



18<sup>th</sup> February, 2015

Clerk to Bills Committee on Copyright (Amendment) Bill 2014  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road, Central, Hong Kong

Dear Sir/Madam,

Re: IFPI (Hong Kong Group) submission to LegCo in “Contract Override Provisions”

The International Federation of the Phonographic Industry (Hong Kong Group) Limited “IFPI (HKG)” has 86 local members and such represent the very majority of record producers in Hong Kong that invest in signing of local artistes and the making of records for distribution in Hong Kong and overseas. We would like to make this submission in response to the discussion on “Contract Override Provisions” recently.

**A. The LegCo’s Enquiry on the U.K. ‘s Contract Override Provisions**

1. The Contract Override provisions were brought to the attention of the Bills Committee by Assistant Legal Advisor’s letter to the Administration dated 7 November 2014 in which she referred to the “Contract Override” Provisions of the U.K. Copyright and Rights in Performances 2014<sup>1</sup> which came into force on 1 October 2014 that make a contractual term unenforceable to the extent that such term prevents or restricts the doing of an act, which by virtue of the quotation or parody exception, would not infringe copyright.<sup>2</sup>
2. The issue was subsequently discussed in the Bills Committee and it has invited the Administration to make a response thereto.
3. It is imperative for us to take a note that during the U.K government consultation on the new fair dealing exceptions, copyright industry had made submissions against contract override, highlighting the risks of contractual uncertainty. However, the government response addressing the override provisions has been limited to and focused on consumer licences. It has been heavily criticized that it is highly unsatisfied and undesirable that the Contract Override provisions were being made by way of secondary legislation without going through proper consultation process among the stakeholders as in the case of primary legislation.

<sup>1</sup> The Copyright and Rights in Performances (Quotation and Parody) Regulations 2014.  
<http://www.legislation.gov.uk/ukdsi/2014/9780111116029/contents>.

<sup>2</sup> Para 13 on page 3 of the letter.

4. As explained below, we submit that risk of contractual uncertainty that is mainly due to the uncertainty as to the limit or boundary of fair dealing exceptions would prevent the perceived benefit of Contract Override provisions being realized in the U.K., much less Hong Kong. The legal uncertainty about whether a contract may limit or exclude the fair dealing exceptions will make the provisions unworkable in term of high transaction costs of enforcing the provisions. These provisions could encourage challenge and breach of contract.
5. The U.K. government did realize the potential problems on the working of the provisions and assured the House of Lords that "...the impact of these changes will be evaluated in line with evaluation best practice, and the results of this evaluation will be published within the five-year evaluation period."<sup>3</sup>

## **B Copyright Industry**

6. Our industry existence owes very much to the copyright law that provides efficiency effect in providing an incentive to increase creative output by granting a property-like protection system in our free market economy (section 101 (1) of the Copyright Ordinance Cap 528)) and to enable the creators/investors to recoup their sunk costs of development given that not all the creative works are marketable.
7. Only contracts can provide remuneration and thus incentive but without copyright and enforcement, contracts would be impossible (see section 101 of the Copyright Ordinance). In fact, digital networks offer new opportunities for content providers and innovators to contract directly with the end-users of their respective works at low cost.
8. Therefore copyright owners might enforce their rights either by way of contract or by way of copyright law. However, the remedies available to the copyright owners are different in the case of breach of contract as compare to those of copyright infringement (see sections 107 to 113 of the Copyright Ordinance). Copyright owners must look to the contract itself for remedy in a breach of contract case and they may only demand monetary damages in proportion with real damages suffered and the amount is likely to be minimal as compared to those of the copyright infringement.
9. Pausing here, it is imperative to take a further note that the transaction costs of enforcing the copyright are the key factor for the creative industry. If the transaction costs of enforcement are prohibitively high, there is an incentive to free ride rather than to create.

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<sup>3</sup> H.L Hansard 9 July 2014 column 1578.



## C The Fair Dealing Exceptions

10. Gower suggests that “one of the purposes of exceptions to copyright is to reduce burdensome transaction costs associated with having to negotiate licences.”<sup>4</sup> Of course some fair dealing exceptions such as criticism and comments, freedom of press, quotations etc. are based on public policy and interests grounds.
11. Copyright owner cannot enforce their rights to those persons who exercise their rights to use the copyrighted material that are within the limit of these exceptions, either by way of contract as it is unenforceable on the ground of public interests under section 192(3) of the Copyright Ordinance or copyright infringement as fair dealing exceptions would be relied on as a defence in any proceedings for infringement.
12. On the face of it, any clause in a contract impeding fair dealing exceptions would be clearly unenforceable, however, in our real life situations; nobody exactly knows the limit or boundary of a fair dealing exception. There are four factors in the case of US Fair Use defence or the Berne three-step test (the international norms) that acts as the balancing exercise to decide if an act is within an ambit of a fair dealing. There are simply no litmus test exists for what uses would be considered fair under copyright law.<sup>5</sup> It is typically decided on a case by case basis by the court based on different factual matrix and on different grounds such as human right, public interests and market failure. Each case is compelled to return to the four factors or three- step test which will be weighted to determine whether such use is fair.

## D The Tests for Fair Dealing Exceptions

13. Put it in a simple term, given the uncertainty of the scope of fair dealing exceptions, it might be more efficient for the user and the copyright owner to agree on what are the limits of use of the copyrighted materials; failing which, it is up to the user to decide if he is willing to accept the deal or to take the risk of litigation and to have the matter resolved by court based on 4 factors or three-step test. Obviously, there is no one size fits all case.
14. In *American Geophysical Union et al v Texaco Inc.*,<sup>6</sup> a US fair use case, the court opined that the availability of means for paying right holders for the use

<sup>4</sup> (Paragraph 4.13 on Page 47 of the *Gowers Review of Intellectual Property (2006)*)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/228849/0118404830.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228849/0118404830.pdf)

<sup>5</sup> The United States Supreme Court has stated clearly, in the case of *Campbell v Acuff-Rose Music Inc.*, 510 US 569,577 (1994), that there can be no bright line test for fair use, it must be adjudicated on a case-by case basis..

<sup>6</sup> 37 F 3d 881 (2<sup>nd</sup> Cir 1994) and the decision was affirmed by the Court of Appeals for the Second Circuit, 60 F 3d 913 (2<sup>nd</sup> Cir 1995).

of their works would reduce or even eliminate the need to refer to the fair use defence and ruled in favour of the plaintiff on the basis of the first and fourth fair use factors.<sup>7</sup> The view is that the existence of a licensing scheme implies that any purported fair dealing use of a copyright work without payment would compete with the normal exploitation of a work and cause unreasonable prejudice to the legitimate interest of the copyright owner (2<sup>nd</sup> and 3<sup>rd</sup> steps of the three-step test).

15. In the US, the fair use doctrine<sup>8</sup> allows the free use of the copyrighted materials in education; the stakeholders considered that it was necessary to establish guidelines for the clarification of the boundaries of the fair use for copying in education. The agreement on the guidelines was reached between the copyright owners and educators in 1976. Such guidelines were approved by the Congress.<sup>9</sup> The guidelines provide the educators with some certainty as to what is acceptable under the fair use doctrine for classroom copying and it avoids any unnecessary litigation for the most common use of copyrighted materials in schools.

## **E Contract and Copyright Users**

16. The commercial licensing, by its nature, generally grants greater rights to users than those granted under the fair dealing provisions. In case of parties' disagreement on the scope of a copyright exception, parties may be able to reach agreement on the scope of use as a pragmatic commercial decision satisfactory to both parties that will eliminate the risk of legal uncertainty of scope of fair dealing exceptions. If a user only wants to take advantage of a fair dealing exception, he would not negotiate a contract but accept the risk of being sued for copyright infringement if his purported use might be perceived as wider than the scope of a fair dealing exception by the copyright owner. So far we have not heard a court case inviting the court to decide if a user's use of copyrighted materials beyond or within a scope of a fair dealing exception.
17. We would respectfully submit that we should leave the working of copyright exceptions open for negotiation between users and copyright owners based on the efficiencies of the market -the interaction between owners and users is left to the more efficient instrument of private ordering rather than legal one. In fact, it will not restrict user privileges but rather it will broaden them and the users still have the common law and equity remedies available to them in contract in case of any misuse of copyright. Up to now, we have not been aware of any court case related to any alleged misuse of the copyright contract

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<sup>7</sup> In other words, unless any particular use of copyrighted materials by the educational establishments, libraries, archives, etc, qualifies for fair use, they must obtain a license from the right holders.

<sup>8</sup> Article 107 of the US Copyright Act 1976

<sup>9</sup> House Committee Report on the 1976 Copyright bill, House report No. 94-1476, 94<sup>th</sup> Congress, 2<sup>nd</sup> Session, 3 September 1976, pp 66-72.



that aims to restrict or prohibit fair dealing exceptions.

18. In summary, the legal uncertainty as to what amounts to a fair dealing exception would encourage a commercial solution that would reduce the transaction costs of enforcement and the risk of an end-user being sued for copyright infringement. For illustration, an end-user may use copyrighted materials for parody purpose, however, it is a copyright infringement if he chooses to commercialize his "use"; however, a licensing arrangement for his proposed act would eliminate the litigation risk even though it is for parodic use.
19. We have not heard a court case alleging copyright infringement based on fair dealing uses of copyrighted materials (be that for parody or other purposes) in the past decades, and we expect that it will stay this way in future. Any introduction of Contract Override provisions may only encourage the otherwise as users might perceive that the removal of the license requirements for the use of copyright works on an alleged fair dealing ground amounted to *carte blanche* for them to make whatever copies they wanted without asking for consent or license from copyright owners.
20. Therefore we respectfully submit that we should learn or borrow the experience from other leading jurisdictions (so far only the U.K. has Override provisions, there may be other reasons or experience as to the reasons why other jurisdictions choose not to have them on their copyright law) on this very issue before considering if there is any benefit to bring in such provisions into our copyright law. In the meantime, the users still enjoy the free use of copyrighted materials that are within the scope of the fair dealing exceptions.

We would be pleased to respond to further enquiries for clarification to the above. I may be contacted at [rickceo@ifpihk.org](mailto:rickceo@ifpihk.org), and by phone: 2861 4303.

Thank you for your kind attention.

Yours truly,  
For and on behalf of  
The International Federation of the Phonographic Industry  
(Hong Kong Group) Limited



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