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26 June 2003

Mr Henry J H Wheare
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(Fax No. : 2219 0222)

Dear Mr Wheare,

Copyright (Amendment) Bill 2001 (the Bill)

I refer to your letter of 24 June together with your subsequent letters of clarification. I am writing to respond to the points you have raised.

The Law Society and the relevant industries have not been properly consulted on the CSAs

2. Following discussion of the original Bill at the LegCo Bills Committee meetings and taking into account further views from the representatives of the publishing, music and movie industry, the Administration agreed to revise the original formulations to define the scope of liberalisation.

3. We have carefully sought views from the representatives of the software, publishing, music, movie and the game industry on the proposed revised approach. The current wording of the Committee Stage Amendments ("CSAs"), in particular the proposed Section 35A, has been arrived at after at least seven rounds of discussion with the representatives of the publishing, music, and movie industry. The wording used represents a sincere attempt to meet their concerns to the greatest extent

possible and is acceptable to them. The representative of the software industry has no comments on the new approach. The Interactive Digital Software Association (IDSA) objected to our policy of including computer games in the scope of liberalisation. We have nevertheless indicated to the Bills Committee that the Government's policy is that the scope of liberalisation should be as wide as possible and that it is not appropriate to reduce the scope of liberalisation further.

4. We also sought views from the Bar Association and the Law Society on the new approach through a letter with an explanatory note dated 2 June. All the views collected from the industry and the two legal professional organisations as well as our response to those views have been circulated to the Bills Committee members for consideration. (A copy of the paper setting out our response to the Law Society's submission of 18 June was sent to the organisation last week after the issuance of the paper to LegCo.) There have been some further changes to the CSAs following the last Bills Committee meeting on 12 June 2003 but these are only drafting changes and there is no deviation from the policy agreed in the previous Bills Committee meetings.

<u>118A(b) - Application of the concept of "lawful user" in relation to copyright works other than a computer program</u>

5. As pointed out in the LegCo brief on the Bill, the use of computer software products usually requires the installation of the software into the user's computer in the first place, and this necessarily involves the copying of the whole of the part of the works in the software products. This copying, which would otherwise be an infringing act (if not permitted under the end user licence), is expressly permitted by Section 61 of the Copyright Ordinance in the case of a lawful user. In addition, Sections 60 and 61 permit a lawful user to make a back-up copy of the computer program or to copy or adapt the program for his lawful use without infringing copyright in the program. A lawful user is defined in Section 60(2) of the Ordinance as a person who has a contractual right to use the computer program in question.

6. We consider it possible that a developer of computer software products could defeat the proposed liberalisation by imposing a condition in the end-user licence agreement which prohibits the use of the software in Hong Kong (i.e. a geographical restriction), thus preventing the user from being a lawful user for the purpose of Sections 60 and 61. This would have the effect of defeating the proposed liberalisation. To ensure that the proposed liberalisation will not be defeated by such contractual restrictions, we have included the proposed Section 118A in the Bill to

deal with this situation. Since following the trend of technological convergence, a computer software product may contain not only computer programs but also other types of copyright works (e.g. a business software product may contain some clippings of artistic works), the proposed Section 118A needs to cover the situation where copies are made from these other types of copyright works as well, hence the need for the proposed Section 118A(b) in addition to the proposed Section 118A(a) which deals with copies made from computer programs only. It is important to note that where a copy of a work is excluded from the scope of liberalisation (e.g. a movie with a viewing time exceeding 15 minutes), the proposed Section 118A (b) will not apply to the work. In addition, the proposed Section 118A (b) is not applicable to pirated copies of works as the proposed Section 118A(b) only applies to copies of works (other than computer programs) which were lawfully made elsewhere (that is, parallel imported copies) and are potentially infringing under Section 35(3) but become non-infringing under the proposed Section 35A(1). (Works 'lawfully made' exclude works made in a country, territory, or area where there is no law protecting copyright in the work (Section 35(9).) Moreover, by virtue of Section 61 of the Ordinance, the copying or adaptation must be necessary for the lawful use of the program. It is also important to note that we have not recommended the removal of civil liability in relation to a violation of geographical restriction. Given the limited scope of the provisions under the proposed Section 118A, we cannot see how the provisions can open the door to wholesale end user and Internet piracy.

7. Please also note that the proposed Section 118A has all along been provided in the Bill. The current CSAs seek to improve the drafting of the proposed section but there is no change in policy intent.

<u>Liberalisation will open loopholes for the use of pirated works</u>

8. We do not agree with your view that liberalising parallel importation would result in an increase in piracy. Parallel imported computer software is made with the licence of the copyright owner. There is no evidence to demonstrate that trade in pirated products will increase as a result of allowing parallel importation. In a submission to the Administration, the Consumer Council cited an expert's finding that the liberalisation of parallel importation of sound recordings in Australia has not led to any increase in piracy[1]. Having said that, we will continue our

[1] At a meeting in Rome on 23 May 2001 at the Conference on Competition, Trade and Development, Professor Allan Fels, the Chairman of the Australian Competition and Consumer Commission, spoke on Intellectual Property, Competition and Trade Policy Implications of Parallel Import Restrictions. He made the following observations:

"Retailers report that advertising and promotional spending is continuing and the indent services

commitment in combating piracy through enforcement by the Customs and Excise Department, and the Department will continue to cooperate with the copyright owners and the industries to stamp out sale of pirated goods.

"Lawfully put on the market" should replace "lawfully made"

9. The issue was previously raised by the Law Society and discussed at the Bills Committee meeting on 7 November 2002. We do not consider it necessary to substitute "lawfully put on the market" for "lawfully made" for the reasons set out in paragraphs 10 to 12 below.

10. In its submission of last September the Law society put forward the view that the concept of "lawfully made" allows copyright owners to draft licences in such a way as that products made for sale in Hong Kong are not "lawfully made" and therefore continue to be “infringing copies”. Our view is that if a manufacturing licence prohibits the licensee from importing copies of computer software made by the licensee into Hong Kong, and at the time of making copies of that computer program, the licensee did not intend to import them to Hong Kong, then those copies will still have been ”lawfully made” even if they are subsequently parallel imported to Hong Kong by a third party.

11. Very often parallel imported copies of computer software are not imported into Hong Kong directly by the overseas manufacturers concerned. In practice, therefore, the Bill will be able to achieve our policy intention of allowing parallel importation of computer software products into Hong Kong.

12. From a legal point of view, the crux of the definition of "infringing copy" in section 35(3) of the Copyright Ordinance is built on "making". Under the test in this section, a copy of a work is an infringing copy if its making in Hong Kong would have constituted, amongst other things, an infringement of the copyright in the work. To exclude parallel imported copies from the definition of "infringing copies", it is appropriate to address the issue of "making". The expression "lawfully made" has therefore rightly been used to distinguish parallel imported copies from

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provided by producers has improved. Very little has been heard about damage to artists’ incomes from parallel imports. While the industry predicted rampant piracy, the available reports are that the incidence of piracy is low, and arises mainly from Australian sources. In fact a report published by International Federation of Phonographic Industry in September 2000, Recording Industry in Numbers 2000, reports that in Australia the incidence of piracy in 1999 decreased from the levels reported in 1998.”

copies made abroad without consent of the copyright owner (that is, pirated copies).

13. The Bills Committee has accepted our above explanation. Please note that the wording of the current definition of "lawfully made" in the CSAs is based on the existing one in section 35(9) of the Copyright Ordinance (save for some textual revisions) and is acceptable to the industry.

The alternative proposed

14. The proposed approach in your letter is to set out in a positive manner those articles that fall within the scope of liberalisation. Our intention is to liberalise the parallel importation of all articles which embody a computer program, save for some specified exemptions. This is in line with our policy of liberalising parallel imports as far as possible to enhance consumer choice. The proposed Section 35A in the CSA, which adopts a negative approach (that is, specify the types of works that will be excluded from the scope of liberalisation), reflects our policy better.

15. We believe that a delicate balance has been struck between encouragement of creativity and protection of intellectual property rights on the one hand and enhancement of consumer interest through more liberal parallel importation on the other hand. We have properly consulted the affected parties on the CSAs and the Bill is ready for resumption of second reading on 2 July. It would not be appropriate to defer the legislative process.

Yours sincerely,

(Donald Chen)
for Secretary for Commerce, Industry and Technology

c.c.

Clerk to Bills Committee	(Attn: Mr S C Tsang)	
Director of Intellectual Property	(Attn: Mr Stephen Selby)	
Hon Margaret Ng		
Hon Audrey Eu		
The Law Society of Hong Kong	(Attn: Ms Joyce Wong)	
Business Software Alliance	(Attn: Mr Jeff Bullwinkel)	f.i.
International Federation of the Phonographic Industry (Hong Kong Group) Limited	(Attn: Mr Ricky Fung)	f.i.