against the circumvention of effective technological measures" that copyright owners use to "restrict acts, in respect of their works, which are not authorized by the authors concerned or permitted by law." Existing Hong Kong law provides certain protections against circumvention of copy protection employed in computer programs and other works. However, the law is ambiguous in a number of areas and clarification is required to cover all three areas of access control technologies, acts of circumvention and circumventing components.

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[14] See for example The University Of Hong Kong Ordinance (Cap 1053); The Hong Kong Polytechnic University Ordinance (Cap 1075) Section 14; and The Chinese University Of Hong Kong Ordinance (Cap 1109) Schedule 1.

[15] Post Secondary Colleges Regulations (Cap 320A) regulation 9.

5.3 As pointed out by the Working Group on Digital Entertainment, it is important that the Government consider criminalizing the offence of knowingly making or selling devices designed or adapted to circumvent copy-protection measures employed by copyright owners[16].

5.4 BSA supports the introduction of criminal sanctions against manufacturers, suppliers or distributors of circumvention devices. Further, both civil and criminal liability should be introduced to restrict the making or dealing in devices or means designed to circumvent access control measures and the act of circumvention. However, any such liability would only arise if an act of copyright infringement has been committed, and liability would not attach in cases involving access controlled works for which copyright has expired.

6. Other Gaps in the Legislation

6.1 There are several other aspects of the Copyright Ordinance left unaddressed by the Consultation Document. These include, but are not limited to, issues in relation to Internet piracy and the absence of statutory damages.

6.2 Liabilities of Internet Service Providers:

6.2.1 Given the high broadband penetration rate in Hong Kong, it is increasingly important for the government to address the problem of Internet piracy. This kind of software piracy is seriously prejudicial to the business interests of copyright owners and oftentimes is not carried out in a typical commercial setting. Currently, BSA is addressing the issue by sending requests to various ISPs in Hong Kong for take-down notices. However, we have found such efforts not to be effective, particularly as ISPs are generally reluctant to forward such notices to their customers short of a positive legal obligation to do so, and particularly given the specific challenges posed by P2P technology. The effectiveness of these efforts could be substantially improved if ISPs were obliged to (i) remove or take down known websites offering pirated software, (ii) cooperate with enforcement bodies in tracing such websites, and (iii) convey take-down notices to the ISPs' end-customers.

6.2.2 Hong Kong is unfortunately lagging behind other Asian countries in this respect.[17] BSA urges the Government to make reference to the U.S Online

[16] Report of the Working Group on Digital Entertainment, September 2003

[17] In Korea, for example, a proposed legislation to narrow the scope of the exception for reproduction for private use has been introduced by a bipartisan group of 21 members of the National Assembly. It was felt that rapid development in automatic reproduction technology and the creation of vast digital network environment gravely threatened to deprive copyright holders of their rightfully deserved profits and thus an appropriate sanction was promptly needed. The revised legislation will still allow reproduction for private use but exclude as an exception to infringement any cases of knowingly copying contents that are reproduced through breach of copyrights and are distributed, broadcast and transmitted without proper rights. The proposal aims at denying the shelter of the exception to copyright of works in the P2P context.

Copyright Infringement Liability Limitation Act (a portion of the Digital Millennium Copyright Act), taking into account new technologies such as P2P, to consider the adoption of further measures to address the problem of online piracy, which is growing at an alarming rate. .

6.3 Statutory Damages:

6.3.1 It is often difficult for right holders to assess actual losses attributable to an infringer's activities and hence the amount of damages recovered in civil cases often fail to deter infringement. BSA supports the implementation of statutory damages to permit right holders to ask the court to determine damages for each work infringed based on a statutory range rather than on proof of actual losses. Such provisions will also ensure that Hong Kong complies with its obligations under Article 41 of the TRIPs Agreement to provide copyright holders with civil enforcement procedures that "permit effective action" against acts of copyright infringement, including "remedies which constitute a deterrent to further infringements".

7. Conclusion

Again, BSA appreciates this opportunity to provide comments on the Consultation Document and the Government's proactive engagement of the public on intellectual property issues. We look forward to continued participation in the consultation process and to working with the Government, LegCo, and interested members of the community on these issues going forward.

Business Software Alliance
Hong Kong Committee
15 February 2005

Appendix 1

"No employer shall terminate the contract of employment with or in any manner discriminate against any employee solely on the ground that such employee:

(a) has filed any complaint or instituted or caused to be instituted any investigation or proceeding under or related to an offence under subsection (1);

(b) has testified or is about to testify in any proceedings under or related to an offence under subsection (1);

(c) has provided information or other assistance in connection with an investigation or proceeding under or related to an offence under subsection (1)."

Appendix 2

118(8B) *A person who conducts a trade or business shall keep records of all computer programs licensed for the purpose of any trade or business. Any records which a person is required by this section to keep shall be preserved by it for 7 years from the date of transaction by which the computer program in question was acquired or licensed. In this section, "records" include purchase receipts, certificates of authenticity, and end-user licenses in any media.*

(8C) *For the purposes of any proceedings for an offence under subsection (1), the court shall take into account the following factors:*

(a) *whether the person charged had reasonable grounds to be satisfied in the circumstances of the case that the copy was not an infringing copy;*

(b) *whether there were circumstances which would have led the person charged reasonably to suspect that the copy was an infringing copy;*

(c) *the completeness, accuracy and reliability of the records retained by the person charged pursuant to subsection (8B).*