30th April, 2006

Bills Committee on Copyright (Amendment) Bill 2006
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong.

Dear Chairman and members of the Bills Committee,

Re: Copyright (Amendment) Bill 2006

We thank the Council's letter dated 12th April 2006 for inviting us to submit our views and comments on the Copyright (Amendment) Bill 2006 ("Amendment Bill").

We would venture to suggest that we first focus on what we perceive as the proper policy for the issues as raised in the Amendment Bill before we actually go through the wordings of the Amendment Bill.

We have a dream that Hong Kong may be an ideal place for the creation of an intellectual property culture which attracts admiration from other countries in this region. The place which fosters the creation of an environment in which the need to actually enforce IPR rights is reduced or eliminated and we live in an environment in which our focus is creativity and innovation which in turn creates wealth for the Hong Kong people.

The place where we have our own unique culturally rich contents created by our talents which will be commercially exploited in both Hong Kong and overseas markets. We work together to develop a knowledge-based economy which is built on the carefully defined intellectual property rights and interests which have been developed and well suited for our ecosystem for business and trading in copyrighted materials over times.

Our dream for building an intellectual property culture will become **our vision** if we have the political will, excellent education system which respects intellectual property rights and fosters the creativity and innovation, together with the appropriate legal framework for effective and expeditious enforcement process.

However, the advanced in digital and computer-related technologies have allowed reproduction of copyright work much easier and it is not a laughing matter when people coined the internet as the most efficient copying machine ever created for our musical sound/visual recordings. The rampant online piracy precludes any return on

investment and future growth in the record industry and dampens the very spirit and energy of our industry which is an integral part of the creativity process towards a knowledge-based economy. Music is used in every aspect of cultural activities and business such as TV program, movies, broadcast, concert, karaoke, audio/visual enjoyment in retail shops etc.

After 4 years of consultation, we regret to note that the Amendment Bill falls short to achieve what we set out to achieve. Without appearing to be too contentious and please excuse us for not being able to write in a more tactful manner, it appears that the CITB has simply focused on the purported balancing exercise or compromise among the interests groups without any careful consideration of our economic and social policies behind the intellectual property rights.

We have previously made three submissions to the Legco Panel on the Commerce and Industry on the key issues related to the subject matters of the Amendment Bill[1]. For the sake of clarity, we hereby reiterate our positions and comments on those controversial issues as raised in this Amendment Bill.

We wish to point out the most controversial key issues in the order of priority of our concern list are as follow:

I. Parallel Import

1. It has been well settled that the period of criminal sanction against parallel imports of copyright works (except computer program opened after 2001) is 18 months from the date of the first publication of the work anywhere in the world since the enactment of the Hong Kong Copyright Ordinance on 27th June 1997 which came into force on 1st July 1997. This serves as a balance between the copyright owners and the end users as criminal remedy is the most effective and relatively expeditious enforcement process.

2. This serves the content creator/investor/provider well as it could focus on its resource in promoting and advertising the products to the public rather than spending the resource in civil litigation which is time consuming and expensive. This only increases the cost and therefore the prices of the products to the public. Otherwise parallel imports would frustrate its efforts to effect the distribution of copies of its copyright work in order to serve different territorial markets.

[1] Submission from International Federation of the Phonographic Industry (Hong Kong Group) Limited addressed to CITB dated 15th August 2005 on parallel import (English version only) [CB(1)244/05-06(06)] ;
Further submission from International Federation of the Phonographic Industry (Hong Kong Group) Limited dated 9th August 2005 on DRM (English version only) [CB(1)2190/04-05(03)]; and
Submission from International Federation of the Phonographic Industry (Hong Kong Group) Limited dated 11th July 2005 on overall issues (English version only) [CB(1)2047/04-05(11)].

3. The 18 month criminal sanction period was a compromise as a result of lengthy discussion between stakeholders yet the arrangement barely manages to enable the content creator/provider to recoup its investment on the copyright work and prevents the free riding on its effort and expenditure in promoting the copyright work in Hong Kong by parallel importers.

4. As it is difficult to distinguish between parallel imported copies and pirated copies, criminal sanctions against parallel imports would keep the pirated copies disguised as parallel imported copy out of the market as there is no need to prove that such copies have been illegally produced in the country from which the pirated copies are being imported into Hong Kong[2].

5. In short, parallel importers could buy the products from the copyright owner in other markets where his marketing costs and prices are lower and resell them in higher cost/price markets. This would amount to free-riding on the Hong Kong copyright owner with differentially higher marketing costs in Hong Kong and above all, cost of development to market success by locally created new products and artistes for which such risks the importers will never have to bear. Exclusive territories would not exist unless they are needed to prevent free-riding from hampering Hong Kong copyright owner's abilities to compete.

6. Therefore any proposed shortening of **the period of criminal sanction** from 18 months to 9 months will have the devastating effect on the recoupment of the investment by content creator/provider/investor.

7. Both the film and music industries were (and still are) at shock when they learnt from the meeting with CITB on 29th July 2005 that CITB has resolved to shorten the period of criminal sanction despite their assurance that there was no recommendation to change on their briefing with Legco Panel on Commerce and Industry on 19th July 2005[3]. By our letter addressed to CITB on 15th August 2005, we wrote to them to protest vigorously against any such proposal. We hereby reiterate our views as expressed in that 15th August letter.

8. There is indeed no justification whatsoever to shorten the criminal sanction period as the Government had in a number of occasions[4] confirmed that no change would be forthcoming.

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[2] Paragraph 12-009 of Intellectual Property 2nd Edition by W.R. Cornish 1989 and HKSAR v. Chan Kwai Tong (HCMA993/2005).

[3] Please refer to paragraph 16 of the Minutes of meeting of Legco Panel On Commerce and Industry on 19th July 2005 under LC Paper No. CB(1)2270/04-05 in which it was stated that our Mr. Ricky Fung welcomed the Administration proposal to retain all the existing restrictions on parallel imports of copyright works, including the 18-month period.

[4] See paragraph 38 of the "Proposals on Various Copyright-related Issues" under Legco reference CB(1)1792/04-05(05); the public consultation paper on "The Review of Certain Provisions of The Copyright Ordinance" as published by CITB on 9th December, 2004; and letter dated September 6, 2002 from Ms. Laura Tsoi for Secretary for Commerce Industry and Technology addressed to the Bills Committee on Copyright (Amendment) Bill 2001.

9. We then learnt from the 15th November 2005 Legco brief on the Refined Proposals on Various Copyright Related-Issues as submitted by CITB for discussion before the Legco Panel on Commerce and Industry that it was the Liberal Party who was behind the proposed shortening of the criminal sanction period, we together with other content industries wrote to the Liberal Party setting out our positions to which we have not received any reply from them.

10. We hereby urge the Bills Committee to consider our proposal that **the period of criminal sanction against the parallel importers** be extended from 18 months **to 24 months** for reasons as set out in our letter dated 15th August 2005. We believe that this would provide a market solution against imported pirated copies.

II. The Anti-Circumvention of the Technological Protection Measures

11. We have read the submission addressed to the Bills Committee by IFPI London Head office on 27th April 2006 ("London Submission") and we agree entirely with the views as expressed therein. They have provided the international background, legal framework and norm for the legal protection of the Technological Protection Measures. As there is no boundary in the online cyber world, harmonization of the digital copyright law is one of the key objectives of international copyright treaties and conventions.

12. For the sake of good order, we hereby reiterate our views and comments on our submission to the Legco Panel on Commerce and Industry in respect of the Digital Rights Management System on 9th August 2005 under your website reference [CB(1)2190/04-05(03)].

13. As the digital rights management system plays a very key and central role in the digital copyright law, we invite the Bills Committee to consider every aspect diligently as the final version will shape or hamper the further development of e-commerce in Hong Kong. It is imperative to understand that without the confidence of the content creators/providers/investors on our digital copyright law, they are reluctant to exploit or make available their works in digital online environment and the customers do not feel secure transacting online.

14. As we pointed out in our said 9th August submission, there are two main types of technological protection measures ("TPMs"), namely (i) **access control** and (ii) **copy control.** It is unnecessary to bundle the TPMs with copyright infringement in order to establish a violation of anti-circumvention provisions. Otherwise TPMs would be unnecessarily narrowly defined and would defeat the very purpose of TPMs in the protection of copyright works in the online environment.

15. As rightly pointed out in the London Submission, the use of the words "in connection with the exercise of their rights" in article 11 WCT and article 18 of WPPT spells out **the purpose of the TPM** and **it is not necessary that legal remedies against circumvention depend on the proof of copyright infringement**[5]. The copyright owner has a separate legal action against the infringers based on copyright infringement. TPMs serve as the second layer of copyright protection of a copyright work in a digital environment.

16. As the main object of the TPMs must be to protect a copyright work in the digital environment, it is unnecessary to prove that the protection of the works is the main or primary object of the measure, what it is necessary is that the measure should have been designed to achieve this primary object in the normal course of its operation.

17. The anti-circumvention provisions prohibit trade in device or any act which circumvents TPMs without regard to whether the hacker knows that the circumvention will lead to copyright infringement as long as such device is designed, in the course of its operation, **to protect** a copyright work. This is the approach taken by U.K., E.U. and U.S.A. We understand from the Amendment Bill[6] that Hong Kong will take the similar approach.

18. As our Mr. Gadi Oron of IFPI London head office pointed out in our meeting with CITB on 19th January 2006, he did express clearly that he has a strong view on bundling the anti-circumvention acts with copyright infringement. Please refer to London's submission for the detail analysis of his concerns on this matter. Bundling is against the international norms and obligations on TPM. This out of norm proposal frustrates the international effort in harmonizing the digital copyright law.

19. We also pointed out in that meeting that from the draft as tabled before that meeting, the exceptions are modeled on US Digital Millennium Copyright Act 2000 which only deals with access control but not copy control whereas the proposed draft provides the exceptions for both copy control and access control.

20. The 4 elements for "good faith" requirement for decryption research exception as laid down in section 1201 (g) of DMCA are not included in Hong Kong exceptions. There is a clear unbalance in favour of the hackers. We understand that the professors in computer science would like to carry out encryption and decryption research and published papers in order to secure or

[5] Second Paragraph of Part II (a) at page 2 of the London Submission refers.

[6] Sections 273 (2) and (3) of the Amendment Bill as compared to section 296ZF of the U.K. Copyright Designs and Patents Act 1988, however the words "intended protection" are used rather than "protection".

advance their academic career. However they should never do so at the expenses of the contents and e-commerce industry. Certainly, not in the name of academic freedom as they are dealing with the private property rights.

21. If the exceptions were to be enacted, any hackers would like to see the publication from the Hong Kong professors as to how to decrypt the encryption used by the banks, say in US and England, for the fund transfers between banks and customers or customers to customers, whereas their digital copyright law clearly prohibits such activities without the authorization of the owners. The security of our banking system and of our other secured online transactions and transmissions[7] will no longer be safe here. There is no way we know when the professors and their technical staffs have successfully hacked the systems and when and where the decryption research will be or have been published. **Hong Kong will become an international haven for hackers under the proposed exceptions**.

22. It is imperative to appreciate that the primary object of TPMs is to provide the adequacy and effectiveness of TPMs designed **to protect** copyright works and in particular the protection of copyright owners against unauthorized access to their encrypted copyright works.

23. Conceptually, access control is not an act of copyright infringement which is necessary for the protection of the copyright works in the digital environment. Copy control is more akin to copyright infringement. Any exceptions to be granted under these two different types of TPMs must be considered separately in their respective contexts and not be granted lightly. Any such exceptions must not include any activity which would prejudicially affect the interest of the right owners. Therefore **any dissemination of decryption research information, without the consent of the right owner, in journals or at conference or through other venues must be excluded in the exception list**. This is the position taken by U.S.A., E.U., Australia and U.K.

24. As regards the TPMs for segmentation of markets into different geographical regions, we fail to understand why CITB chooses to use the computer game console to illustrate the point first and then extend the exception to other geographical coding system for film or other copyright works. There is no restriction of parallel importation of computer game and computer program but this is not the case for other copyright works. Therefore it appears that their argument for excluding the region coding system may appear to be sound in the context of computer game console. But the purported justification shall not and cannot apply in the case of region coding system for other copyright works such as films which restrict parallel imports.

[7] The forms designed and are necessary for the on-line transactions may be copyrightable.

25. Any TPMs which support the region coding system for copyright works, other than computer program and game, shall be included within the definition of TPMs if the Administration is minded to open the game console for computer game.

26. In addition, any act of circumvention in commercial scale must be criminialised in order to provide adequate and meaningful legal protection on TPMs.

27. The central issue is that Hong Kong does not have experience in dealing with TPMs as part of our digital copyright law, given the forward looking nature of the exceptions proposed by CITB, any conclusion will be entirely and highly speculative. We must learn from other leading countries and should harmonize our digital copyright law in line with international norms and obligations as TPMs do play an important key and vital role in e-commerce.

28. We therefore suggest that the narrowly defined exceptions be limited to a very few special circumstances first. An administrative oversight mechanism[8] should be in place with a view to resolving any specific need for specific purpose as may be requested by any interest party who would like to have and to benefit from the exception covered such specific need for specific purpose. This will safeguard the integrity of the TPMs. As the proposed amendments also include such mechanism[9], there is no rush nor any urgency to have wide exemptions in place which simply serves the interests of the academia without any regards and respect to the interests of the right owners who contribute both the intellectual creation of and investment in the development of TPMs.

III. The Rights Management Information

29. As we pointed out in the 19th January meeting with CITB, we have no objection to the proposed amendment to section 274 as long as the final version of the amended section is within the scope of and in line with the requirement of section 296 ZG of the U.K Copyright Designs and Patents Act 1988 and of Article 7 of the E.U. 2001 directive on the Harmonization Of Certain Aspects Of Copyright And Related Rights In The Information Society.

IV The Authorship of A Sound Recording For Section 121 Affidavit Evidence

30. Section 11 (2) (a) of the Copyright Ordinance provides that the producer of a sound recording is taken to be the author of that sound recording.

[8] Please refer to section 296 ZE (3) (b) of the U.K. Copyright Designs and Patents Act 1988; and section 1201 (C) of the DMCA of US.

[9] Section 273H of the Amendment Bill refers.

31. A work may be qualified for copyright protection **if the author was** at the material time (a) **an individual** domiciled or resident or having a right of abode in Hong Kong or elsewhere; **or** (b) **a body incorporated** under the law of any country, territory or area[10].

32. Section 198 (2) (b) of the Copyright Ordinance provides that:

"**Producer**", in relation to a **sound recording** or a film, means the person by whom the **arrangements** necessary for the making of the sound recording or film are **undertaken**.

33. The word "undertaken" implies that it is the person directly responsible for the necessary arrangements, particularly in the financial sense, who is the author of the sound recording[11]. **Therefore it is not the artistic producer who is the author of the sound recording.**

34. This means that the producer of a sound recording may be a natural person or a corporation as long as he/it undertakes to make the necessary arrangements, in financial sense, for the making of the sound recording.

35. There is dispute as to whether section 121 affidavit be used for the proof of copyright subsistence and the ownership may not be available to the corporate author. In this connection, we wish to refer you to a High Court case HKSAR v Li Ka Ho Tommy (HCMA 825/2004) in which the learned Judge rules that the "places of domicile" of the producer covers both a flesh and blood individual and body corporate.

36. However, it was unfortunate that section 178 of the Copyright Ordinance was not referred to in this High Court case. Section 121 (1) (b), which relates to an authorship of a work, clearly stipulates that "**the name, domicile, residence or right of abode of the author of the work**" be stated for section 121 affidavit evidence. These particulars of authorship required under section 121 describe the author of a work as an individual in similar wordings set out for the qualification requirements of copyright protection for an individual under section 178 (1) (a) of the Copyright Ordinance.

37. In the premises, we agree that section 121 related to the authorship part be amended to include body corporate. This will obviate any doubt on this issue.

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10 Section 178 (1) of the Copyright Ordinance refers.

11 See paragraphs 4-49 of the Copinger And Skone James on Copyright, 15th Edition, 2005 by London Sweet & Maxell. Paragraph 62 of the Reason of Judgment of HKSAR v. Cheung Tsang Hung Eric (DCCC 333 of 2003) in which the Deputy Judge Lam rules for non-compliance with the requirement of section 121 (a) which is subsequently confirmed by the Court of Appeal in this case (CACC 298/2004).

V. The Rental Right for Films (Musical Visual Recordings)

38. As we submitted to CITB in February 2005, we point out to them that special category of work known as Musical Visual Recording is defined in section 198 of the Copyright Ordinance as *"a **film** with an accompanying sound-track, the whole or a predominant part of which sound-track consists of the whole or any part of a **musical work or a musical work and a related literary work**"*. The nature of the contents of musical visual recordings is different from that of motion pictures.

39. For the purpose of illustration, another special category of work known as computer program is defined as literary work (section 4) but it has different treatment in our copyright law (such as sections 35(3), 60, 61 and 118 A) due to the special characteristics and use of the computer program works. There is no restriction of parallel import for computer program, however, all other literary works are still subject to the restriction of parallel importation regime. There are different treatments for the same category of a copyright work.

40. The mode of commercial exploitation of the Musical Visual Recordings and that of the motion pictures are different as the consumers usually buy musical visual/sound recordings for repeated listening and enjoyment whereas people would rarely see the same film more than twice at home.

41. Therefore, people love to make and keep copies of the Musical Visual/Sound Recordings for their life time enjoyment. This is more relevant in recent years when mobile and personal telecommunication devices enable the freedom to download, store and play the musical visual/sound recordings anytime anywhere.

42. WIPO Performances and Phonograms Treaty 1996 (which is one of the WIPO Internet Treaties), which has updated the intellectual property rights of Rome Convention and Trips Agreement, have made the following agreed statements in respect of the Musical Visual Recordings as follows.

The Agreed Statements of WPPT as **adopted by the Diplomatic Conference on December 20, 1996 Concerning Article 2(b) :**

It is understood that the definition of phonogram provided in Article 2(b) does not suggest that rights in the phonogram are in any way affected through their incorporation into a cinematographic or other audiovisual work.

43. As more musical recordings are made in audio/visual digital formats, and in the absence of the clear and absolute rental right for musical visual recording, the rental right granted to musical sound recordings only will serve no useful

purpose as the customers will still be able to make copies of both audio (from the soundtrack of the musical visual recordings) only and audio-visual recordings from a rented copy of a musical visual recording. This defeats the intention and the purpose of both the Copyright Ordinance and of the International Treaties to protect musical sound recordings.

44. Therefore, we hereby invite the Bills Committee to **exempt musical visual recordings from any pre-condition of having a reasonable licensing rental schemes for the rental business**. The CITB indicated that they did take note and was willing to consider that the such licensing rental scheme should not he applied to musical visual recordings[12].

VI. Fair Dealing for Education

45. Both CITB and content industry agree that "today educational use of copyright works covers not only classroom instruction but also interactive and project-based teaching. Educational use of copyright works will continue to evolve with changes in teaching methods"[13]

46. At this juncture, it may be helpful to point out that it is imperative to appreciate that the basic tenets of copyright and related rights, namely, rights of communication, of reproduction and of distribution/publication of a work to the public set out and apply to the analogue world must be maintained when they apply to the digital environment and such basic tenets shall not be in any way undermined.

47. Interactive and project-based teaching requires special attention as it involves two exclusive rights, namely the reproduction[14] and communication rights[15], which are protected under the WIPO Internet Treaties and Berne Convention. We must ensure that there is no unreasonable prejudice to the legitimate interests of the copyright owners under the banner of "seeking educational objectives".

48. We all understand how thousands of digital copies of a work can be transmitted anywhere in the world at any time within a matter of minutes with no deterioration in quality. This is a great contrast to the analog way of making copies through paper copier.

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[12] Item no. 11 under the heading of Rental Rights for Films and Comic Books at page 41 of Annex A under LC Paper No. CB (1) 1792/04-05 (05) refers.

[13] Paragraph 32 of Legislative Council Brief on Copyright (Amendment) Bill 2006 under file reference : CIB CR 07/09/16 refers.

[14] Article 9 of the Berne Convention, Article 1 (4) of WIPO Copyright Treaty 1996 and Articles 7,11 and 16 of WIPO Performances and Phonograms Treaty 1996

[15] Article 11 and 14 of Berne Convention; Article 8 of WIPO Copyright Treaty 1996 and Articles 10 and 14 of WIPO Performances and Phonograms Treaty 1996

49. However, the proposed fair dealing exceptions for Education have provided our school uncontrolled access to copyrighted materials in digital format and make them available online to their students in an uncontrolled manner. There is no way any person will know how many copies of the copyrighted material is being transmitted to the students of a school and how many copies of such copyrighted material is subsequently transmitted to the friends or students of other schools by a student of that school. The viral way of spreading copyrighted materials over the internet in an uncontrolled manner will definitely and unreasonably cause prejudicially effect to the interest of the copyright owner. No doubt, **our school system will become the safest haven for online piracy in the world.**

50. We therefore urge the Bills Committee to mandate every school which wishes to take advantage of interactive teaching and learning method using the digital information technology must employ the adequate "digital rights management" for any digital copyrighted material posted on its web-site. **The school must be shouldered with the responsibility of ensuring their teaching materials be used within its terms and conditions specific for its teaching needs and shall not go beyond what it is needed for such teaching needs.** Anything use of copyrighted materials which is beyond the scope of the exemption must be covered by obtaining prior licences or permission from the copyright owners.

51. In this connection, we wish to point out that U.S. a recent legislation Technology Education and Copyright Harmonization Act ("TEACH Act") was enacted on 2nd November 2002 may be a convenient starting point for our consideration. The TEACH Act broadens the exemption section 110 of the U.S. 1976 Copyright Act to allow displays and performances to be made available in online setting that parallel to the traditional classroom teaching setting of the original section 110. TEACH Act updates the copyright law related to analog teaching mode to digital online setting.

52. As the digital online teaching involves both the reproduction rights (via transmission) and communication rights of the author, TEACH Act provides a number of safeguards to limit the new risks to copyright owner that are inherent in using its works in the digital format in school.

53. TEACH Act stipulates that, in order to cover by this exemption, a non-profit accredited educational institutional[16] is required to :

    i. Online Equivalent of a Display or Performance in Traditional Classroom Setting: Exemption only applies to:

[16] Section 1 (2) of the TEACH Act (2002) of U.S. A.

a. Performance and display and does not cover textbooks, course packs, published online copyrighted materials, or any materials. which students normally purchase for their educational or personal use.

b. Works that are germane to course which are being used under the supervision of an instructor.

c. Performance of non-dramatic literary or musical work or reasonable and limited portions of any other works, or display of a work in an amount comparable to that which is typically displayed in the course of a live classroom session but it is not permitted to stream music video film or entire opera.

ii. Prevent Violation of Copyright Laws

a. Any digital copy must be made from the legally obtained copy of a work.

b. Implement copyright policy in school.

c. Provide information to students and teachers to promote compliance with copyright law.

iii. Prevent Unintended or Illegal Use of copyrighted material

a. Maintain copyrighted material on its network system in a way that is reasonably preventing its use by anyone other than intended recipients and for any longer than is necessary for class use.

b. Apply technological measures that reasonably prevent works form being retained by students in an accessible form longer than are necessary for class use and prevent unauthorized re-distribution of the work to others in an accessible form.

c. Prevent any misuse through technological means.

d. Notify students which materials are protected by copyright.

54. We suggest that any fair dealing exception for education must be considered in the context of digital environment. If the administration is not prepared to do

so at this stage, the legislation must spell out clearly that the exception does not apply to online teaching and learning setting.

55. We vigorously oppose the proposal that school be exempted from criminal liability. Hong Kong education system is one of the largest users of the copyrighted materials. There is no justification that teachers should be exempted from criminal offences which involve dishonesty (piracy amounts to theft).

56. School teachers should be the key and important person to teach our children about the role of intellectual property rights in our society and any person who commits offence of copyright infringement will be liable to both imprisonment and fines. How can a teacher do the job for teaching the social value to our children if he is ignorant of and does not respect copyright.

57. For the purpose of illustration, an IT teacher, who wants to demonstrate to his/her students how to download materials from a web-site as part of his/her teaching or extracurricular activity, chooses to download musical sound recordings or films for the purpose of his/her teaching and then ask the students to do the upload exercise among themselves, students may perceive that the message from this lesson is not to learn about upload and download technology but how easy it is to obtain copyrighted materials online without obtaining any prior approval or consent from the copyright owner who invests millions of dollars to make a film or to produce records. **The exemption will fortify the social value that it is always acceptable to cheat in school**.

58. We suggest that we must educate our schools to equip themselves in terms of both copyright law and of the technology needed for new teaching setting. **THERE SHALL BE ABSOLUTELY NO EXEMPTION of criminal sanctions for School**.

VII. Fair Dealing for Public Administration

59. We are highly disconcerted by the proposed fair dealing opened to public administration. Under "urgent business", the opening will cover all exclusive rights including reproduction and distribution on both the physical and online environment. So far we fail to see examples of the use [17] that cannot be met by the current exemptions and collective licensing system in place and in the case of broadcast or cable transmission to carry Government messages, all broadcasters and cable channels operating in Hong Kong are licensed by the

[17] Which is subject to the two step test as laid down in section 37 (3) of the Copyright Ordinance in any event. There should be different approaches in dealing with intellectual property rights (which include industrial property rights and copyright), and industrial property rights (such as patents and trade marks but generally exclude copyright). Cf. sections 68-72 of the Patents Ordinance (Cap 514).

recording industry. We opine that the current exemption is the right balance. The proposed amendment signals to the world that the SAR Government leads the way for special privilege by legislative means.

VIII. Free Playing of the Audio Broadcasts in Public Transport

60. We fail to understand why this issue is brought up again as this issue had been widely debated in 2003 and the Administration had eventually dropped this issue due to its subsequent findings that such proposed opening violates international obligations.

61. The situation has not been changed since then. No new argument has ever been advanced. It has always been the case that radio broadcast is the source of the public information accessed by the members of public ever since radio broadcast was available.

62. As you may recall, the issue was discussed in the LegCo Panel meeting with the copyright industry on 10th January 2002 during which the WTO case regarding section 110 (5) of US Copyright Act 1976, which related to free playing of musical works from the radio or TV in business context, was referred and considered in the context of international obligations on what appears to be a domestic legislation. Subsequently, IFPI did follow the issue up and made further submissions in January and April and May 2002.

63. For the sake of good order, we hereby recapitulate our views on this issue as follows:

i. Hong Kong Obligations under TRIPS

a. Hong Kong is one of the founding members of World Trade Organization ("WTO") and it became member on 1st January 1995.

b. Pursuant to the Agreement on Trade Related Aspects of Intellectual Property Rights (the "TRIPS Agreement") which is a major part of the WTO agreement, the Intellectual Property (World Trade Organization Amendments) Ordinance 1996 (11 of 1996) was enacted in Hong Kong on 24th April 1996 in order to bring its domestic legislation into conformity with the standards and obligations under TRIPS Agreement.

c. Hong Kong government believes that the compliance of the TRIPS agreement would help enhance Hong Kong's reputation as an international trade and service centre, and will also boost

the confidence of investors, both from domestic and overseas, to create, manufacture and distribute in Hong Kong high tech or value added products covered by intellectual property rights.

d. The effect of non-compliance or breach of the TRIPS Agreement may result in levying of a special fee from nationals of defaulting Country in connection with border measures concerning goods of intellectual property right such as copyright goods.

e. The Copyright Protection under TRIPS

Article 9 (1) provides that members shall comply with Articles 1 through 21 of the Berne Convention and the Appendix thereto and reiterates the basic principle of copyright protection.

f. Limitation and Exception to the exclusive rights of the Copyright Owners.

g. Article 13 of the TRIPS agreement, which incorporated the Three Step Test as laid down in Article 9 (2) of Berne Convention, allows exceptions and limitations to the exclusive rights:

(a) **to certain special cases** which

(b) **do not conflict with a normal exploitation of the work** and

(c) **do not unreasonably prejudice the legitimate interests of the rights holder**.

This is known as the Three StepTest which in general does not allow a very wide scope for copyright exception.

h. Any amendment made to Hong Kong copyright law must comply with TRIPS and other international treaties and convention to which Hong Kong is a party and in particular any such amendment must be subject to the 3 step test requirement.

ii. The U.S. Enactment For The Free Playing of Non- Dramatic Musical Work in Business.

a. US became a WTO member and a signatory to TRIPS agreement in 1995. In an attempt to bring the domestic

legislation into conformity with its obligations under the TRIPS agreement, the Fairness in Music Licensing Act was enacted which, among other things, amended section 110(5) of the Copyright Act 1976.on 25th October 1998 and entered into force on 26th January 1999.

b. The new section 110(5) as amended contains two distinct exemption, the so-called "homestyle exemption" under subsection A and a new exemption under sub-section (B) which is sometimes referred as the "Business Exemption".

c. "Homestyle exemption" deals with the display or play of transmission or re-transmission embodying the performance display of a work **(other than non dramatic musical work)** intended to be received by the public, originated from a licensed radio or TV station, in an establishment which is open to public for the enjoyment of customer without consent of the right owner as long as such an establishment uses a single receiver or apparatus of a kind commonly used in private homes.

d. "Business exemption" covers the non-dramatic music work such as pop music originating from radio or TV station and while "homestyle exemption" limits the exemption to the use of a single receiver or apparatus of a kind commonly used in private homes, this condition is completely absent in Business Exemption for cases where the establishment does not exceed a certain size (3750 square feet for restaurants and bars and 200 square feet for all other establishments). For all larger establishments the homestyle requirement has been replaced by much less stringent conditions in relation to the audio or TV equipment mainly on the number of loudspeakers which can be used. In any event, the use of professional equipment is perfectly permissible.

iii. The European Communities Complaints Against USA Under WTO

a. European communities and their members brought the complaint against the United States that section 110(5) is incompatible with the US obligations stemming from the TRIPS. The exception or limitation provided therein cause prejudice to the legitimate rights of copyright owners.

b. For the **first time** in a binding international proceedings the long standing but general **THREE STEP TEST** has been

carefully interpreted and on June 15, 2000 the WTO panel concluded that the business exemption under section 110(5)(B) of the Copyright Act does not meet the requirement of Article 13 of the TRIPS Agreement. The scope of the business exemption is too wide and the United States has not demonstrated that the business exemption does not **unreasonably prejudice the legitimate interests of the rights holder**.

c. The findings of WTO panel which for the first time the 3-step test has been carefully analysed in a binding international dispute has narrowed the application of fair use exemption or copyright exemption.

iv. Based on the reasons set out in EU/US case, it would not be surprised for WTO panel to conclude that the proposed vehicular exemption would also fail to meet the standards of TRIPS.

64. On 22nd May 2002, we submitted the opinion of Mr. Kelvin Garnett Q.C on the similar issue to CITB, Mr. Garnett Q.C. is one of editors of "Copinger and Skone James on Copyright" 15th edition and he is widely recognised as one of the leading authorities on the copyright law. As regards an exemption in the case of broadcasts played on public transport, provided that the broadcast is played predominantly for the driver to have access to public information, he has the following to say :

i. He was not aware of what "overseas practices" there are said to be which would make the change desirable.

ii. He had not seen any evidence which demonstrates that it is in the public interest that these established rights be removed from sound recording copyright owners.[18] In general, the rationale of providing exceptions to the rights of copyright owners is the need to maintain a balance between the rewards which are due to and needed for the creators of copyright material and the public interest. See, for example, *Newspaper Licensing Agency Ltd v. Marks and Spencer plc* [2001] RPC 76 (CA).

iii. The Berne Convention does not contain any express provision entitling member states to restrict the public performance rights referred to in the Convention, but there is a general understanding (the "minor

[18] Exception cannot be applied in the case of musical works, lyrics or other "author's works". Public performance licences will therefore still be required in respect of these rights – see WTO Dispute Resolution (WT/DS160/R).

exceptions" doctrine) that does permit this. More to the point, however, a party to the TRIPS agreement can only restrict the Berne public performance rights to the extent that the restriction complies with the 3-step test provided for by Article 13 of TRIPS. This is the same test as the 3-step test in Article 9(2) of the Berne Convention (which only relates to the reproduction right). Certain principles about the 3-step test can be gathered from the Report of the Panel established under the WTO procedures in: *United States - Section 110(5) of the US Copyright Act* (WT/DS160/R), 15th June 2000.

iv. It will also be very difficult to define precisely the circumstances when the exemptions apply or to know when the conditions have not been complied with. For example, how is one to know whether a driver is playing the radio so as to listen to traffic bulletins or to entertain his passengers? and

v. The exempted use will be of commercial benefit to users.

65. The proposed audio broadcast exemption for driver in public transport is not in compliance with the TRIPS and Berne Convention.

IX Others

66. As the issues arising from this Amendment Bill are complicated, we venture to suggest that perhaps, if we cannot resolve all the issues at one bill, we may focus on those amendments related to the subject matters of the Copyright (Suspension of Amendments) Ordinance 2001 and other less controversial issues to pass into law first. This will make permanent the suspension arrangements under the said Copyright (Suspension of Amendments) Ordinance 2001 so that the time-frame for all unresolved issues may be more flexible.

67. In other words, if it is the intention of the Administration to maintain the "status Quo" of the present criminal sanction for business end users for 4 categories of works only[19], the criminal provisions for possession offences for business end users, the subject matters of the Copyright (Suspension of Amendments) Ordinance 2001, be made permanent and be dealt with once and for all, the Suspension Ordinance 2001 may then be repealed[20].

[19] " In the course of any business or trade" provisions now cover the business end-user possession offence for computer program, movie, television drama, musical sound recordings and musical visual recordings since 2000 under and by virtue of section 2 of the Copyright (Suspension of Amendments) Ordinance 2001 (Cap 568).

[20] Paragraph 13 of the said Legco Brief dated 26th April 2001 refers.

These are our key issues of concern on the Amendment Bill, we will deal with other issues when we deal with the wordings of the Amendment Bill.

We would be happy to provide further clarification if needed on the above and we wish to thank the Bills Committee in considering our submission.

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

Ricky Fung
Chief Executive Officer

c.c. IFPI (Hong Kong Group) Committee
IFPI and IFPI Asian Regional Office