

Dear Members of the Commerce and Industry Panel on LegCo,

The Association of American Publishers (AAP), jointly with six other copyright-related trade associations, submitted its annual Special 301 Report to the Office of the United States Trade Representative (USTR) on 13 February 2006. The report, completed under the umbrella of the International Intellectual Property Alliance (IIPA), details copyright piracy and related intellectual property rights (IPR) issues as well as market access problems around the world.

The review explores copyright protection and/or enforcement problems in 68 countries/territories. The report was prepared in response to a statutorily mandated review of intellectual property protection worldwide, undertaken every spring by USTR. Based upon the effectiveness in which intellectual property theft is minimized, USTR will place countries/territories on an appropriate list. The worst offenders are designated as Priority Foreign Countries and are vulnerable to immediate sanctions under the Trade Act of 1974, as amended. Countries not designated as a Priority Foreign Country are placed on one of two watch lists. The Priority Watch List and the Watch List both serve to send a message that the U.S. government will be closely monitoring its progress in intellectual property protection. IIPA submits its recommendations for USTR's review every February.

In the "Hong Kong" Report under Appendix C "Special Mention", IIPA points out that CITB's proposed copyright legislation (in June and November 2005) is A STEP BACKWARD. For details, please refer to the attached.

IIPA's recommendations to USTR, submitted in conjunction with other copyright industries, can be accessed at www.iipa.com.

Best regards,

Hong Kong and International Publishers' Alliance
(Secretariat: Hong Kong Reprographic Rights Licensing Society
Address: 802 Stanhope House, 738 King's Road, Hong Kong
Tel: 2516-6268, Fax: 3105-1468
Email: info@hkrrls.org
Website: www.hkrrls.org)

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

2006 SPECIAL 301

SPECIAL MENTION

HONG KONG

IIPA recommends that USTR monitor developments in Hong Kong during 2006, with respect to the issues discussed in this [Special Mention](#) report. Though not recommending that Hong Kong be included on any of the Special 301 lists at this time, IIPA urges the U.S. government to conduct an [out-of-cycle review](#) at an appropriate point to determine whether industry's concerns with current deficiencies and proposed changes in copyright legislation are being adequately addressed.

PIRACY AND ENFORCEMENT ISSUES

Internet Piracy: Internet piracy in Hong Kong causes increasing harm to right holders, primarily due to the explosion in use of the Internet for illegal peer-to-peer (P2P) file sharing on services located both in Hong Kong and abroad.¹ Two cases are bright spots in otherwise murky legal waters. In one, decided in 2005, a man who uploaded three motion pictures using BitTorrent was convicted of copyright infringement;² in the second, in January 2006, the court ordered four Internet service providers to identify 22 people who uploaded music illegally.³ The law should be amended to clarify the scope of secondary liability as to Internet service providers (ISPs), and should include a statutory notice and takedown regime which is effective and provides incentives for ISPs to comply, both with respect to pirate content residing on servers (e.g., stored on websites) as well as in the P2P environment.

The problem of so-called "offline server" piracy of entertainment software is also of increasing concern in the territory. An offline server essentially makes a publisher's online game readily available without authority from the legitimate publisher, and without adherence to terms or conditions set forth in a licensing agreement. The offline server "mirrors" the legitimate servers operated by entertainment software companies to run their online games. This not only diverts traffic and subscription revenue from the legitimate site, but also allows the play of pirated games, since the off-line server lacks an authentication or verification process at the server level (i.e., to verify that the game software being used is not a pirated copy).

Optical Disc Piracy and Proposal to Alleviate SID Code Requirement: There are currently 106 optical disc production plants with 817 production lines in the Hong Kong Special Administrative Region (HKSAR) (with a production capacity of over 2.8 billion discs per year). It

¹ The Hong Kong market for recorded music declined once again due to Internet piracy. Estimated losses due to P2P piracy in Hong Kong are HK\$1 billion (US\$ 129 million) (based on estimated retail value).

² Agence France Presse, Hong Kong man jailed three months in landmark Web piracy case, November 7, 2005 (reporting that a Hong Kong court sentenced a man to three months in prison on November 7, 2005 in what is believed to be the first jail sentence for distributing movie files over the BitTorrent network). The Magistrate, Colin Mackintosh, noted, "[t]he message has to be sent out by courts that the distribution of infringing copies, particularly by seeding films onto the Internet, will not be treated leniently." The defendant has since appealed both the conviction and the sentence and the appeal is pending.

³ Min Lee, *Hong Kong Court Orders Internet Providers to Reveal 22 People Who Uploaded Music*, Associated Press Newswires, January 26, 2006.

is suspected that some Hong Kong plants are once again involved in pirate manufacturing for export. IIPA is concerned by the very slow and bureaucratic response by the Customs authority to individual complaints. Further, the recent proposal by the Customs and Excise Department (C&E) to remove the requirement to place SID Code on recordable optical discs gives rise to concerns that registered factories may set aside a separate line for burning pirated discs (with no SID codes) under the guise that the line is used for making blank discs.

Other Piracy and Enforcement Concerns: Business end user piracy remains a significant barrier to the development of the computer software industry in Hong Kong. End user piracy accounted for most of the US\$59 million in losses incurred by the software industry in 2005, with a software piracy rate of 51%.⁴ Since the enactment of 2001 amendments to the Copyright ordinance, C&E has carried out a number of end-user raids against those suspected of using software illegally. However, only a few of these cases have made it to court, and every contested case has ended in acquittal. Industry is concerned that the government has not invested sufficient resources to successfully investigate and prosecute business end-user piracy cases and that, unless modified, the law remains inadequate to address the problem.

As reported in past years, entertainment software publishers continue to face burdensome evidentiary requirements for prosecuting copyright offenses, causing an expenditure of excessive resources in order to bring a copyright infringement case. Under Hong Kong procedure, the copyright holder must provide Section 121 affirmations for every copyright infringement prosecution, which includes providing evidence of copyright ownership as well as attaching true copies of the video game titles that are the subject of the case. The proposal to designate foreign copyright registries (including the U.S. Copyright Office registry) under Section 121 remains pending. Recognizing U.S. copyright registration certificates and allowing their substitution for copies of the genuine article would greatly reduce the burden on copyright owners and expedite compliance with the affirmation requirements. IIPA hopes that the Hong Kong government will soon adopt the measures necessary to recognize foreign copyright registries for this purpose.

The book publishing industry reports that C&E has been quite responsive to its complaints about illegal photocopying during 2005. Cooperation has been at an all-time high and the authorities are to be commended for their efforts. The industry remains concerned that the enforcement successes of recent years have resulted in a change in mode of operation for the pirate entities. More and more photocopy shops are moving underground or copying at night, making their activities difficult to detect. The industry needs the continued cooperation of C&E in changing enforcement tactics to tackle these new iterations of the problem.

LEGISLATIVE ISSUES

Proposed Copyright Legislation—A Step Backward: Two legislative reform processes are currently underway in Hong Kong. The Commerce, Industry and Technology Bureau (CITB) published a document on November 15, 2005 containing proposals that would

⁴ During the same time period, and while Hong Kong's piracy rate saw no improvement, other markets in the region reduced their software piracy rates, including Mainland China, Singapore, South Korea, Malaysia and Philippines. This is a serious and ongoing problem and puts Hong Kong well behind other advanced economies in the Asia Pacific. A study released by BSA and IDC on December 8, 2005 found that a 10-point reduction in Hong Kong's current piracy rate would yield \$650 million to its economy and create 4,600 high-wage technology jobs.

set Hong Kong's copyright law and right holders back for years to come.⁵ IIPA notes the incongruity between these proposals, virtually all of which weaken copyright, and the CITB's prior recommendations, as well as Hong Kong's government policy of promoting creative industry. Further, IIPA is perplexed that in almost every case, recommendations made by right holders have gone unheeded in this process. We strongly recommend that the HKSAR government reconsider the various right holder comments submitted throughout 2005, and re-evaluate the proposed changes in light of international standards of the TRIPS Agreement and the Berne Convention, agreements to which Hong Kong is a party.

The following explains many of the chief CITB proposals in the November 2005 "Refined Proposals" document that IIPA finds problematic.

- **Failure to criminalize possession of pirated copies of published works for use in a business in Hong Kong:** The paper confirms that possession of pirated copies of published works for use in a business in Hong Kong will never attract criminal liability. The Government categorically states that such conduct is never "willful copyright piracy on a commercial scale." We believe the discrimination between subject matter in this instance is unwarranted, and that "commercial scale" ought to apply to a commercial enterprise that builds its business upon using infringing copies of publications as with other subject matter; to the extent our belief is correct, the CITB proposal will codify a TRIPS Article 61 violation.⁶
- **New criminal liability for copying/distribution of copyright infringing printed works:** CITB proposes creation of a "new business end-user criminal offence for significant infringements involving copying with a view to distributing or distributing infringing copies of copyright works published in four types of printed works, i.e. newspapers, magazines, periodicals and books, in the course of and for the purpose of business." However, this new proposed liability is fraught with weaknesses:
 - The proposed prohibition is currently limited to "printed versions" (though there has been some discussion of including "intranet" activities as well). This clearly violates the Hong Kong Government's own stated principal of technological neutrality;⁷ it makes no sense to exclude from criminal liability massive copying of online and digitized formats (e.g., CD-ROMs).
 - A "safe harbor" would exempt from criminal liability far too broad a range of activities.⁸ Since even a person engaging in commercial activities can qualify for the Hong Kong safe harbor,⁹ the retail value threshold should be set much lower than the proposed

⁵ This document was a follow-up to a consultation document released in December 2004, and an announcement of proposed amendments in June 2005. Many of IIPA's members, affiliates, or related organizations in Hong Kong submitted comments in all three processes. The November 2005 document can be found at <http://www.info.gov.hk/gia/general/200511/10/P200511100123.htm>.

⁶ Wholly apart from the Article 61 question, the reason for according journals, reference materials, original databases, and other literary works second class treatment under the copyright law (compared to the treatment of the four "favored classes" of works) has never been satisfactorily explained.

⁷ As CITB Secretary Tsang stated at the APEC Ministerial in Korea, "[w]e would like to reiterate that the Copyright Ordinance is technology-neutral in that protection conferred on copyright works as well as the copyright exemption provisions should apply to works stored in both physical and electronic media."

⁸ The safe harbor as to books (including academic journals) provides, among other things, that there is no criminal liability if "the total retail value of the infringing copies made for distribution or distributed within a 180-day period does not exceed \$8,000, assuming that one infringing copy of more than 15% of the number of pages of the book concerned (a qualifying infringing copy) only will count for the purpose of calculating the retail value parameter."

⁹ It appears the Government may have been looking to the U.S. threshold in 17 USC § 506(a)(1)(B) (US\$1,000) but may have overlooked the fact that that section applies only when the case involves an infringement that is carried out for a purpose other than commercial advantage or private financial gain. If either of these motivations is present (as is the case with the activities covered by the Hong Kong safe harbor proposed) the US\$1,000 retail value threshold

HK\$8000 (US\$1031) per 180-day period, and all such copying that is more than *de minimis* should count against that threshold.

- There is no legitimate reason to exclude all non-profit and state-subsidized schools from the new prohibition, granting blanket immunity from criminal liability to any school that decides to reduce its book acquisition budget to zero and simply copies all the books it needs for all purposes, instructional and otherwise.
- **CITB proposes to update the protection for technological measures under existing law, but its proposal is flawed.**
 - The proposal would exclude civil liability for persons dealing with circumvention devices or committing the act of circumvention unless they have knowledge that they are enabling or facilitating copyright infringement. This would significantly undermine the effectiveness of the prohibition. Additionally, inclusion of the phrase “with a view to inducing, enabling, facilitating or concealing an infringement of copyright” could jeopardize the CITB’s stated goal of prohibiting the circumvention of both access and copy controls. To ensure proper coverage, the requirements for knowledge of infringement for both the act of circumvention and the dealing with circumvention devices should be deleted.
 - The proposed exclusion from criminal liability for commercial dealing in “circumvention devices controlling market segmentation through area code restriction” (regional coding) would make the criminal provision being proposed virtually meaningless for the motion picture industry (including Hong Kong’s own vibrant industry) and the entertainment software industry. Because of the integration of region coding with other access controls, and because circumvention devices for the former generally defeat the latter as well, this carve-out of certain “disfavored” access controls from criminal liability would have a devastating practical impact on enforcement. The exclusion could also suffer from potential overbreadth (since any defendant could challenge any technological protection measures as capable of segmenting markets), and would significantly undermine Hong Kong’s attempt to fully implement the WIPO Treaties.
 - The prohibition against dealing or trafficking in circumvention devices should also extend to dealing in “software codes” designed to bypass online authentication keys that a publisher of an online game may implement to ensure that the game can only be played using legitimate or original entertainment software.
 - Finally, IIPA is concerned that Hong Kong is considering proposals to introduce broad exemptions to the prohibitions on circumvention of technological protection measures and dealing with circumvention devices. The Government must ensure that any exceptions to technological measures protection are narrow enough to preserve the adequacy and effectiveness of the prohibitions.
- **Reduction of period during which one can be criminally liable for parallel importing:** The proposal would reduce the period during which parallel imports would attract criminal liability to 9 months after public release (from 18 months). This starkly contrasts with the Government’s prior recommendation that the Legislature maintain the status quo with respect to the existing 18 month restriction.¹⁰ IIPA strongly objects to

does not apply, and a willful infringement involving even a single copy with a value of less than US\$1,000 can attract criminal liability (17 USC § 506(a)(1)(A)).

¹⁰ In a letter sent to industry representatives on June 17, 2005 and in its Preliminary Proposals on Various Copyright-Related Issues offered to the Legislative Council’s Panel on Commerce and Industry for deliberation on June 21, 2005 the CITB stated definitively “On balance, we propose to retain all the existing restrictions on parallel imports of

this weakening of protection by shortening the period in which legitimate right holders may enjoy their exclusive rights in Hong Kong.

- **Introduction of broad exceptions for use in educational establishments and governmental bodies.** CITB decided to reject proposals for a general fair use regime along the lines of U.S. law, but proposed a similar non-exhaustive exception for use of works for education and for “urgent business” of governmental bodies. In general, IIPA is concerned that any broadening of existing exemptions could result in encouraging unauthorized uses which are not relevant to the course of study in educational establishments. Hong Kong authorities should carefully consider any expansion of educational exceptions and ensure that any such exception introduced may be invoked only in certain limited cases which comply with the TRIPS agreement three-step test. Specifically, IIPA is especially concerned about the proposed repeal of Section 45(2), which limits the scope of exceptions when a licensing scheme is in place. Repealing this provision undercuts the voluntary licensing scheme for academic materials that Hong Kong has worked so hard to build in recent years. With regard to the governmental bodies exemption, IIPA is concerned that what constitutes “urgent business” for purposes of this provision is dangerously unclear. Hong Kong must ensure that any such exception does not have a prejudicial impact on existing markets for copyrighted materials among governmental bodies.

“Digital Environment” Consultation: CITB is also undertaking a separate, second consultation exercise concerning “Copyright Protection in the Digital Environment.” The new consultation takes a broader approach and CITB has asked about the following: 1) whether a technologically neutral right of communication should be introduced for copyright owners; 2) how to facilitate copyright owners to take civil actions against infringing activities on the Internet; 3) whether statutory damages for civil infringements should be introduced; and 4) the role of Internet service providers in the fight against Internet piracy. IIPA commends the Government for looking at these crucial issues for the future of copyright protection in Hong Kong but is concerned that these issues are being considered on a separate, slower track from the problematic proposed amendments summarized above.

Failure to Criminalize Pay TV Theft: Local television industry representatives have complained about the lack of sufficient criminal penalties under the Copyright and Broadcast Ordinances against pay television signal piracy. Present remedies provide no liability against so-called overspill signals accessed through unauthorized decoders. Although trafficking in such decoders is subject to criminal penalties, a criminal prohibition is needed against the possession and use of such devices in homes or businesses.

Copyright Term Extension: Hong Kong should bring its Copyright Ordinance into line with the growing regional and global trend by enacting a 20-year extension of the term of copyright protection.

copyright works.” This recommendation was supported by interested parties that testified before the Legislative Council on July 19, 2005. The subsequent reversal in the government’s position was unexpected and difficult to justify.