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Workshop C&D, 1<sup>st</sup> Floor, Leroy Plaza,  
15 Cheung Shun Street, Cheung Sha Wan  
Kowloon, Hong Kong  
Tel (852) 2750 5595 Fax: (852) 2750 5609

15 August 2005  
Our Ref: HKVDF002/05

Commerce and Industry Branch  
Commerce, Industry and Technology Bureau  
Level 29, One Pacific Place  
88 Queensway, Hong Kong

Via email: [co\\_review@citb.gov.hk](mailto:co_review@citb.gov.hk)

Dear Sirs,

RE: **HKVDF IN RESPONSE TO PARALLEL IMPORTATION ISSUE  
OF THE COPYRIGHT ORDINANCE**

We refer to our meeting at your office in the afternoon of July 29, 2005 and the participants were all perplexed as why it turns out that the criminal remedy for parallel importation could possibly become one of the major issues in the proposed amendment of the Copyright Ordinance.

Upon the discussion of this matter with our members, it is concluded that we must submit our **objection** to any idea of **shortening the period of criminal sanction in the strongest possible term**. We hereby urge the Government to consider our original 1997 proposal that **the period of criminal sanction against parallel importers** (and persons who deal with or use the imported copy in business context) in Hong Kong **be extended** from 18 months **to 24 months**.

The consensus among our members is that it is inconceivable and indeed, misconceived, for the Government to explore the idea of the shortening the period of protection against parallel importers and commercial users of parallel imported copies by way of criminal sanction at this stage in the context of our social and economic development, which no doubt, the film industry does play a cultural role in Hong Kong.

For the avoidance of doubt, we hereby reiterate our views on the parallel importation of film in our earlier submissions to you and in particular our submissions on 25 November 2003 and 15 February 2005 respectively.

It appears that there may be some misunderstanding or confusion as why we need to have parallel importation policy for film industry and we wish to make our further comments as follows:



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## A. THE LEGAL FRAMEWORK AND PARALLEL IMPORTATION

### 1. The Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS Agreement")

- a. TRIPS Agreement was concluded in 1994 as a package together with the objective of international free trade under GATT/WTO Agreement<sup>1</sup> and yet there were many strong voices against any free trade idea be applicable to the intellectual property goods. The main issue among the prevailing view of the developed countries is that, importation right concerns an important aspect of economic right for exploitation of intellectual property goods equal to that of production and sale. The goods are the products of the creativity and innovation which requires substantial investment both in people and infrastructure.
- b. In order to overcome the standstill situation, Article 6 of the TRIPS Agreement now provides that the matter of exhaustion of right is a matter for each member to decide in accordance with its social and economic development<sup>2</sup> and that no complaint can be heard under WTO dispute mechanism in respect thereof.
- c. This allows each member of WTO may erect a barrier to, or prohibit parallel importation of, intellectual property goods into its own state from the other country even though the goods is lawfully made and sold in that country from which the goods is subsequently exported into that member state under the WTO regimes.
- d. Article 9 of the TRIPS Agreement provides that WTO members shall comply with Articles 1 through 21<sup>3</sup> of the Berne Convention and the Appendix thereto.
- e. Article 14 of the Berne Convention provides for the right of the author to have his work expressed and exploited in the form of cinematographic works.

<sup>1</sup> The general principle of the GATT/WTO Agreement is concerned with removing rather than erecting trade barriers but not so for intellectual property goods.

<sup>2</sup> Article 7 of the TRIPS Agreement provides that "The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation to the mutual advantage of producers and users of technological knowledge in a manner conducive to social and economic welfare and to a balance of rights and obligations."

<sup>3</sup> Except the provisions on the moral rights as set out in article 6 bis of the Berne Convention.



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- f. However, under the Berne Convention<sup>4</sup>, the right of distribution is explicit only in the case of works adapted for cinematographic works (Article 14) and for cinematographic works themselves (Article 14 bis)<sup>5</sup>.
- g. In the case of copyright, the copyright owner may divide the world into geographical markets or license others to reproduce and/or distribute its work, this has been the usual window of exploitation of film work, the prohibition of parallel importation is to protect the importation right of the copyright owner or its licensee of that member and indirectly, its domestic distribution right, against any foreign import of copies of that work which are manufactured and sold lawfully by different licensees in the country from which the copies are imported into that member state<sup>6</sup>.
- h. The view is that a parallel importer which imports copies of a copyright work not of the origin of the licensee in that member state will, for all intents and purposes, be considered as an unauthorized distributor taking "free ride" on the copyright owner's or its licensee's marketing and promotional activities in that member state.
- i. If authors lose control over the distribution of their creations and licensees end up competing with lower-priced copies intended for different markets, authors may also lose their incentive to create, depriving consumers of works of authorship<sup>7</sup>.
- j. WTO/TRIPS Agreement recognizes the importance of the importation right for the protection of the domestic distribution right of cinematographic works.
- k. In this connection, we wish to refer you to Paragraph B (7) of our submission to you dated 15 February 2005 regarding the obligations for compliance of TRIPS Agreement on the part of Hong Kong.
- l. Therefore, the provisions for criminal sanction against parallel importer of copies of a copyright work (now except computer program) as originally enacted in 1997 are certainly within the scope of Article 61 of the TRIPS Agreement.

<sup>4</sup> Hong Kong is a member of Berne Convention and also of World Trade Organization and therefore a signatory of TRIPS Agreement.

<sup>5</sup> Article 14 bis provides that a cinematographic work shall be protected as an original work.

<sup>6</sup> See 17 U.S.C. Section 602(a) of U.S. Copyright Act. Also U.S. Supreme Court case of Quality King Distributors Inc. v. L'Anza Research International Inc., No. 96-1470, decided on 9 March 1998 rules that section 109 (a) makes it clear that the first sale doctrine applies only to copies that are lawfully made in U.S. not those made under the foreign copyright law.

<sup>7</sup> Our submission to the Legco panel on commerce and industry on 11 July 2005.



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## 2. The Hong Kong Copyright Ordinance

- m. Section 22 (1) clearly provides that the owner of the copyright in a work has, in accordance with the following provisions of this Division, the exclusive right to do the following acts in Hong Kong. This means that Hong Kong copyright law only protects the copyright owner in Hong Kong not copyright owner in Singapore or Mainland China.<sup>8</sup>
- n. Section 22 (1) (b) clearly provides that the Hong Kong copyright owner has the exclusive right to issue copies of the work to the public (known as the distribution right).
- o. Hong Kong copyright owners of film work have always operate different windows of commercial exploitation by dividing their copyright into different geographical regions and in different time frames for such geographical regions as they do not have the resources to market the films by themselves. The Hong Kong Copyright Ordinance<sup>9</sup> provides such division of copyright into different regions and in different time frames.
- p. Prohibition of parallel importation allows the investors/producers of the film in Hong Kong to exploit different markets by way of different pricing according to their respective social and economic developments.
- q. As pointed out above, under the Hong Kong Copyright Ordinance, the importation right is to protect the economic rights of production and distribution or sale of the copyright owner in Hong Kong, not copyright owner of Singapore or Mainland China of the same copyright work.
- r. The Hong Kong economic policy is to build a knowledge-based economy and be a regional creative center, any legislation which is in support of this economic policy will foster the investment in the creative content industry in Hong Kong.
- s. Hong Kong is perfectly entitled to build a knowledge-based economy and to establish a creative center of intellectual property goods, which requires a well established and well enforced copyright law including the granting of the Hong Kong copyright owner an exclusive importation right<sup>10</sup> in order to protect the right of production and the right of the distribution of its copyright work.

<sup>8</sup> Mega Laser case confirms that Hong Kong Copyright law protects Hong Kong Copyright owner only (CRIMINAL APPEAL NO. 453 OF 1998 - judgment delivered on 10 June 1999)

<sup>9</sup> Sections 101 and 194 (1) of the Copyright Ordinance refer.

<sup>10</sup> In U.S. Copyright Act, the domestic distribution right exists separately and apart from the foreign importation right Section 602(a) forbids the unauthorized importation into the U.S. copies of a work



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- t. Therefore, there is no dispute that prohibition of parallel importation of copyright works is part of the economic policy of Hong Kong.

## B. CRIMINAL SANCTION AGAINST PARALLEL IMPORTED COPIES

### 1. The 1997 Legislation Of The Copyright Ordinance

- a. The film industry was, at all material times, and still is of the view that in order to capitalise its investment on films and to make Hong Kong as the Hollywood of the East and to attract the investment and production of more joint venture firms with the major film studios in U.S and other countries, Hong Kong needs more than 18 months protection period for criminal sanction against unauthorised<sup>11</sup> parallel imported copies and in fact 24 months will be the minimum or the least period of protection for a Hong Kong film newly released in Hong Kong, this view had been made it categorically clear to the Government prior to the enactment of the Copyright Ordinance in 1997.
- b. One of the key issue raised in the 1997 enactment was that usually, videograms such as VCD, laser disc and videocassettes of a motion picture would only be released to the market in Hong Kong or elsewhere at least 6 months after theatrical release of that film in Hong Kong, this practice applied to both Hong Kong made and foreign made films.
- c. At the end of the day, the Copyright Ordinance was enacted and passed into law on 27 June 1997, our members which are the key distributors of films in Hong Kong have therefore relied heavily the protection given by the Copyright Ordinance as a yardstick to do business and/or invest here in Hong Kong. The law as we understood at all the material times and still understand is that the 18 months period for criminal sanction against parallel importers and commercial end users commences on the first day of the issue of copies of a film in Hong Kong and elsewhere and the legal framework is set out as follows:
- (i) For the purpose of calculating the 18 months period, the date begins the first day of publication in Hong Kong or elsewhere<sup>12</sup>, and
  - (ii) Section 196 (4) (c) (i) of the Copyright Ordinance provides that "in the case of a sound recording or film, the playing or

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that have been acquired outside the U.S., and makes the unauthorized importation an infringement of the Section 106(3) distribution right, actionable under Section 501

<sup>11</sup> Unauthorized means those infringing copies as defined in Section 35 of the Copyright Ordinance.

<sup>12</sup> Section 35 (4) of the Copyright Ordinance refers.



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showing in public does not constitute publication.<sup>15</sup> This means that the commencement date of the 18 months period is the date on which the first day of the issue of copies of a film to the public legally in Hong Kong or anywhere in the world and not on the first day of the showing or playing of the film in a cinema.

- (iii) Therefore, for all intents and purposes, as related to film work, it had 24 months protection period from the date of the first theatrical release of that film work in Hong Kong at that time (as we had 6 month window between the first theatrical release of a film and the issue of copies of that film in the format of VHS/LD/VCD in Hong Kong during the 90.s) and the investment and the commercial exploitation of films by our members including the amount of the license fees and of the license periods have always been on that basis. Our business model has been evolved from and under the legal framework of the Copyright Ordinance.
- (iv) In other words, for all practical purposes, the period of the protection of a film work have always been 18 months from the date of the release of the copies of the film work to the public and not on the basis of the first day of theatrical release.
- (v) The first day of the issue of the copies of a film in Hong Kong or elsewhere may be 1 or 6 or 12 months from the first day of the theatrical release of that film in Hong Kong but the period of protection against parallel imported copy by way of criminal sanction has always been 18 months from the first release day of the copies of a film to the public in Hong Kong or elsewhere.
- (vi) The criminal remedy provides an effective deterrence measure against parallel importers and commercial users of parallel imported copies, otherwise, the copyright owners will have to incur substantial costs to police and litigate against the parallel importers which will pass on to the consumers at the end of the day during the most important exploitation window period of the newly released film.

## 2. The 18 Months Protection Period For Films By Way Of Criminal Sanction

- d. The issue here is not the illegal or infringing copies imported or to be imported from overseas which is always within the scope of the

<sup>15</sup> Section 196 (1) defines "Publication", in relation to a work, means the issue or making available of copies of the work to the public and related expressions is construed accordingly.



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criminal sanction under section 118 of the Copyright Ordinance. The issue is related to any parallel importation of a copy of a film which refers to copies **legally** made and sold in the country from which it is subsequently exported to Hong Kong.

- e. For the purpose of illustration, if the first day of publication, i.e. issue of "legitimate copies", of a film, is 15 August 2005 and Australia is the first country in the world to make issue and sell legally copies of that film, the date of protection period of 18 months commences from 15 August 2005 even though Hong Kong has not yet released any copy of that film to the public.
- f. Hong Kong copyright owner or exclusive licensee of that film can make a complaint to Customs and Excise Department against any parallel importers or commercial users of copy lawfully made in Australia within 18 months from 15 August 2005 to 14 February 2007. It does not matter whether that film was first theatrical released to the public 1 or 6 or 12 months ago in Hong Kong or U.S. or Australia.
- g. It is plainly obvious that until and unless there is a legitimate copy of a film first made and released in a market anywhere in the world, parallel importation will never be any issue for Hong Kong copyright owner or its exclusive licensee.

Parallel importation will only come into play when the first copy of a film is made and released legally anywhere in the world and any parallel importer may source its supply of the legal copy of a film made elsewhere and export it into Hong Kong.

Prior to such first release of legitimate copy, any copy in the market must be illegal and any importation of such infringing copy of a film into Hong Kong will commit a criminal offence and this is not subject to 18 months period which applies to parallel imported copy only.

- h. In other words, any suggestion that the period of protection by way of criminal sanction be reduced because the first day of publication of a Hong Kong film has moved from 6 months in the year of 1997 to one month in the year of 2005 from its first day of theatrical release of a Hong Kong film in question in Hong Kong is misconceived and misleading.
- i. Needless to say, any reduction of protection period will drive the license fees down which only discourages any investment on film industry and the industry of information technology will have to depend on the imported contents and our past effort in building a film industry will be effectively down to drain simply by a stroke of a pen in our copyright law.



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- j. Those persons who are responsible for the demolition of the Hong Kong film industry owe to our next generation as they have effectively deprived their chance of working in a creative film industry which used to play a very important cultural role in Hong Kong.

3. The Predicaments of the Film Industry in Hong Kong

- k. The rampant piracy of film work in Mainland China has been well documented and noted since 1999. The practical effect is that the pirated copies of a film in the format of VCD and DVD are available openly in the market place in Mainland China during, or even prior to (in some cases), the theatrical release of that film, and, no doubt, many copies are imported to Hong Kong for further distribution.
- l. It has brought and still brings economic disaster to the producers and the local VCD/DVD manufacturers and the distributors of the film.
- m. Either the investor/producer of a film simply shuts off Mainland China market and let the makers of the pirated copies profit themselves or the investor/producer assigns or licenses exclusively its copyright in respect of that film to a film distributor in Mainland China for whatever it is worth in order to combat against the piracy of its film work and to minimise its loss.
- n. Hong Kong investor/producer has taken the latter course but it pays a price as China distributor must release as soon as the film is theatrically released in Hong Kong and/or in China in order to capture back part of the piracy market shares of DVD/ VCD.
- o. However, the price of the copies made and sold in China must be very low compared to Hong Kong due to large discrepancy in term of the per capita income between Hong Kong and China.
- p. In order to protect the copyright owner or exclusive distributor of that film in Hong Kong, the Hong Kong distributor must also release the film in the format of DVD/VCD as soon as China distributor releases the DVD/VCD of the film in China. Otherwise, the Hong Kong end users may simply obtain copies of the film in China if there is no legitimate copy of the film available in Hong Kong market.
- q. In a practical term, the period of protection of 24 months period from the date of first theatrical release of a film has been effectively down to more or less 18 months. This has disturbed the commercial exploitation windows of releasing the copies of DVD/VCD in different markets in the world. The investors/producers of the films attempt to have all their films release theatrically in the world market within a short period of time as





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no cinema will take on the pictures of which DVD/VCD have been widely available in the market place. More importantly, more countries will release copies of that film to their respective market places sooner rather than later which is different from the arrangement made in the year of 1997.

- r. The end-result is that parallel importers would now have more market places in the world available to them for sourcing the copies of a film than it used to have in the year of 1997.
- s. If investors/producers are forced to compete with cheaper imported copies of their works, the damage will be no difference than if rampant reproduction are permitted. The result is that it will destroy any incentive for further investment and creation of film work in Hong Kong. The flood of the cheapest product would drive the film companies out of the business. The criminal remedy for prohibition of parallel importation of copies of film work must therefore be maintained.
- t. The window of commercial exploitation in the form of the release of DVD/VCD in respect of a film has now been effectively changed. Any further reduction of the protection period will mean fewer dollars in term of license fees to the investors/producers of the films and will be to the point that it is meaningless to invest or make any Hong Kong film as the investors/producers can hardly recoup their investment let alone any profit making therefrom.
- u. The problem of on-line piracy creates further hardship on Hong Kong film industry and perhaps, it may now wish to turn to consider the exploitation of its films in the digital media as soon as the digital copyright law including the legal protection of the digital right management systems has been in place.
- v. The opportunity to exploit the advanced digital information technology by way of digital publication means that the period of protection must be more than 18 months as the pricing pressure of the parallel imported copy of a film will make any digital publication of that film unattractive for both the electronic publishers and the copyright owner of the films even if all the digital copyright law is in place. The information technology and the contents providers/creators will be the losers.

**C. THE EFFECT OF ANY REDUCTION OF THE 18 MONTHS PERIOD ON FILM INDUSTRY**

- a. The 18 months restriction were to be shortened, it definitely will discourage distributors from licensing independent films from Hong Kong and overseas when their huge marketing money will only help



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boosting parallel imported copies and the price of the license fee will be dropped exponentially. It is expected the license fee will be dropped by 50% if the protection period is reduced to 12 months and down to only 25% if it is reduced to 9 months. The marketing cost for promotion, theatrical release and the publication of the film work are prohibitive expensive in the absence of adequate and effective legal protection against parallel importation of films.

- b. The end result is that it is even more difficult to get the financing for the production of films here in Hong Kong despite of the government's effort to facilitate the development of film industry in Hong Kong. The investor/producers of the films will move to other countries which have a better copyright protection regime.
- c. It takes 8 years for the film industry to get to the equilibrium point of new eco-system under the Copyright Ordinance of doing business in the film industry, any shortening of the protection period by way of criminal sanction will disturb the eco-system with a devastating effect which no one could dare to imagine.
- d. We, on behalf of our members, must vigorously oppose or object to any proposal on the shortening of the 18 months period of protection. This is our lifeline. We have been doing and investing film distribution business in Hong Kong based on the said 18 months copyright protection window for the issue of copies of film work to the public since 27 June 1997.
- e. On the other hand, we do urge the Government to consider to extend the period to 24 months if the Government is mindful to support and build a digital e-commerce center for films and other content industry which will enable the film industry to make their films available on-line to the public for the people of Hong Kong as soon as the legal protection of the digital right management systems and the relevant sanction against on-line infringement passed into law.

If we may be of any further assistance, please do not hesitate to contact our Chairman Mr Kung Tak at telephone number 2750 5595 or email address [man@avpnet.com.hk](mailto:man@avpnet.com.hk). Thank you.

For and on behalf of  
Hong Kong Video Development Foundation Ltd.



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A handwritten signature in black ink, appearing to read 'Kung Tak Man', written in a cursive style.

Kung Tak Man  
Chairman