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IFPI Comments on the Copyright (Amendment) Bill 2006 in Hong Kong SAR

27 April 2006

EXECUTIVE SUMMARY

The following changes are required in order to ensure that the Copyright (Amendment) Bill 2006 ("the Bill") achieves its goals and establish effective protection for creative works in the digital age:

- Protection against circumvention of TPMs should be established without requiring knowledge of copyright infringement. Linking circumvention liability to copyright infringement, by requiring knowledge of, or relationship to, future copyright infringement is unnecessary and undermines the law's effectiveness. Further, to achieve meaningful protection for TPMs, criminal liability for the act of circumvention should be implemented.
- The long list of TPM exceptions should be narrowed down with higher reliance placed on voluntary measures and the review and evaluation mechanism in proposed section 273H; exceptions to the prohibition against dealing with circumvention devices should be avoided.
- The requirement for commercial purposes for the civil liability for distribution of circumvention devices (sec. 273B(1)(b)) should be omitted.
- The definition of "relevant device" used for the criminal liability for dealing with circumvention devices (section 273C(2)) should be similar to the definition used for the civil liability (sec. 273B(2)), to ensure the effectiveness of the criminal offence.
- Existing protection against parallel importation should be maintained.

I. INTRODUCTION

IFPI thanks the Bills Committee of the Legislative Council for the opportunity to submit comments on the Copyright (Amendment) Bill 2006, published in the Gazette on 17 March 2006.

IFPI, the international federation representing the recording industry, represents more than 1,450 producers and distributors in 76 countries in Europe, North and South America, Asia and the Pacific, and Africa. Its membership includes the major multinational recording companies and hundreds of independents, large and small, located throughout the world. The members of IFPI are involved in the production and distribution of sound recordings representing human musical impression of all kinds, popular, classical and serious, jazz, and folklore.

One of the main responsibilities of IFPI is to promote, defend and develop a balanced system of intellectual property protection for its members both at national and international level. In carrying out this mission, IFPI has worked with governments in every region of the world in the preparation of copyright laws and implementing regulations, touching all matters governing adequate and effective protection of the right of authors and producers of sound recordings and performers.

We applaud the initiative to update the Hong Kong Copyright Ordinance and introduce further safeguards to the protection of copyright works in the modern digital age. We have no doubt that the desired protection would have a positive impact on the local creative industry and would benefit domestic and foreign creators alike. We welcome the strengthening of legal protection for

Technological Measures (TPM) and in particular, the broader protection for both access and copy control measures, the new civil liability for the act of circumvention and the new offence of dealing with circumvention devices. Our comments on the proposed amendments are respectfully submitted in order to highlight several areas of concern to the international recording industry. Our main concerns go to the limited scope of application of the new TPM provisions and the long list of exceptions. We also believe that any relaxation of the parallel importation prohibition would harm the local industry and domestic market and should be avoided.

II. TPM PROTECTION NEEDS TO BE IMPROVED IN ORDER TO BE EFFECTIVE

a. *The Requirement of Knowledge of Copyright Infringement Should be Omitted from the TPM Provisions*

The requirement of "knowledge of infringement of copyright" in the proposed sections 273A(1)(b) and 273B(1)(c) would raise a barrier to effective protection for TPMs. Introducing a link to the infringement of copyright and a related knowledge element would place an undue burden on right holders and, if passed, could undermine the legal protection for TPMs altogether. The Bill already provides sufficient links to copyright in the definitions section, protecting only measures applied to content protected by copyright (proposed new sec. 273(3)). Technology is in particular need for separate protection in situations where it is difficult to prove the link to copyright infringement. The requirement to prove such a link would provide infringers with an easy way to escape liability and we urge to amend sections 273A and 273B by omitting this requirement.

TPMs have evolved to adapt to the increasing vulnerability of digital content and to allow exploitation of content in different schemes and forms. These technological measures, however, are themselves vulnerable to being defeated by other technology. For this reason, an independent, secondary level of protection has been established at international level for the TPMs themselves. In the 1996 WIPO treaties, the subject matter of protection is the technological measure itself (article 11 WCT and article 18 WPPT). The WIPO treaties reflect the consensus reached by contracting parties that, because of the vulnerability of technological measures, a secondary level of protection for the measures themselves was justified and needed.¹ The use of the words "in connection with the exercise of their rights" indicates the purpose of the TPM, but does not mean that legal remedies against circumvention depend on proof of copyright infringement.

Other countries' implementation of the WIPO treaty obligation have made this clear. For example, the EU Copyright Directive ("the Directive") affords TPMs legal protection that is independent of the rights in the underlying content. Article 6(1) of the Directive protects against the act of circumvention and only requires that the perpetrator has knowledge, or reasonable grounds to know, that he is pursuing that objective (the circumvention). The act of circumvention is prohibited regardless of whether the circumvention facilitates, enables or results in copyright infringement. Similarly, article 6(2) provides protection against the manufacture or dealing with circumvention devices without imposing any requirement pertaining to copyright infringement. Consequently, EU Member States implementing the EU Copyright Directive provisions in their domestic laws have also refrained from requiring copyright owners to prove a link between circumvention and copyright infringement. For example, under the UK Act, the required "knowledge" element for the act of circumvention is limited to knowledge of the act of circumvention itself ("pursuing this objective" - sec. 296ZA(b) of the Copyright, Designs and Patents Act 1988).

The same is the case in other common-law jurisdictions including Singapore (new section 261C of the copyright Act as amended by the Copyright Amendment Act 2005) and the US (section 1201(a)(1)(A) of the US Copyright Act 1976, as amended by the DMCA).

The prohibition on the act of circumvention in proposed Section 273A of the Bill applies only if the person "knows or has reason to believe that the act will induce, enable, facilitate or conceal an infringement of copyright in the work". Such a knowledge element is extremely cumbersome and it is

¹ For more background on the WIPO treaties TPM provisions see: M. Ficsor, *The Law of Copyright and the Internet: the 1996 WIPO Treaties, their Interpretation and Implementation* (Oxford University press, 2002) p.359-406; J. Reinbothe, S. Von-Lewinsky, *The WIPO Treaties 1996 - Commentary and Legal Analysis* (Butterworths, 2002) p.409-418.

difficult, if not impossible, to see how a copyright owner can prove what a perpetrator intends to achieve by circumventing. Section 273B, which prohibits the manufacture and dealing with circumvention devices, also requires right holders to show that the dealer knew or had reason to believe that the device will be used to induce, enable, facilitate or conceal copyright infringement. This wording is likely to create difficult barriers to enforcement. It would require right holders to prove a very specific type of knowledge on the part of the person engaging in dealing, about what his customers intend to do with the device in the future. Such a cumbersome element of proof would also likely assist dealers to avoid justice by simply arguing that they did not have any knowledge of likely future events. It should be noted that a similar "knowledge requirement" existed under old UK law (section 296) but was repealed in October 2003 with the implementation of the EU Copyright Directive. The UK court decision in *Sony v Ball*² described the difficulties and ineffectiveness of the old requirement.

Thus, the "knowledge of copyright infringement" requirement in both sections 273A and 273B is inconsistent with international approaches and does not provide "adequate legal protection and effective legal remedies against circumvention" as required by the WIPO treaties. It would discourage right holders from commencing cases and pursuing them to judgement because of the high risks and uncertainty associated with establishing such a specific knowledge element. We also note that the link between a TPM and copyright infringement is sufficiently contained in the definitions in section 273 of the Bill. These definitions limit the scope of protection to measures protecting acts restricted by copyright (sec. 273(3)(c)) and only where such measures are effective and "achieve the intended protection of the work" (273(2)(a) and (b)). Any additional knowledge standard would be unduly cumbersome.

b. A Different Approach to TPM Exceptions Should be Adopted, Relying Primarily on Voluntary Measures and the Mechanism Established by Section 273H

Proposed sections 273D, 273E and 273F establish a long list of exceptions to the prohibited acts. We urge the Committee to reconsider the advisability of introducing all of these exceptions at this early stage. The fundamental goals of the prohibition risk being undermined by this number and scope of exceptions. In particular, exceptions should not extend to the liability for dealing in circumvention devices, and there should be no exception for devices allowing the recording of broadcasts (section 273F(12)). Instead, as in the EU and the US approaches, we recommend higher reliance on voluntary cooperation between right holders and users and on the proposed oversight mechanism established by section 273H.

The prevailing international approach to TPM exceptions involves careful, narrowly drafted limitations, accommodating specific needs and avoiding exceptions to dealing in circumvention devices. Under the EU Directive, exceptions may be introduced only in respect of the act of circumvention (Article 6(4) specifically allows exceptions to article 6(1) only, but does not mention article 6(2)). The EC directive also promotes voluntary measures by right holders to accommodate specific exceptions, as the preferred option over legislating exceptions (article 6(4) and recital 51). It is only when such voluntary measures, including agreements between rightsholders and relevant parties, are not undertaken, that member states will consider other measures to ensure that beneficiaries can enjoy relevant exceptions. In any case, the Directive clarifies that exceptions should only be relevant to users who have legal access to the work; and that exceptions shall not apply to works communicated via interactive online transmissions under agreed contractual terms (article 6(4)).

Under US law, available exceptions are few, strictly limited and narrowly drafted. Instead of a broader range of exceptions, an administrative oversight mechanism is adopted, involving periodic evaluation of the demonstrated need for exceptions in order to prevent adverse impact on lawful uses of specific classes of works. Such a mechanism safeguards the integrity and effectiveness of TPM protection and, at the same time, ensures that if a problem arises, an appropriate exception may be applied. In evaluating the need for exceptions, the mechanism established under DMCA ensures careful consideration of all relevant factors, including the type of technology used, the work protected, the user, the lawfulness of the use and the effect on the market or value of the work (sec. 1201(a)(1)(C) of the US Copyright Act).

² *Kabushiki Kaisha Sony Computer Entertainment v Ball* [2004] EWHC 1738 (Ch), available at: <http://www.bailii.org/ew/cases/EWHC/Ch/2004/1738.html>.

We recommend that the Hong Kong law follow these international approaches. We are concerned that the exceptions in the Bill, if passed, would nullify the protection given to TPMS and open the door for circumvention devices to enter the Hong Kong market, making enforcement even more difficult. Exceptions to the acts of manufacturing, distributing or otherwise dealing with circumvention devices (proposed sections 273E and 273F) should be avoided. Such exceptions would permit devices to enter the market for an exempted purpose, but then subsequently be used for other, non-exempted purposes. As it would be impossible to monitor the way circumvention devices are used in practice, such exemptions would undermine the protection against the act of circumvention established by proposed section 273B. Enacting a long list of exceptions would also provide an easy defence to the makers and sellers of circumvention devices, who could simply argue that the making or selling was to enable a person to perform an exempted act.

Further, we are concerned about the exception in section 273F(12). The exception to criminal liability for dealing with devices designed to circumvent measures protecting against recording of broadcasts or subsequent viewing/listening is inappropriate. It would undermine efforts of right holders to distribute their works over new digital networks. The exception would likely create a situation where right holders, who were unable to control any recording of their works, would choose not to distribute them over certain platforms. With the emergence and growing popularity of digital audio broadcasting, the exception in section 273F(12) would also place Hong Kong out of step with international trends. It should therefore be deleted.

c. Criminal Liability Should be Established for the Act of Circumvention

In order to deter perpetrators, criminal liability should be established in addition to civil liability for the act of circumvention.

We note that the proposed amendments do not establish criminal liability for the act of circumvention, which remains subject to civil liability only. We support the introduction of criminal sanctions against the act of circumvention of protection measures. Criminal sanctions are needed to provide an effective deterrent, as they would signal the seriousness of such acts. Introduction of a criminal offence for the act of circumvention would also ensure that effective action can be taken by both right holders and enforcement authorities against any person circumventing and facilitating large-scale piracy. Such criminal liability has already been introduced under US law (sections 1201(a)(1)(A) and 1204) and the Singapore law (section 261C(4)).

d. Civil and Criminal Liability for Dealing with Circumvention Devices Should be Clarified

The requirement for "commercial purposes" for the distribution of circumvention devices should be omitted from the civil liability in section 273B(1)(b); the criminal offence in section 273C(1) should apply to devices that have only limited commercial significance other than circumvention.

The civil liability in section 273B(1)(b) is limited to situations where the person "exhibits in public, possesses or distributes (...) for the purpose or *in the course of any trade or business*". The required link to "trade or business purposes" is unnecessary and significantly limits the effectiveness of this prohibition. For example, the provision would not restrict the distribution of circumvention devices where such distribution is made on a non-profit basis. The suggested wording also places an undue burden on right holders to prove that distribution of circumvention devices was linked to a business or commercial activity. It is possible that, in following the Copyright Directive, the intention was to apply a "commercial purposes" requirement to the possession of circumvention devices only, but not to the act of distribution. In order to clarify section 273B(1)(b) we suggest replacing subsections (a) and (b) with following list of prohibited acts from article 6(2) of the Copyright Directive: "manufacture, import, distribution, sale, rental, advertisement for sale or rental, or possession for commercial purposes".

The criminal liability for dealing with circumvention devices (sec. 273C) applies only to devices that are "primarily designed" to facilitate circumvention (definition of "circumvention device" in section 273C(2)). The definition of "relevant device" used for the criminal liability is significantly narrower than the one used for the civil liability (in sec. 273B(2)). In order to ensure the effectiveness of the criminal liability and its applicability to all circumvention devices, we suggest using the same definition provided under section 273B(2) also in section 273C(2).

III. EXISTING PROTECTION AGAINST PARALLEL IMPORTATION SHOULD BE MAINTAINED

Existing protection against parallel importation, including the 18-months window of protection, should be retained. Relaxation of the prohibition against parallel importation would result in loss to the domestic creative sector and would be counterproductive to local economy.

Applicable law criminalises parallel importation for a period of 18 months after the release of new product to the market. This level of protection is much needed in the Hong Kong market. Any liberalization would ultimately harm local industry, result in losses to licensed distributors and prove counterproductive to domestic economy. Removing existing protection against unauthorised importation, or shortening the liability period as proposed by the amendments to section 35(4)(b), would provide parallel importers an unfair advantage. Unlike exclusively licensed distributors, parallel importers do not invest in promoting creative content, do not create market demand for copyright products and do not reinvest profits in nurturing local talent. Parallel importers free-ride on the efforts of established distributors, harvesting profits from a market they invested nothing in creating. The loss of sales suffered by exclusive distributors from parallel importation means less money to reinvest in future marketing and artist development. This scenario eventually results in decreased investments in local productions and fewer products on the market. Relaxation of parallel importation also undermines enforcement efforts against physical piracy. Pirated product is easier to mix with parallel imported products. With the possible different packaging and appearance of legitimate products manufactured overseas, distinguishing between legitimate and illegal imports is more difficult. Therefore, increased parallel importation will increase the possibility of more infringing copies entering the local market, resulting in additional loss to licensed distributors.

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