

**Paper for the House Committee meeting  
on 13 June 1997**

**Report of the Bills Committee on Copyright Bill**

**Purpose**

This paper reports on the deliberations of the Bills Committee on Copyright Bill and seeks Members' support for the Bill to resume Second Reading debate on 23 June 1997.

**Background**

2. The existing copyright law in Hong Kong is governed primarily by the 1956 Copyright Act of the United Kingdom (UK) (1956 Act) as amended and extended to Hong Kong. The 1956 Act has been repealed in the UK and replaced by the 1988 Copyright, Designs and Patents Act (CDPA). The CDPA has not been extended to Hong Kong in view of the need for local legislation. Provisions in the 1956 Act have remained effective in Hong Kong and are supplemented by the local Copyright Ordinance, Cap. 39, which deals primarily with the enforcement powers of the Customs and Excise Department (CED) and the penalties against copyright piracy activities. The 1956 Act will not be applicable to the Hong Kong Special Administrative Region (HKSAR) after 30 June 1997.

3. The Law Reform Commission (LRC) published a Report on the Law Relating to the Reform of Copyright in January 1994 after extensive public consultation. The LRC recommended that Hong Kong should have its own copyright law modelled on the CDPA, with modifications to suit local circumstances.

4. Article 140 of the Basic Law requires the HKSAR to have its own law to protect the achievements and the lawful rights and interests of authors in their literary and artistic creations. Hong Kong is obliged to provide copyright protection under the Berne Convention, the Universal Copyright Convention and the Phonograms Convention, which will continue to be applied to Hong Kong after 30 June 1997. Hong Kong is also obliged to comply with copyright protection

provisions under the Agreement on Trade-Related Aspects of Intellectual Property Right (TRIPS Agreement) of the World Trade Organisation (WTO). An agreement was reached with the Chinese side in the Joint Liaison Group (JLG) in November 1995 on the proposals for localising the copyright law in Hong Kong.

## **The Bill**

5. The Bill seeks to localise the law of copyright and provide for comprehensive protection of copyright in Hong Kong.

## **The Bills Committee**

6. At the House Committee meeting on 7 March 1997, Members agreed to form a Bills Committee to study the Bill and to advance its scrutiny on account of its being one of the bills which have to be enacted before 1 July 1997. Hon Mrs Selina CHOW and Hon Ambrose LAU were elected Chairman and Deputy Chairman of the Bills Committee respectively. A membership list of the Bills Committee is at **Appendix I**.

7. The Bills Committee has held nineteen meetings with the Administration. It has met with fifteen organisations and has received 113 submissions. A list of organisations which have met with the Bills Committee is at **Appendix II**.

## **Deliberations of the Bills Committee**

### Parallel importation

8. The subject of parallel importation of copyright articles is the most controversial aspect of the Bill. Parallel imports refers to imports of copyright products that are legitimately manufactured abroad with the consent of the copyright owner into a country or territory by a trader without the authorisation from the copyright owner or the exclusive licensee in the place of importation. The existing copyright law provides for both criminal and civil sanctions against parallel importation of copyright articles other than for private and domestic use. The Bill proposes to decriminalise parallel importation but maintain civil remedies.

9. There are strong views for and against parallel imports being permitted per se, and for and against decriminalisation. The retail trade and consumers call for total deregulation of parallel importation. This camp has pointed out that parallel

imports are genuine products and are fundamentally different from pirated goods. It is wrong to lump parallel imports and pirated copies together as “infringing copies”. Non-availability of works, excessive pricing and consumer demand are the causes for parallel importation. Restrictions on parallel importation artificially reduce consumer choice and market competition. Barring parallel imports will have the effect of local suppliers monopolising the supply of goods and limiting the availability of products for consumers. It will jeopardise free trade and tarnish Hong Kong’s reputation as a leading trading and tourist centre. Since the rights of the exclusive licensee vis-a-vis the copyright owner and third parties are defined by commercial contracts, it is wrong to turn contractual rights into statutory rights. Notwithstanding the availability of criminal remedies in the existing copyright law, there has not been any criminal prosecution against parallel importation. There is no evidence elsewhere to suggest a collapse of local industries because of parallel importation. On the contrary, the experience in Singapore which allows parallel importation has shown that this has assisted the cinema trade and increased the range of overseas copyright goods available to consumers.

10. The music and film industries, on the other hand, object to decriminalisation of parallel importation. The industries’ representatives have argued that deregulation of parallel importation will not bring about greater consumer choice. Since exclusive licensees have paid copyright owners for exclusive distribution rights, it will be against their own interest not to make available the products. Decriminalisation may open the floodgates to importation of pirated goods under the guise of parallel imports. It encourages free-riders to take unfair advantage over the substantial investment of copyright owners and exclusive licensees. Civil remedies on their own are neither adequate nor effective to protect the rights of copyright owners and exclusive licensees. The existing criminal sanction has a positive, though limited, deterrent effect. Decriminalisation of parallel importation is detrimental to the local film and sound recording industries. The film industry is unique because film may be viewed in a variety of formats. The best way to realise the earning potential of films is to release them sequentially in different formats as theatrical release, home video release (six months later), video-on-demand (three months later), pay television (TV) (three months later), and free TV (six to twelve months later). Parallel imports seriously disrupt this release schedule and undermine sales opportunities of the exclusive licensees. Given the price differential between Hong Kong and Mainland China, any relaxation on control over parallel importation will result in flow-back of lower price products to the devastation of the local recording and film production industries. Singapore is not a relevant example for comparison because its exports of copyright works are not a major factor in its economic prosperity and it does not face the risk of great damage to its economy from flow-back of lower price goods from neighbouring markets.

11. Members have examined the issue from different perspectives. On the international front, they note that there is so far no international standard or consensus on parallel importation. The TRIPS Agreement, which sets the minimum international standards on intellectual property protection, does not specify the handling of parallel imports and this is left to the local laws of each member of the WTO. The Administration has advised that most developed countries with high standards of copyright protection and with net exports of intellectual property products prohibit parallel importation. The United States copyright law gives the copyright owner the exclusive right to distribute his copyright works and empowers him to seek remedies for infringement of the distribution right. The European Union member states maintain restrictions against parallel imports from outside the Union but have abolished restrictions among themselves in line with the European single-market concepts. Australia maintains criminal and civil sanctions against parallel importation in general but allows direct importation of books under specified circumstances.

12. On the local scene, since it has been put to members that non-availability of products due to inability or refusal of exclusive licensees to supply is one of the main reasons for retailers to source products overseas, members have explored the viability of the “first opportunity to supply” proposal put forth by a retail chain store. Under this proposal, an exclusive licensee is given the first opportunity to supply the licensed product. Parallel importation of that product will be permitted if the exclusive licensee fails to meet market demands within a specified period, say 48 hours. The Administration considers it unfair to adopt this option since the exclusive licensee’s legitimate interests are prejudiced on the premise of conditions which may be beyond his contractual obligations. The exclusive licensee is at all times bound by the terms and conditions of his agreement with the copyright owner. The prospective importer, on the other hand, will be under none of the contractual constraints faced by the exclusive licensee.

13. Having considered different views put to members of the Bills Committee, the Administration considers it desirable to create a regime that best suits Hong Kong’s particular position as a major exporter and consumer of copyright products, especially for films and sound recordings. In mapping out this regime, the Administration has borne in mind the importance for a general formula applicable to all types of copyright works and for no discrimination to be made between local and overseas products as this will violate international obligations. Under the Administration’s proposal, parallel importation of copyright works would remain a criminal as well as civil infringement within 12 months of first publication of the work anywhere in the world. Anybody, including the copyright owner and the exclusive licensee, can lodge a complaint to the enforcement authorities. Civil remedies are available to the copyright owner throughout the copyright term. The exclusive licensee may join the copyright owner in any action

against the parallel importer, but he cannot institute civil actions alone without the leave of the court. On the rationale for setting the period at 12 months, the Administration has explained that it has considered the window system of the film industry. The most critical period of economic exploitation of a copyright work, especially for sound recordings and films, is usually the first 12 months after the work is first published or released in the market. From the consumers' perspective, the 12-month provision of criminal sanctions against parallel importation will encourage both the copyright owners and the exclusive licensees to make available their products in the market earlier in order to satisfy the demands and take advantage of the enhanced copyright protection.

14. The film and music industries consider a one-year protection period inadequate. The film industry has submitted that one year may be just long enough to allow copyright owners of locally made films to exploit their rights in Hong Kong but is totally inadequate to protect exclusive licensees in Hong Kong. Many foreign films will not be licensed for release theatrically in Hong Kong until a considerable time, as many as nine or ten months, after their first publication in the country of production. Moreover, sensible market strategy aims at releasing seasonal films at appropriate time but by then it may be over a year after their first release outside Hong Kong. Both the film and sound recording industries request extending the period of criminal sanctions to two years. The retailers, on the other hand, point out that the Administration's proposal goes against LRC's recommendation on decriminalisation of parallel imports and has not addressed their concern about non-availability of products.

15. Members have different views on the adequacy of a 12-month criminal sanction period. Some members consider that the proposed period has struck a balance of interests between copyright owners and exclusive licencees on the one hand and consumers on the other. Other members, however, appreciate the concerns of the film industry and suggest that the protection period be extended to 18 months. There are also members who suggest two years. Having considered the divergent views of members, the Administration revises its proposal to extend the period of criminal sanctions to 18 months and will amend clause 35(4) to achieve this effect.

16. To address the concern about non-availability of products, the Administration has proposed to add a defence provision of clause 35A(3) and (4) such that it shall be a defence for a person who imports a work without the licence of the copyright owner if the particular copyright owner or the exclusive licensee has acted unconscionably, i.e. by withholding supply on unreasonable grounds, or by agreeing to supply but on unreasonable terms. In determining whether the copyright owner or the exclusive licensee has acted unconscionably, clause 35A(4) stipulates that the court shall take into consideration the established practices of the

copyright owner or the exclusive licensee for the orderly distribution of copies of that category of work and, in particular, whether the order, if fulfilled, would affect the normal exploitation of the work by the copyright owner or the exclusive licensees, or would unreasonably prejudice their legitimate interests. Some members share retailers' concern on the need to define "unreasonable grounds" and "unreasonable terms". Other members think otherwise and consider clause 35(A)4 adequate for the purpose. The Administration holds the view that clause 35A(4) provides sufficient guide to the court on the question of unconscionable acts and does not see the need to add a further provision to elaborate on "unreasonable grounds" and "unreasonable terms".

17. Members in general agree with the principle behind the Administration's proposed new clause 110(1A) that an exclusive licensee may not proceed with civil actions against parallel importers without joining the copyright owner as a plaintiff unless with the leave of the court. The Administration notes members' view that the court should only grant leave under exceptional circumstances. To put the matter beyond doubt, the Administration proposes to add a new clause 110 (1B) to specify that the court shall not grant leave unless there are other exceptional circumstances, other than costs considerations, beyond the control of the copyright owner or the exclusive licensee. To deter groundless threats for civil proceedings against alleged parallel imports, the Administration also proposes to add a new clause 182A to provide remedies for such groundless threats. Members note that a similar provision has been incorporated in the newly enacted Patents Ordinance and the Registered Designs Ordinance.

#### Evidentiary requirement for proof of knowledge

18. Under the existing Copyright Ordinance, the plaintiff has to prove that the defendant has actual knowledge of the infringing activity, whereas under the Bill, the copyright owner is required to prove that the defendant "knows or has reasons to believe" that he is dealing with infringing copies. Retailers have raised serious concern over the definition of "reasons to believe". Given the proposed reinstatement of criminal sanctions for parallel importation, retailers have asked for incorporation of specific provisions in the Bill to clarify the meaning of "reasons to believe". Retailers consider it important that they have to know with certainty when and whether their acts may infringe upon the rights of others. Whilst the Administration maintains that there is sufficient case law on what constitutes "reasons to believe" under various circumstances, it appreciates members' concern that the law should be more transparent in this aspect and proposes to add new clauses 35A(1) and (2) and 115 (5A) and (5B) to clarify circumstances under which a defendant may claim that he has no reason to believe that he is dealing with infringing copies. The new provisions spell out matters that are not meant to be exhaustive to which the court shall have regard in determining

whether a defendant has no reason to believe. These include inter alia whether the defendant has made enquiries with a relevant trade body in respect of that category of work and whether the response, if any, to those enquiries, is reasonable and timely.

19. To allay importers' concern about difficulties in ascertaining the existence of an exclusive licensee for a particular copyright article, the Motion Picture Association (MPA) and the International Federation of Photographic Industries (IFPI), which represent respectively most major film production homes and more than 90% of the world market of commercially recorded music, have clarified that they have been maintaining extensive databases on the exclusive licence agreements for works within their repertoire. They have expressed willingness to provide such information on enquiry, and to refer the enquirer to the concerned exclusive licensee on request. Members note that the Hong Kong, Kowloon and New Territories Motion Picture Industry Association (MPIA), which represents the local film interests and local exclusive licensees of other foreign films, is also developing a similar database for easy reference by enquirers. Collectively MPIA, MPA and IFPI represent more than 90% of the film and sound recording industries. Adequate information is therefore readily available to permit prospective importers to make reasonable enquiries on those categories of works. Members note retailers' request to spell out the elements of reasonable enquiries in the law but in general agree that the Bill should not go into such details.

#### Copyright in labels attached to non-copyright goods

20. Members are concerned about the legal possibility that a copyright owner may exercise his right to restrict parallel importation of his copyright artistic work as depicted on the label of non-copyright consumer goods. There have been three cases in Australia, South Africa and the United States in which copyright owners of labels and packagings have successfully prevented parallel importation of articles which are not in substance protectable copyright works. The common law in Hong Kong in this area is unclear and there has been no court decision. The Administration agrees with members that rather than allowing the legal situation to remain uncertain, it is preferable to legislate by creating a copyright exception. On the basis of the Australian Copyright Amendment Bill 1996, the Administration has proposed to amend clause 35(3) and add a new clause 35(6A) to the Bill to the effect that copyright which subsists in labels, packagings, containers or similar accessories incidental to and purchased together with a non-copyright article will not be infringed by parallel importation of such articles provided that the economic value of the article is not predominantly attributable to the economic value of the accessory work.

## Decompilation

21. The Bills Committee has received opposite views on whether lawful users may decompile computer programs. Decompilation refers to the process of converting a computer program from the form in which it is used by users in a computer to the form in which the computer programmer writes it. Clause 60 permits decompilation for the purpose of achieving interoperability, subject to any agreement to the contrary.

22. Two major business software associations strongly oppose the express provision for allowing decompilation. They have opined that decompilation encourages "hidden privacy" as it enables competitors to produce imitation products very cheaply, which they then market as original products. In their views, it is sensible and in the interest of copyright owners to make available the information necessary to create interoperable software. Compatibility of software has always been achieved through licensing agreements amongst responsible developers. Should decompilation be made lawful, it will discourage investment in developing software and reduce consumers' choice ultimately. The LRC takes the view that a limited right to decompilation is tantamount to creating another exception to infringement and does not recommend any such limited right. The introduction of a right to compile goes against worldwide trends to strengthen copyright protection. The World Intellectual Property Organisation has recently considered but rejected provisions relating to decompilation. Only 15 member states of the European Community have enacted a statutory right of decompilation and these countries are compelled to adopt the European Software Directive in order to harmonise disparate and inconsistent laws protecting computer programs. These software associations contend that the fair dealing provision in clause 37 of the Bill can be expanded to cover legitimate analysis of a computer work for the purpose of research and private study.

23. Some computer organisations, on the other hand, approach the issue of decompilation from a totally different perspective. These organisations welcome the inclusion of a specific provision in the Bill permitting reverse engineering for the purpose of achieving interoperability. They put to members that decompilation is essential from a commercial standpoint because it is a research method that enables companies to uncover the interface specifications they require to create new products that will successfully interoperate in computer environment defined by de facto standards. Decompilation is necessary because it is at times the only technical means available to learn the unprotectable elements of computer programs. It benefits users of computer programs in term of greater competition and more choice. To these software companies, decompilation is not a copyright infringement because it has been agreed internationally that copyright protection extends to expressions but not to ideas. In addition to the 15 member states of the

European Community, eight other countries have also adopted a decompilation provision based on the European Software Directive. There is no evidence to suggest that there are fewer local versions and local products in those countries having a decompilation provisions. Albeit supporting the spirit of clause 60, these software companies object to subclause (4) which permits contractual restrictions on decompilation. They submit that this subclause renders the whole clause ineffective because it is a standard practice in the software industry to include a prohibition on reverse engineering and decompilation in all software licences. Subclause (4) is contrary to the European Software Directive which unambiguously makes any contractual restriction provision null and void. These software companies request that subclause (4) be deleted.

24. Having considered the dichotomous views expressed by the software trade, the Administration agrees with members that clause 60 is unsatisfactory and cannot address the particular needs of the computer industry and that the issue of decompilation should be dealt with in the context of fair dealing on a case-by-case basis. However, clause 37(3) expressly excludes decompilation as fair dealing. The Administration therefore proposes to replace it with a new subclause which models on the United States Copyright Act to specify the factors to be considered in determining whether any dealing with a work of any description is a fair dealing. These factors include the purpose and nature of the dealing, the nature of the work, and the amount and substantiality of the portion dealt with in relation to the work as a whole. The Administration also proposes to add a new clause 36(2A) to clarify that in determining whether an act is permitted, the primary consideration is whether the act conflicts with a normal exploitation of the work by the copyright owner and unreasonably prejudices his or her legitimate interests. This new subclause mirrors closely Article 9.2 of the Berne Convention (1971). The Administration has advised members that the software industry has agreed to the wording of the two new subclauses.

#### Broadcasting and re-transmission

25. Licensees of Satellite Master Antenna Television (SMATV) systems may at present re-transmit non-encrypted satellite broadcasts without infringing copyright by the exemption provision in section 14(8A) of the Copyright Ordinance and their licences. Clause 82 of the Bill removes this exemption and enables satellite broadcasters to withhold copyright permission to re-transmit non-encrypted signals, or to impose copyright royalties or conditions for such re-transmission. Four major broadcasters in Hong Kong support explicit recognition of the rights of broadcasters over re-transmission of their broadcasts. SMATV operators and providers, on the other hand, object to the removal of exemption. SMATV operators have argued that a non-encrypted programme signal should be presumed to be intended for general reception. Enactment of clause 82 which goes against

the recommendation of the LRC will not only seriously affect the operation of SMATV operators but also deny SMATV subscribers access to full and free reception of non-encrypted satellite programmes which they currently enjoy. Even if SMATV operators are prepared to pay the copyright owners for re-transmission of non-encrypted broadcasts, prevailing licensing conditions prohibit them from doing so.

26. The Administration has explained that non-encrypted signals are not necessarily “free to air”. After publication of the LRC Report, the international position has become clear that copyright owners should not be required to go through any formalities to assert their rights, whether through registration or encryption. Any diminution of the rights should be through specific exceptions provided for in the law; these exceptions themselves should be subject to the condition that they must not interfere with the copyright owner’s normal and reasonable rights to exploit his work. In the light of this international consensus, the Administration considers it necessary to provide a legal framework in the new copyright law to enable authorised broadcasters and cable programme providers to stop unauthorised use of their programmes. The Administration has further clarified that most SMATV licensees currently only offer services broadcast by Asiasat 1 which principally covers STAR TV and some Chinese television services. STAR TV has indicated that it will be willing to give copyright permission for re-transmission of its services notwithstanding the removal of the re-transmission exemption in the Bill. Thus, most households served by SMATV systems will not be affected. Nevertheless, to address the concerns of SMATV operators and to ensure minimal inconvenience and disruption to the viewing habits of SMATV subscribers without compromising the rights of broadcasters to distribute their signals, the Administration proposes to amend clause 82 to provide for a revocable implied licence to SMATV operators to re-transmit non-encrypted broadcasts. The maker of a non-encrypted broadcast may revoke the licence by publishing a revocation notice in newspapers and the revocation will take effect six months after its publication. Pending a review of the broadcasting policy, the Administration will revise the terms of licences of SMATV operators to permit them to pay royalties for re-transmitting broadcast signals. The effective date of clause 82 to be appointed by the Secretary for Trade and Industry by notice in the Gazette will tie in with the change in SMATV licensing conditions. Members note the broadcasters’ strong disappointment over the proposed amendment to clause 82.

#### Ephemeral rights

27. Clause 77 allows incidental recording or copying of copyright works for the purpose of broadcast or inclusion in a cable programme service on condition that such technical copies of works must be destroyed within three months of being

first used for broadcasting. Four major broadcasters are of the view that since they have already paid royalties for the copyright works and hold broadcast rights, broadcasters should be allowed to keep them without a limitation period so long as the use of the technical copies of the works is within the conditions of the licence agreement. The requirement to destroy these copies within three months will pose logistical problems.

28. The Administration has explained that under the existing law, ephemeral copies can only be retained for 28 days. Since broadcasters are required to make available, if requested by the Television and Entertaining Licensing Authority for the purpose of review, copies of their programs within three months of their broadcasts, the Administration accordingly extends this period to three months in the Bill. Ephemeral copies are meant to be transient copies to facilitate broadcasters to make technical adaptations prior to broadcasting and are not library or archive copies. Since broadcasters should have been given a master copy of the work under their licence agreements with the copyright owner, the Administration does not see a justified need to extend the copyright exception for an ephemeral copy beyond three months.

#### Employee works and commissioned works

29. Clause 14(1) of the Bill provides that copyright should vest in the employer who has invested in the creation of such works; clause 15(1) provides that copyright in all commissioned works should belong to the person who is entitled to the copyright under an agreement. A deputation has expressed worries that clause 14(2) which retains a statutory award provision for employee works may encourage employment of workers outside Hong Kong by non-Hong Kong companies because they would run less risk of retrospective claims from employees for subsequent exploitation of copyright works. It doubts the compatibility of clauses 14(2) and (15)2 regarding compulsory compensation and licensing arrangements with the TRIPS Agreement.

30. The Administration has clarified that clause 13 of the Bill expressly provides that the author of a work is the first owner of any copyright in it, which is consistent with the TRIPS Agreement. Whilst the copyright of an employee's work belongs to the employer, this is subject to any agreement which may be negotiated between the employer and the employee. In recognition of the legitimate rights of the author, and in the spirit of the TRIPS Agreement, clause 14(2) provides that the employee, being the author, would be entitled to a statutory reward from the employer who subsequently exploits the work in such a way that could not have been reasonably foreseen at the time of making the work. By the same token, the copyright in a commissioned work is governed by any agreement between the author and the commissioner. In order to balance the rights of the

author and those of the commissioner as a consumer, clause 15(2) incorporates a limitation provision which specifies that the person commissioning the work should have an exclusive licence to exploit the commissioned work for all purposes which could reasonably have been contemplated at the time of the commissioning and to restrain any exploitation for other purposes which he could reasonably take objection. This limitation provision follows Article 13 of the TRIPS Agreement.

31. Members note the Administration's explanations. They also note that these explanations are not accepted by the deputation which remains of the view that the provisions do not allow private agreements to regulate exploitation of copyright works.

#### Copyright licensing

32. The Bill provides for a voluntary licensing system under which collective copyright administration societies may apply to the Registrar of Copyright Licensing Bodies for registration. The applicant is required to file the necessary information essential for prospective copyright users, such as scales of royalty charges. On the rationale for introducing a voluntary instead of compulsory licensing system, the Administration has explained that existing collective copyright administration societies have been operating successfully in Hong Kong. However, there is public concern about possible abuse of near-monopoly situation. In order to strike a balance between minimising the need for Government intervention in the administration of private rights and addressing the public concern, the Administration considers that a voluntary licensing scheme can achieve this purpose. Albeit no penalty for failure to register, unregistered collective societies will find themselves at a distinct disadvantageous position in the market in the absence of official recognition. The Administration has assured members that this proposed scheme is supported by existing collective copyright administration societies.

33. Some organisations have raised concern over the broad definition of licensing bodies in clause 141 which may even cover those which grant or negotiate licences in respect of one author of a copyright work. The Administration has proposed to narrow the definition to the effect that the jurisdiction of the Copyright Tribunal shall apply to those collecting societies exceeding a certain percentage of the market of a copyright work. However, members consider that a narrower definition of licensing bodies may inadvertently give preferential treatment to the large collecting bodies. In the light of members' view, the Administration has withdrawn the proposal.

### Copyright Tribunal

34. The Bill proposes to expand the jurisdiction of the Copyright Tribunal to determine disputes arising from licensing by the collective copyright administration societies under licensing schemes or in individual cases. Clause 165 provides that the Tribunal shall consist of one Chairman, one Deputy Chairman and seven ordinary members to be appointed by the Governor. Some members consider it necessary to clearly delineate the composition of these seven ordinary members, for example by specifying the trade sectors or the professions. The Administration has advised that the Copyright Tribunal will build on and expand the existing membership of four persons. Apart from the Chairman and the Deputy Chairman who will be persons qualified for appointment as District Judges, the other members will be drawn from different sectors of the community to achieve a balance of interests. Appointments will be made on the basis of the merits of the individuals concerned, taking into account their ability, expertise, experience, integrity, commitment to public service and their overall suitability for appointment. The objective is to ensure that persons so appointed will render the best judgement and advice to the functioning of the Tribunal. The Bills Committee has requested the Administration to provide specific information on the constitution of the Copyright Tribunal at the resumed debate on the Bill.

### Enforcement and penalty

35. The Bills Committee has examined the effectiveness of enforcement and the adequacy of penalties against infringement of intellectual property rights in Hong Kong. The Administration has explained to members that pirated goods seized by the CED at the importation, storage and distribution levels in 1996 have increased significantly in terms of both quantity and value as compared with 1995. Manpower resources in the Intellectual Property Investigation Bureau and in CED will be further strengthened to enhance capabilities in intelligence gathering, surveillance, border interceptions and prosecutions. Closer liaison has been established with enforcement authorities in Guangdong and Shenzhen to stop the influx of pirated copyright products from entering Hong Kong. The Bill introduces additional legal tools to enhance CED's ability to enforce against copyright piracy. These include conferring the power on CED to seize and forfeit suspected pirated goods, enabling the Commissioner of Customs and Excise to release seized samples and disclose information to copyright owners to help them establish infringement and pursue civil remedies, introducing an enhanced affidavit provision for the proof of copyright subsistence, and doubling the maximum penalty on first conviction for possession of pirated copyright products for trade or business purpose and plates for making pirated copyright products.

36. To combat piracy at the retail level, a number of organisations have suggested that the court be empowered to make closure orders on premises found to be involved in repeated piracy activities and that the occupiers and lessees of premises be held criminally liable for permitting their premises to be used for copyright infringement activities. Given the severity of these proposed penalties and the importance for early enactment of the Bill, the Administration suggests reviewing the need for such severe measures after implementation of the legislative proposals in the Bill for a period of time. As a moderate step to enhance the effectiveness of anti-piracy efforts, the Administration has proposed to amend clause 33 to make persons civilly liable for knowingly permitting their premises to be used for copyright infringement activities for trade or business purpose. Members have divergent views on the proposal. Whilst some support the spirit of the proposal, others have grave concerns over the viability of the proposal and the possibility of victimizing innocent landlords. Amongst the complications identified by members, it will be difficult to define the circumstances under which a person should be considered to have knowledge of the infringement act. Taking into account members' view and the need to consult the public and various bodies representing property owners on the practicability and implications of the proposal, the Administration has decided to withdraw its amendment to clause 33 and to examine this proposal together with the proposed severe measures at a later stage after enactment of the Bill.

#### Goods in transit

37. Clause 132(4) excludes articles in transit from the application of detention order. On the rationale for exempting goods in transit, the Bills Committee notes the Administration's explanation that while the TRIPS Agreement stipulates a border measure requirement for imported or trans-shipped copyright articles, it also states that there is no obligation to apply such a requirement to articles in transit.

#### Transitional provisions

38. A number of deputations have criticized the transitional provisions in paragraph 12 of Schedule 2 unclear as to their operation. In the retailers' view, under the present law, parallel imports made overseas by the Hong Kong copyright owner and then imported either directly from him or from a subsequent buyer do not fall within the definition of "infringing copy" and their importation or other dealing in them is not unlawful. However, under the Bill, the definition of "infringing copy" will include such items. Paragraph 12(4) of Schedule 2 does not exempt the possession or dealing with such articles lawfully imported before the commencement of the Bill.

39. The Administration has clarified that paragraph 12 of Schedule 2 has been drafted in line with the legal principle that acts done prior to the commencement of a new law will only be subject to the provisions of the previous law in force, if any. Any goods imported legitimately under the existing copyright framework will remain legitimate after enactment of the Bill. Goods imported illegitimately under the existing law will not be immunised. Since the case law is far from clear as to whether parallel imported goods are infringing copies under the existing law, the Administration considers it fundamentally wrong to stipulate categorically in the Bill what is, or is not, an infringement, and to pre-empt any possible future judgements by Hong Kong courts on cases that may arise based on the existing copyright framework. Members note the Administration's explanations.

### **Committee stage amendments**

40. A full set of Committee stage amendments (CSAs) to be moved by the Administration is at **Appendix III**. The views of members on CSAs involving substantial changes are as set out above.

### **Recommendation**

41. The Bills Committee recommends that, subject to the CSAs being in order, the Bill resume Second Reading debate at the Legislative Council Sitting on 23 June 1997.

### **Advice sought**

42. Members are invited to support the recommendation at paragraph 41 above.

Legislative Council Secretariat

11 June 1997