



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

CB(1)1107/06-07(04)

9 February 2007

By fax (2537 1469) and by post

Our Ref.: C/EPLM(31), M46064

Hon Sin Chung-kai, JP
Chairman
Bills Committee on Copyright (Amendment) Bill 2006
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central
Hong Kong

Dear Mr. Sin,

Copyright (Amendment) Bill 2006

We understand that the Bills Committee on the Copyright (Amendment) Bill 2006 is still examining the detailed provisions of the proposed legislation ("2006 Bill"). The Hong Kong Institute of Certified Public Accountants ("the Institute") would therefore like to take the opportunity to submit its views. We would also refer you to our various previous submissions on the following related areas, dated 31 December 2001 ("2001 submission"), 28 June 2003 ("2003 submission") and 26 February 2005 ("2005 submission") (annexed):

- Review of Certain Provisions of Copyright Ordinance Consultation Document issued in October 2001;
- Copyright (Amendment) Bill 2003; and
- Review of Certain Provisions of Copyright Ordinance Consultation Document issued in December 2004.

Business end-user criminal liability

Under the 2006 Bill, a new business end-user criminal offence of making for distribution or distributing infringing copies of a book, a magazine, a periodical or a newspaper on a regular or frequent basis is created (proposed sections 119B(1) and (2) added into the Copyright Ordinance (Cap. 528) ("the Ordinance") by clause 24). The Institute would like to reiterate its view that any legislation to criminalise copyright infringements should be targeted specifically at areas that are generally accepted as being significant problem areas. It should avoid introducing a heavy-handed, blanket criminalisation of other infringements that, on the one hand, may have little or no material effect on copyright holders and, on the other,

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may impede the flow of information and adversely affect the process of learning and the quality of debate within the community.

In this regard, we would refer you to the comments made in our 2005 submission (section 2), 2003 submission (sections I – III), and 2001 submission (part B.1), in which the Institute indicated its support for permanently suspending the criminal sanctions against business end-user possession of infringing materials (in respect of materials other than the four categories of works). We are still not convinced of the appropriateness of invoking criminal law to protect commercial rights in this way, particularly against end-users who may not benefit from any commercial advantage or financial gain. We note that, at least, the proposed legislation purports to limit its scope to infringing acts performed on a regular or frequent basis. We would suggest that for the purpose of the proposed business end-user copying / distribution offence, the acts in question must be proved to have resulted in real and substantial losses, and not just "a financial loss", to the copyright owner.

It is not to be overlooked that many newspapers make at least some of their contents freely available on the internet and one wonders how disseminating particular newspaper articles within a business organisation can really be seen as a serious problem for newspaper proprietors. In such circumstances, requirements for copyright users to enter into specific licensing agreements could simply result in windfalls for some copyright owners.

The Institute notes the approach proposed by the Administration to apply numeric thresholds or "safe harbour" perimeters (presumably by means of the proposed new sections 119B(3) and (14) added into the Ordinance by clause 24). We believe that the proposed mechanism should be spelled out more clearly in the legislation. At present, while the concept is explained in the main body and Annex C of Legislative Council Brief, the 2006 Bill contains two very generic provisions only, primarily a power for the Secretary for Commerce, Industry and Technology ("SCIT") to make regulations, specifying the circumstances in which the new section 119B(1) will not apply.

Safe harbour rules, in terms of numeric limits, are bound to be arbitrary to some extent. The relevant thresholds should, however, be sufficiently high to ensure that organisations, such as professional and trade bodies, and lobby groups would be able to make copies of, e.g., newspaper articles for internal purposes to facilitate consultation and discussion. Otherwise the free exchange of opinion and ideas that is vital to Hong Kong's reputation as an international city would be adversely affected. In this regard, the thresholds set out in Annex C to the Legislative Council Brief may not be adequate for a sizeable professional body such as the Institute (with over 120 staff and 40 committees and working groups), which may need to circulate copied materials to staff and members of its committees and working groups for discussion and follow up action, such as preparing submissions and other communications.

Under the circumstances, we would support the suggestion from the Hong Kong Association of Banks (in its submission, dated 27 April 2006 (CB(1)1385/05-06(38)



refers)) that distribution activities for the purposes of in-house dissemination of information and sharing of learning and resources be specifically exempted from the proposed criminal offence.

We note that the Administration is proposing to defer dealing with copyright infringements through private networks (uploading onto intranets, etc.) until such time as a suitable licensing scheme is available for users and consultation on safe harbour rules has been conducted with concerned copyright owners and users. In the Legislative Council Brief, the Administration states that it "will specify this deferred application arrangement in the regulations to be made by SCIT" (paragraph 17). This needs to be further clarified. The treatment of copyright works reproduced on private networks is an important and potentially sensitive area. We would be concerned if measures were to be introduced, which could establish future precedents, without a thorough public debate on this matter and an understanding of how this issue has been addressed in other jurisdictions around the world.

The Institute would suggest that consideration also be given to an alternative approach to the application of safe harbour rules in the case of bodies fulfilling a regulatory function. A provision similar to that proposed in the new section 54A, which is a "fair dealing" exemption for the purpose of efficient administration of urgent business by the Government, Executive Council, Legislative Council, the Judiciary and District Councils, could be introduced to allow for fair dealing by, for example, regulatory and professional bodies, in the carrying out of their statutory/regulatory functions.

Defence for employees and exemptions for certain professionals in respect of business end-user criminal liability

We support the provision of a specific defence for employees, and would refer you to the comments made in our 2005 submission (section 4), 2003 submission (section IV), and 2001 submission (part B.1(b)).

Nevertheless, under the 2006 Bill, the defence is not available to an employee who "was in a position to make or influence a decision regarding" the acquisition, removal or use of the infringing copy, in relation to the business end-user possession criminal offence (clause 22(6) new section 118(3B)), or "was in a position to make or influence a decision regarding" the making or distribution of the infringing copy, in relation to the business end-user distribution criminal offence (clause 24, new section 119B(11)), at the time when the offence was committed. The Institute believes that an employee who is in the position to make or influence a decision regarding an offending act will not necessarily be part of the management team, and may not be acting entirely of his own volition. Moreover, the concept itself does not appear to be entirely clear. How is it to be determined whether a particular employee was, at a particular time, in a position to influence a decision? What if, for example, an employee generally has some ability to influence decisions of this nature and, in this case, sought to use his influence, but was nevertheless overruled. Under the circumstances, we would suggest that an



employee should only be criminally liable where such an employee is a decision maker and would propose, therefore, that the words "or influence" be deleted.

Criminal liability and civil remedy relating to circumvention of effective technological measures

As indicated in our 2005 submission (section 6) on circumvention of technological measures for copyright protection, and in our 2001 submission (part B.6) on the related issue of unauthorised reception of subscription television programmes, we believe that targeting commercial dealers of circumvention tools or providers of associated services would generally be regarded as a more acceptable approach than, for example, seeking to criminalise unauthorised reception in domestic premises.

The Institute therefore finds the proposals contained in clause 56 broadly acceptable, given also the various exceptions to the offences that are provided for.

Incorporation of World Intellectual Property Organisation (WIPO) Copyright Treaty and WIPO Performances and Phonograms Treaty requirements

It is proposed to apply a new civil liability to any person who infringes the moral rights of a performer of a live aural performance or a performance fixed in a sound recording (conferred under the proposed new section 272A, added into the Ordinance by clause 53), i.e. the right to be identified as a performer, or the right of a performer not to have his performance subjected to derogatory treatment.

It needs to be clarified that the protection of a moral rights of a performer in relation to "derogatory treatment" of his performance would not, in effect, undermine freedom of expression through parody, satire, etc.

Fair dealing for education and public administration and improvements to the permitted acts for education

We note that a non-exhaustive list approach, which was one of the options for copyright exemption contained in the Review of Certain Provisions of Copyright Ordinance Consultation Document issued in December 2004, and which could accommodate new circumstances and purposes of use that might emerge in future, without the need to continuously update the "permitted acts" provisions in the Copyright Ordinance, has not been adopted in the 2006 Bill. Instead the approach proposed in the 2006 Bill is to extend permitted acts in specific ways in specific sectors, permitting fair dealing with a work by a teacher or pupil for the purposes of giving or receiving instruction in a specified course of study provided by an educational establishment (new proposed section 41A, under clause 12), fair dealing with a performance or fixation by a teacher or pupil for the purposes of giving or receiving instruction in a specified course of study provided by an educational establishment (new proposed section 242A, under clause 48), and fair dealing with a work by the Government, Executive Council, Legislative Council, the



Judiciary or any District Council for the purposes of efficient administration of urgent business (new proposed section 54A, under clause 16).

In determining whether any dealing with a work, performance or fixation is fair dealing, the court will take into account certain non-exhaustive factors, such as the purpose and nature of the dealing, the nature of the work, performance or fixation, the amount and substantiality of the portion dealt with in relation to the work, performance or fixation as a whole, and the effect of the dealing on the potential market for or value of the work, performance or fixation.

In this regard, the Institute would like to reiterate its previously expressed view that the objective should be to achieve a reasonable degree of certainty without introducing an arrangement that is overly rigid and unable to deal effectively with real practical circumstances (2001 submission, part B.2). The approach proposed under the 2006 Bill should, we hope, be able to achieve this objective.

New permitted act for persons with a print disability

The Institute previously expressed support for a new permitted act to be provided for the transcribing of works in printed format into Braille, large-print, talking or other specialised formats by non-profit bodies, for the use of visually impaired persons, where no such transcriptions are commercially available in Hong Kong within a reasonable time or at a reasonable price (2001 submission, part B.3).

The Institute therefore supports the proposal to permit specified bodies, or persons with a print disability, such as persons with a visual impairment, to make accessible copies, e.g. in the form of a Braille, large-print version, etc. of certain copyright works (which is not applicable if the master copy is of a musical work or dramatic work, and the making of an accessible copy would involve recording a performance of the work or part of the work) without infringing copyright, where the maker of the accessible copy is satisfied that copies of the relevant copyright work in a form that is accessible to the person cannot be obtained at a reasonable commercial price (new proposed sections 40B and 40C, under clause 11). However, some of the qualifications imposed under clause 11 may be unnecessarily restrictive. In particular, under the new section 40B(5), an accessible copy, which would, apart from this section, be an infringing copy, will be treated as an infringing copy if it is subsequently dealt with. This would appear to prevent, for example, a visually impaired person selling on an accessible copy when he has finished with it to help defray any costs that he may have incurred in purchasing the copy. In contrast, it is noted that the new section 40D(6) allows for a specified body to charge for lending or transferring an intermediate copy of a master copy to another specified body, provided that the sum charged does not exceed the cost incurred in lending or transferring the copy.

Liberalisation in the use of parallel imports

The Institute's previously stated position is that the civil liability and criminal sanctions against parallel importation and subsequent dealing in all types of



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copyright work should be removed (2005 submission, section 3, 2003 submission, section V, and 2001 submission part B.5). In principle, this should be without exception. However, provision could be made for exceptions where the copyright holder can argue specific and exceptional circumstances (e.g. if, for example, prices in an overseas market from which goods are sourced are artificially low because they are specifically mandated or limited by the government of that place, regardless of the position of the owner of the intellectual property rights).

While removing the restrictions on parallel importation for all types of copyright work may affect the interests of copyright owners, exclusive licensees and sole distributors, it would facilitate the free flow of goods, increase competition and the availability of products in the market, thus resulting in greater choice and lower prices for consumers. As a matter of principle, there seems to be no strong justification for allowing the parallel importation of computer software, which is now permitted, while retaining civil and criminal offences for the parallel importation of other copyright items. This seems especially inappropriate in the context of proposals now being debated within the community to encourage greater competition. In as much as the proposals in the 2006 Bill, to reduce the criminal liability from 18 months to nine months (clause 7), and to permit certain business use of parallel imports, other than for commercial dealing purposes, or the public playing of certain copyright works (clause 8, new section 35B(2) and clause 45, new section 229A(2)) represent a limited liberalisation of the restrictions on parallel importation, they are a step in the right direction. Nevertheless, in our view they do not go far enough.

Time limit for prosecutions

We are not convinced of the need to facilitate prosecutions as proposed in the 2006 Bill. We would suggest, rather than extending the time limit for prosecution to three years from the date of commission of the offence across the board, that the existing provision in section 120A of the Copyright Ordinance be retained (i.e., no prosecution for an offence under the Copyright Ordinance should be commenced after the expiration of three years from the date of commission of the offence or one year from the date of discovery of the offence by the prosecutor, whichever is the earlier).

Proof of absence of licence from copyright owner

The Institute believes that, in view of the seriousness of some of the offences under section 118 of the Copyright Ordinance, and the severity of the penalties under section 119, there needs to be strong evidence of a need to facilitate prosecutions by providing for the admission of a sworn affidavit, stating on behalf of the copyright owner that the copyright owner has not licensed the defendant in relation to the offending acts, as of proof of that fact (clauses 27(4) and (5)). We should like to know, for example, whether sworn affidavits are generally accepted as proof by courts in similar circumstances overseas.



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General

In general, we believe that further changes to the 2006 Bill are required to strike a balance between the rights of copyright owners and the interests of the public and the business community. Currently, in some areas, the proposed legislation still has the potential to impede the legitimate flow of information and to criminalise marginal conduct, while producing possible windfalls for some copyright owners, through requirements for copyright users to enter into specific licensing agreements.

I hope you find our comments to be constructive. If you have any questions on them, please contact me at peter@hkiipa.org.hk or on 22877084.

Yours sincerely,

Peter Tisman
Director, Specialist Practices

PMT/EC/ay
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c.c.: Miss Yvonne Choi, Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)
Commerce, Industry and Technology Bureau



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Annex

BY EMAIL & BY POST

[co_review@citb.gov.hk]

Our Ref.: C/EPLM(31), M33370

26 February 2005

Miss Eugenia Chung,
 Division 3, Commerce and Industry Branch,
 Commerce, Industry and Technology Bureau,
 Level 29, One Pacific Place,
 88 Queensway,
 Hong Kong.

Dear Miss Chung,

Review of Certain Provisions of Copyright Ordinance

The comments of the Hong Kong Institute of Certified Public Accountants ("HKICPA"/ "the Institute") on the Review of Certain Provisions of Copyright Ordinance Consultation Document issued in December 2004 (the "Consultation Document") are set out below. We would also refer you to our previous submissions on the following related areas, dated 31 December 2001 ("2001 submission") (Appendix 1) and 28 June 2003 ("2003 submission") (Appendix 2), respectively:

- Review of Certain Provisions of Copyright Ordinance Consultation Document issued in October 2001; and
- Copyright (Amendment) Bill 2003.

1. Copyright Exemption

Under the exhaustive list approach currently adopted in the Copyright Ordinance, which is one of the options for copyright exemption contained in the Consultation Document, while the circumstances and purposes of use of a copyright restricted act may reasonably constitute fair dealing with a copyright work, the act will still attract civil, and, in some cases, criminal liability if it is not included as one of the "permitted acts" under the Ordinance. A non-exhaustive approach, on the other hand, can accommodate new circumstances and purposes of use that may emerge in future without the need to continuously update the "permitted acts" provisions in the Copyright Ordinance.

On balance, we would favour an approach that combines a non-exhaustive list of specifically-permitted acts, together with general provision on "fair dealing" that could extend to activities that fall outside of the permitted acts. As regards the elements of "fair dealing", we would have some reservations about the explicit inclusion of the possible factor referred to in paragraph 1.14 (c)(v), i.e., "the possibility of obtaining the copyright work within a reasonable time at an ordinary commercial price". Arguably, this begs the question because if the

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law does not strike a proper balance between the rights of the copyright holder and those of users of copyright works, then the "ordinary commercial price" may be a reflection of that fact and may not be regarded as being fair or reasonable by one side or the other.

2. Scope of Criminal Provisions Related to End-user Piracy

The Institute would like to reiterate its view that any legislation to criminalise copyright infringements should be targeted specifically at what are generally accepted as being significant problem areas. It should avoid introducing a heavy-handed, blanket criminalisation of other infringements that, on one hand, may have little or no material effect on copyright holders and, on the other, may impede the flow of information and adversely affect the process of learning and the quality of debate within the community.

In this regard, we would refer you to the comments made in our 2003 submission (parts I – III) and also in our 2001 submission (part B.1).

3. End-user Liability Associated with Parallel Imported Copies

In principle, the Institute considers that the civil liability and criminal sanctions against parallel importation and subsequent dealing in all types of copyright work should be removed. We would refer you to the comments made in our previous submissions, dated 28 June 2003 (part V) and 31 December 2001 (part B.5).

4. Defence for Employees against End-user Criminal Liability

We support a specific defence for employees and would refer you to the comments made in our 2003 submission (part IV) and 2001 submission (part B.1(b)).

While we agree that the defence for employers against end-user criminal liability should not be extended to executive directors or the chief executive of a body corporate, we do not believe that company secretaries should automatically be denied the defence. Company secretaries are not necessarily part of the management team. Depending upon their position within a particular company, therefore, company secretaries should be able to avail themselves of the defence.

We do not believe that the "whistle blower" protection system suggested by some copyright owners and outlined in paragraph 4.4 of the Consultation Document, which potentially involves issues of employment law, would be a practicable option.

5. Proof of Infringing Copies of Computer Programs in End-user Piracy Cases

The Institute is of the view that the options put forward in the Consultation Document to facilitate prosecution of end-user copyright infringement, including shifting the burden of proof to defendants, would impose an undue burden on



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end-users. We favour the "wait and see" approach referred to in paragraph 5.4 of the Consultation Document.

6. Circumvention of Technological Measures for Copyright Protection

We would refer you to the comments contained in our 2001 submission (part B.6), on the related issue of unauthorised reception of subscription television programmes. The Institute would not be in favour of measures that would target end-users.

The HKICPA has no particular comments to make on the other matters discussed in the Consultation Document.

I hope that you find our comments to be constructive. If you have any questions in relation to our comments, please feel free to contact me at peter@hkicpa.org.hk or at 2287 7084.

Yours sincerely,

A handwritten signature in black ink that reads 'Peter Tisman'. The signature is written in a cursive, slightly stylized font.

PETER TISMAN
DIRECTOR, FACULTIES & ADVOCACY

PMT/JT/ay
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香港會計師公會
HONG KONG SOCIETY OF ACCOUNTANTS
Incorporated by the Professional Associations Ordinance, Cap. 618

Appendix 1

By Fax and By Email

(2869 4420 / laura_tsoi@cib.gov.hk)

Our Ref.: C/EPLM(31), M9007

31 December 2001

Commerce and Industry Bureau
Government of the Hong Kong SAR
Level 29
One Pacific Place, 88 Queensway
Hong Kong

Attn: Ms Laura Tsoi

Dear Sirs,

Review of Certain Provisions of Copyright Ordinance

A. BACKGROUND

We refer to the Review of Certain Provisions of Copyright Ordinance Consultation Document ("Consultation Document").

Under the Intellectual Property (Miscellaneous Amendments) Ordinance 2000 (the "Amending Ordinance"), which came into effect on 1 April 2001, the criminalisation of the possession of a pirated copy of a copyright work other than for personal and domestic use targets acts of copyright piracy by business end-users. This measure addresses the perceived inadequacy under the then prevailing Copyright Ordinance whereby a person possessing an infringing copy of a copyright work would be prosecuted only if he was found to be "dealing in" the infringing copy.

To address public concerns that the new end-user criminal liability has hampered dissemination of information and teaching activities, the Copyright (Suspension of Amendments) Ordinance 2001 (the "Suspension Bill") was introduced to suspend the relevant provisions except as they apply to computer programs, movies, television dramas and musical recordings.

The Society welcomes the Administration's decision to consult the public widely with a view to formulating a long-term solution before the suspension expires in July 2002. Generally speaking we believe that any legislation should be targeted specifically to deal with what are generally accepted as being significant problem areas. It should avoid introducing a heavy-handed blanket criminalisation of other copyright infringements that, on the one hand, may have little or no material affect on copyright holders and, on the other, may impede the flow of information and, as a result, the process of learning and the quality of debate within the community. The imposition of a broad criminal liability for copyright infringements would

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serve only the interests of copyright holders without attempting to find a reasonable balance between these and the wider interests of the community as a whole.

In addition, we have pointed out in submissions to the Legislative Council in relation to the Amending Ordinance and the subsequent Suspension Bill, that copyright also subsists in consultation papers, bills, ordinances, correspondence, and a range of other similar materials, in addition to newspaper commentaries. If any doubt remains about the ability of e.g. professional and trade bodies, lobby groups, even individual firms, to make a limited number of copies of these materials to facilitate consultation and discussion, then this will undermine the free exchange of opinion and ideas that is vital to Hong Kong's reputation as an international city.

Against the above background, we set out below the comments of our Legal Committee on the detailed proposals contained in the Consultation Document. The views of the Committee will be referred to the 15 January 2002 meeting of the Society's Council for approval. If any significant additional or alternative views are expressed by the Council, we will inform you as soon as possible thereafter.

B. THE SUBMISSION

1. Criminal Provisions Related to End-User Piracy

- (a) *Criminal sanction should not apply to the possession of an infringing copy of a copyright work in "business" activities of a non-profit-making nature.*

Since no commercial advantage or private financial gain is involved, the Committee considers that activities of non-profit-making organisations, such as educational and charitable organisations, should for the time being treated on a similar basis to private and domestic purposes. We consider, therefore, that criminal sanctions should not apply to the possession of an infringing copy of a copyright work in "business" activities of a non-profit-making nature. If the situation changes in future and copyright holders can show that there are rampant infringements within the non-profit-making sector that clearly, demonstrably and substantially harm their interests, then the situation could be reviewed again.

- (b) *Employees in possession of an infringing copy supplied by the employer for use in business should not be criminally liable.*

Employees do not necessarily have any knowledge that an infringing act is being committed. Although sometimes they may personally harbour some suspicion, this would not constitute reasonable grounds for making employees criminally liable. Even where an employee possesses actual knowledge, he is unlikely to be in a position to prevent the infringing act from being committed and his only course of action may be to resign. Apart from the fact that this in itself may not exonerate him under the law, particularly where, say, the employee has a period of notice to serve and the

infringement continues during this period, there is also the fundamental question of whether an employee should be put into the position of having to take such extreme action, over what could well be a relatively minor issue. Where an employee is actually a director and decision-maker, then in an action against the company the veil of incorporation may in any event be lifted and the directors may also be held to be liable.

Copyright holders can always resort to any civil remedy that may be available in the circumstances of the case, if they believe that a case can clearly be made against a particular employee for infringing their copyright.

Therefore, the Committee is of the view that criminal sanction should not generally apply to employees for possession of an infringing copy supplied by the employer for use in business.

- (c) *End-user criminal liability should apply only to copyright works afflicted by rampant piracy.*

In determining the extent to which the interests of copyright holders should be protected by way of criminal sanction against end-users, due consideration should be given to the need to allow for reasonable dissemination of information and knowledge within the community. As indicated above, therefore, the Society takes the view that criminal sanctions against end-users should be introduced only where there is a serious piracy problem that substantially affects the interests of copyright holders.

- (d) *Certain acts of the end-user which infringe copyright but which do not give the end-user any commercial advantage or private financial gain, should be exempt from criminal liability.*

Certain acts, such as photocopying a newspaper article, or printing a picture downloaded from a website for archival purposes, without permission, generally do not conflict with a normal exploitation of the work by copyright owners or unreasonably prejudice their legitimate interests. This is where the issue of striking a reasonable balance that takes into account the needs of the community as a whole and of Hong Kong's overall interests becomes so important. To apply criminal sanction to such acts which give no commercial advantage or private financial gain to the end-user would appear to be disproportionate to the scale of copyright infringement involved. Accordingly, such acts should be exempt from criminal liability. In response to the argument that copyright holders are entitled to exercise their rights regardless of the scale of the infringement, it is of course always open to them to take civil action if they believe this to be necessary to protect legitimate and material interests.

- (e) *The expression "for the purpose of, in the course of, or in connection with, any trade or business" introduced by the Amending Ordinance has cast the criminal net too wide.*

Prior to its amendment, the Copyright Ordinance stipulated, inter alia, that an offence would be committed if a person possessed an infringing copy of a copyright work for the purpose of trade or business with a view to committing an infringing act. To avoid the phrase "for the purpose of trade or business" being narrowly interpreted to mean that an enterprise would commit an offence only if it was engaged in dealing in the infringing copy concerned, the Amending Ordinance replaced the phrase "for the purpose of trade or business" with "for the purpose of, in the course of, or in connection with, any trade or business" where it has appeared in the Copyright Ordinance.

The revised provisions extend the scope of the end-user criminal provisions to activities incidental to or marginally related to business. In so doing, we consider that the amendments have extended the reach of the criminal sanctions too far. However, if the words "in connection with" are deleted while the phrase "in the course of" is retained, it is not clear that the scope of the amendments will be confined significantly, as the latter phrase is also capable of a fairly wide interpretation. Accordingly, we would suggest that a broader review of the revised wording be conducted to ensure that the scope of the Ordinance is clearly known, understood and accepted.

2. Permitted Acts for Educational Purposes

- (a)&(b) *A flexible approach should be adopted for clarification of the meaning of "to a reasonable extent" and "passages" in sections 41 and 45 of the Copyright Ordinance.*

There are pros and cons in relation to both the statutory and non-statutory approaches. The statutory approach could introduce more certainty but, at the same time, as the different detailed arrangements in place overseas indicate, it can also be potentially arbitrary and inflexible. The non-statutory approach, on the other hand, could provide for greater flexibility but much would depend, firstly, on all the interested parties on each side of the fence arriving at a common view and, secondly, the ability of copyright holders and end-users to achieve a reasonable and mutually-acceptable position. In this respect, as not all copyright holders are represented by a single body, the non-statutory approach could result in a whole series of long-drawn-out negotiations. In addition, it is not made clear in the Consultation Document what status, if any, would be given to non-statutory guidelines under the law. In principle the objective should be to achieve a reasonable degree of certainty without introducing an arrangement that is overly rigid and unable to deal effectively with real practical circumstances. There are, however, a number of unanswered questions in relation to the two approaches referred to

in the Consultation Document and without knowing the answers to these, then we would find it difficult to come to a firm view one way or the other.

- (c) *The act of recording or copying permissible under s44 and s45 of the Copyright Ordinance should be permitted no matter licences under licensing schemes are available or not.*

Currently, the acts of recording by educational establishments of broadcasts and cable programmes, and of reprographic copying made by educational establishments of passages from published works, under s44 and s45 respectively of the Copyright Ordinance, are not permitted if licences under licensing schemes are available authorising the recording or copying in question, and the person making the copies knew or ought to have been aware of that fact. There seems to be no apparent reason for distinguishing these two acts from other acts that are also permitted in relation to copyright works under the Copyright Ordinance notwithstanding the subsistence of copyright, i.e. things done for the purpose of instruction or examination (s41); anthologies for educational use (s42); and performance, playing or showing work in the course of activities of educational establishments (s43), none of which are subject to the said condition.

We also hold the view that the existing carve-out presupposes an equality of bargaining power between the licensors and applicants for licences, which can thus provide a suitable environment to ensure that any licensing regime achieves a fair balance of interests and is flexible, efficient and effective. However, this assumption is not necessarily the case in practice. As noted at paragraph 7.3 of the Consultation Document: "A licensing body representing most or all of the authors in relation to a genre of copyright works is in a very strong position vis-à-vis prospective users in setting the terms of the licence."

Since the recording or copying in question does not conflict with a normal exploitation of the work by the copyright owners, or unreasonably prejudice their legitimate interests, for the sake of consistency we support the removal of the carve-out to reduce teachers' uncertainty and facilitate teaching.

- (d) *A new permitted act should be provided under the Copyright Ordinance to facilitate the uploading of copyright works to a school INTRANET for access within the school.*

In the spirit of providing for permitted acts in relation to copying a part of a work for educational purposes, a new permitted act should be introduced under the Copyright Ordinance, which takes account of recent technological developments, to facilitate the uploading of copyright works to a school INTRANET for access within the school.

3. Permitted Acts for Visually Impaired Persons

- (a) *A new permitted act should be provided for the transcribing of works in the printed format into Braille, large-print, talking or other specialised formats by non-profit-making bodies for the exclusive use of visually impaired persons where no such transcriptions are commercially available in Hong Kong within a reasonable time or at a reasonable price.*

Designated non-profit-making bodies are permitted under the Copyright Ordinance to make copies of television broadcasts or cable programmes for the purpose of providing people with a physical or mental disability with copies which are sub-titled or otherwise modified for their special needs. Therefore, transcriptions should similarly be permitted under the Copyright Ordinance, that are carried out by non-profit-making bodies for the exclusive use of visual impaired persons, where no such transcriptions are commercially available in Hong Kong within a reasonable time or at a reasonable price. This should be so particularly in view of the limited number of potential beneficiaries.

- (b) *The acts mentioned in paragraphs 3.1 and 3.2 of the Consultation Document should be permitted no matter a licensing scheme is available or not for authorising those acts.*

In line with the experience in other jurisdictions, e.g. the United States, Canada and Japan, as noted in the Consultation Document, and given also the issue of possible inequality of bargaining power (see 2(c) above) and the limited number of potential persons affected, the acts in question should be permitted no matter whether or not a licensing scheme is available for authorising those acts.

4. Permitted Acts Related to Free Public Showing or Playing of Broadcast or Cable Programme

- (a) *The statutory exemption in paragraph 4.2 of the Consultation Document should be extended to cover all underlying copyright works included in the broadcast or cable programme.*

The Copyright Ordinance provides that the showing or playing in public of a broadcast or cable programme (other than an encrypted programme) to an audience who has not paid for admission to the place where the broadcast or programme is shown or played, does not infringe any copyright in the broadcast or cable programme, or any sound recording or film included in it or infringe any right in relation to the performance included in the sound recording or film. However, this exemption does not extend to other underlying works such as the music and lyrics of a song included in the broadcast or cable programme.

To remedy the anomaly under the current regime, the said statutory exemption with respect to free public showing or playing of a broadcast or cable programme should also apply to all underlying copyright works included in the broadcast or cable programme.

- (b) *The exemption should be extended to cover all public places where the broadcast or cable programme is shown or played except where goods or services are supplied at prices which are substantially attributable to the facilities afforded for seeing or hearing the broadcast or programme.*

According to the Consultation Document, the statutory exemption with respect to the showing or playing in public of a broadcast or cable programme to an audience which has not paid for admission may be too restrictive. Based on this condition, for example, the showing of a television broadcast to customers in a restaurant, or the provision of a television set in a hotel room for the use of guests may not qualify for exemption.

In such cases where the admission charge (i.e. charge for food and service in a restaurant, and hotel room charge) is not substantially attributable to the facilities afforded for seeing or hearing the broadcast or programme, the showing or playing of the broadcast or programme does not conflict with a normal exploitation of the related works by the right holders, or unreasonably prejudice their legitimate interests. On the other hand, in situations where goods or services supplied at the premises in which the broadcast or cable programme is shown or played are charged at prices which are substantially attributable to the facilities provided for seeing or hearing the broadcast or programme, it is arguably justifiable for right holders to demand a royalty.

Therefore, we are of the view that the exemption with respect to the showing or playing in public of a broadcast or cable programme should apply to all public places where the programme is shown or played except where goods or services are supplied at prices which are substantially attributable to the facilities afforded for seeing or hearing the broadcast or programme. We note, however, that in practice this may not always be an easy distinction to draw.

5. Parallel Importation of Copyright Works Other Than Computer Software

- (a) *The civil liability and criminal sanction against parallel importation of and subsequent dealing in all types of copyright work should be removed without exception.*

In considering the issue of whether to impose civil liability and criminal sanction against parallel importation and subsequent dealing in copyright works generally, it is important to balance the rights of the local copyright owners, exclusive licensees and sole distributors against the rights of

consumers. As noted in the Consultation Document, whilst the move to remove the restrictions on parallel importation for all types of copyright work may affect the interests of copyright owners, exclusive licensees and sole distributors, it would facilitate the free flow of goods, increase competition and the availability of products in the market, thus resulting in more choices and lower prices for consumers. In addition, liberalising parallel importation would also be line with technological and commercial developments in relation to the Internet and e-commerce. The fact that the Administration has prepared the necessary legislative amendments for legalising parallel importation of computer software does lend some support to this approach.

We are therefore of the view that the civil liability and criminal sanctions against parallel importation and subsequent dealing in all types of copyright work should be removed. In principle, we consider that this should be without exception. However, provision could be made for exceptions where the copyright holder can argue specific and exceptional circumstances (e.g. if, for example, prices in an overseas market from which goods are sourced are artificially low because they are specifically mandated or limited by the relevant Government without any significant input from the owner of the intellectual property rights).

- (b) *If there should continue to be criminal sanction against parallel importation of and subsequent dealing in some types of copyright work, the current 18-month threshold should be reduced.*

As stated above, we believe that the restrictions on parallel importation should be lifted altogether. Reducing the threshold within which the existing sanctions would apply would at most be a second-best approach.

- (c) *The civil liability and criminal sanction imposed on end-users of parallel imported copies of copyright works in business should be removed.*

We reiterate our comments in 5(a) above in respect of the need to balance the rights of local copyright owners, etc. against the rights of consumers, and to keep abreast of technological and commercial developments in relation to the Internet and e-commerce. We believe, therefore, that the criminal and civil liabilities of end-users for using parallel imported copies of copyright works in business should be removed, whether or not parallel importation generally is liberalised.

6. Unauthorised Reception of Subscription Television Programmes

- (a) *Criminal sanction against fraudulent reception of subscription television programmes should not be introduced.*

As noted in the Consultation Document, the option of criminalising the fraudulent reception of subscription television programmes, which tackles the

problem at source, would have a strong deterrent effect. Also, criminal sanctions against fraudulent abstraction of electricity or fraudulent use of a public telephone with intent to avoid payment are provided for under the Theft Ordinance.

However, the Committee considers that, whilst the unauthorised reception of subscription television programmes may be a wrongdoing against the service provider, it should not be accorded the same gravity as the theft of utilities such as electricity, particularly where the reception is for private and domestic purposes. One significant difference is that a television signal will generally already be available from within the receiver's own private property, whereas electricity is likely to have to be tapped into from outside the user's property. The same is obviously true also of a public telephone. As noted in the Consultation Document, enforcement of any criminal sanction against unauthorised reception of subscription television would entail the use of intrusive powers of entry, which are not actively invoked in the three jurisdictions referred to, i.e. the United Kingdom, the United States and New Zealand, at least in respect of private and domestic premises. The Committee is therefore not convinced that imposing "end-user" criminal liability is appropriate for unauthorised reception of subscription television programmes.

- (b) *Civil remedy against fraudulent reception of subscription television programmes should be introduced.*

In view of our comments in 6(a) above, we believe that the introduction of a civil remedy is a more appropriate option than criminalising the fraudulent reception of subscription television programmes.

- (c) *Criminal sanction and civil remedy against the possession of an unauthorised decoder for commercial purposes should be introduced.*

According to the Consultation Document, introducing criminal sanctions and civil remedies against the possession of an unauthorised decoder for commercial purposes would be effective against fraudulent reception for commercial purposes. We believe that targeting commercial users in this way would generally be regarded as a more acceptable approach than criminalising fraudulent reception in domestic premises.

7. Licensing Bodies

- (a) *The Copyright Tribunal should not be replaced with an arbitration system to adjudicate disputes between copyright users and licensing bodies.*

As noted in the Consultation Document, the acknowledged problem of the substantial legal costs involved with the Copyright Tribunal proceedings cannot be avoided under an arbitration system. Rather than replacing the Copyright Tribunal with an arbitration system which is often expensive for

the parties to the arbitration, the Committee believes that the introduction of an summary procedure for Copyright Tribunal proceedings, under which no legal representation is allowed for cases involving an amount not exceeding a certain limit, would provide a more effective solution to the issue of legal costs.

- (b) *Licensing bodies should not be mandated to be registered and to publish their scales of royalty charges.*

According to the Consultation Document, there is the possibility that a mandatory system of registration of licensing bodies might conflict with Hong Kong's international obligation not to subject the exercise of copyright by the right holder to any formality. This issue needs to be examined. Furthermore, the substantial resources needed for managing a regulatory regime may not be commensurate with its potential benefits. The Committee does not see the need at this juncture to introduce a system of mandatory registration of licensing bodies, whereby all licensing bodies are required to publish their scale of charges.

We hope that you find our comments to be constructive. Should you have any comments on them, please do not hesitate either myself or John Tang, Assistant Director (Business and Practice) at the Society.

Yours faithfully,



PETER TISMAN
DEPUTY DIRECTOR
(BUSINESS & PRACTICE)
HONG KONG SOCIETY OF ACCOUNTANTS

PMT/JT/ay



Our Ref.: C/EPLM

28 June 2003

Hon. Sin Chung-Kai
Chairman of the Bill Committee on the
Copyright (Amendment) Bill 2003,
Room 601, 6/F
Citibank Tower
3 Garden Road
Central, Hong Kong.

Dear Sir,

Copyright (Amendment) Bill 2003

The Society has considered the Copyright (Amendment) Bill 2003 (the "2003 Bill") and is supportive of a number of the main provisions contained in it. At the same time we have reservations about certain provisions and also believe that in some respects it should go further in liberalising the existing regime. Our previous submissions on the following related areas are also relevant:

- Intellectual Property (Miscellaneous Amendments) Ordinance 2000 (the "2000 Ordinance") dated 11 April 2001 (Appendix 1);*
- Review of Certain Provisions of Copyright Ordinance Consultation Document (the "Consultation Document") dated 31 December 2001 (submission to the Commerce and Industry Bureau)(Appendix 2); and
- Copyright (Amendment) Bill 2001 (the "2001 Bill") dated 16 August 2002 (Appendix 3).

The Society's views on the 2003 Bill are set out in the paragraphs below.

I. Permanently suspending the legislative provisions which make it an offence to use pirated copies of copyright works in business

The 2000 Ordinance made it a criminal offence to use a pirated copy of a copyright work, e.g. newspaper articles, music, or film recordings, in business. In a submission on the legislation, the Society expressed concern that professional and business associations, and non-government organisations would run the risk of committing a criminal offence under the Copyright Ordinance as amended, if, for example, they made copies of newspaper articles and other materials to keep committee members, etc. apprised of developments on which they might be asked to express views or make decisions.

The Suspension Ordinance was subsequently introduced to address public concerns that the provisions of the 2000 Ordinance could unduly impede dissemination of information and teaching activities. This Ordinance suspended the relevant provisions except as they applied to four categories of copyrights works, i.e. computer programs, movies, television dramas and musical recordings ("Four Categories of Works").

* Appendices not attached.

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The Society's submission on the Consultation Document (para. B1(d)) made the general point that we believe that any "permanent" legislative solution should be targeted specifically at what are generally regarded as being significant problem areas. It should avoid imposing a heavy-handed, blanket criminalisation of other copyright infringements that, on the one hand, might have little or no material affect on copyright owners and, on the other, could impede the free flow of information, the process of learning and the quality of debate within the community. More specifically, the Society expressed the view that certain acts of the end-user which, while they might infringe copyright, did not give the end-user any commercial advantage or private financial gain, e.g., photocopying a newspaper article or printing a picture downloaded from a website for archival purposes, without licence, generally did not conflict with a normal exploitation of the work by copyright owners, or unreasonably prejudice their legitimate interests. As such, these acts should be exempt from criminal liability.

Against this background, we support the proposals in the 2003 Bill to:

- permanently suspend the legislative provisions which make it an offence to use pirated copies of copyright works in business except as they apply to the Four Categories of Works; and
- amend the offences in sections 118(1)(d) and (e) of the Copyright Ordinance to limit them to certain specified acts of dealing with infringing copies of copyright works that are by nature mainly commercial acts. These acts include selling, letting for hire, distributing for profit or financial reward, transporting or storing for profit or financial reward, or possession with a view to doing the afore-mentioned acts; and exhibition in public for the purpose of selling or letting for hire.

However, the 2003 Bill also proposes to add a presumption to the effect that, where a person is transporting or storing an infringing copy in circumstances that give rise to a reasonable suspicion that he is transporting or storing the infringing copy for profit or financial reward, the person is presumed to be acting for profit or financial reward, and so committing an offence under the proposed new s118(10)(d)(iii), unless there is evidence to the contrary. A similar presumption is also introduced in relation to the act of possessing an infringing copy with a view to transporting or storing it for profit or financial reward. The Legislative Council ("LegCo") Brief states that this presumption is necessary to facilitate effective enforcement and prosecution, as in practice it will be extremely difficult in many cases to prove beyond a reasonable doubt the element of "for profit or financial reward" in the offence.

The Society ~~is~~ does not support the introduction of the proposed statutory presumption. Under this section generally, in respect of the various offending activities, there is no requirement for the prosecution to show that the defendant had any knowledge or belief that the relevant copies were infringing copies, although under the proposed s118B, it is a defence for the person charged to prove that he had no knowledge or reason to believe that they were infringing copies. In other words there is already a basic presumption of guilt in relation to the mental element of the offences as reflected in the reversal of the burden of proof. Under the circumstances we do not consider it to be appropriate to introduce any further presumptions that would facilitate prosecution of persons who may be transporting, storing, etc., infringing copies. This could cause serious problems for ordinary transport and godown companies which in the normal course of

their business transport or store goods for reward.

II. Removing "in connection with" from the expression "for the purpose of, in the course of, or in connection with, any trade or business"

The Suspension Ordinance suspended application of the phrase "in connection with" in the expression "for the purpose of, in the course of, or in connection with, any trade or business" where this appeared in the Copyright Ordinance, so that, as regards the use of pirated copies of copyright works in the business context, activities incidental to or marginally related to business would be outside the scope of criminal liability.

In our submission on the Consultation Document (para. B1(e)), we expressed the view that the phrase "in the course of" could also capable of a fairly wide interpretation. For this reason we proposed that a broader review of the wording be conducted to ensure that the scope of the Ordinance is clearly known, understood and accepted.

While we welcome the proposal contained in the 2003 Bill to permanently remove the phrase "in connection with" from the expression "for the purpose of, in the course of, or in connection with, any trade or business", where it appears in the Copyright Ordinance, for the reason given above we continue to have some doubt whether or not the application of the revised Ordinance as it affects the Four Categories of Works will be sufficiently clear, despite the definition contained in the proposed s196A.

III. Definition of "business"

The 2003 Bill proposes to amend the definition of the term "business" in section 198 of the Copyright Ordinance to clarify that it includes business conducted other than for profit.

In the Society's submission on the Consultation Document (para. B1(a)), we expressed the view that criminal sanctions should not apply to the possession of an infringing copy of a copyright work in "business" activities of a non-profit-making nature. Since no commercial advantage or private financial gain is involved, the Society considered that activities of non-profit-making organisations, such as educational and charitable organisations, should be treated on a similar basis to private and domestic purposes.

We are of the view that, despite the narrower scope of the revised Ordinance, in which end-user liability is limited to the Four Categories of Works, consideration should still be given to exempting registered charities from the criminal liabilities under the proposed amendments, on the basis that their activities are not conducted for commercial purposes or private financial gain. The copyright owner will still have the option of taking civil action against any such infringements.

IV. New defence against criminal liability for employees in possession of an infringing copy supplied by the employer

We support the introduction of a new defence in the 2003 Bill for an employee against criminal liability for possessing in the course of his employment an infringing copy of a copyright work falling within the Four Categories of Works, which was provided to him by or on behalf of his employer.

This is in line with the comments put forward in the Society's submission on the Consultation Document (para. B1(b)).

V. **Removal of end-user liability in relation to parallel imports**

The 2003 Bill proposes to remove civil and criminal liabilities in relation to parallel importing of copies of copyright works, other than computer software, which is dealt with in separate legislation currently before LegCo (i.e. the 2001 Bill), and possession of such parallel-imported copies, unless the importing or possession is for the purpose of any of the following acts: selling, letting for hire, or distributing for profit or financial reward or to such an extent as would prejudicially affect the copyright owner.

The 2003 Bill also proposes to remove civil and criminal liabilities for exhibiting in public parallel-imported copies, other than for the sale or hire of those copies, and for distributing such copies, other than for profit or financial reward, or to such an extent as to affect prejudicially the copyright owner.

However, as stated in the Society's submission on the Consultation Document, we are in favour of a broader liberalisation of the restrictions on parallel imports which we believe would facilitate the free flow of goods, increase competition and the availability of products in the market, and thus result in more choice and lower prices for consumers. In this respect we see no reason to distinguish computer software from other products. In addition, liberalising parallel importation would also be in line with technological and commercial developments in relation to the Internet and e-commerce.

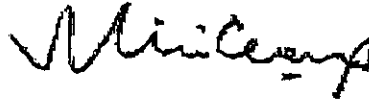
The Society would therefore reiterate the view that the civil liability and criminal sanctions against parallel importation and subsequent dealing in all types of copyright work should be removed. In principle, we consider that this should be without exception. However, provision could be made for exceptions where the copyright owner can argue specific and exceptional circumstances (e.g. if, for example, prices in an overseas market from which goods are sourced are artificially low because they are specifically mandated or controlled by the Government of that place). Some lead time might also be required for the introduction of any such change in the law so that existing licensed importers and distributors would be able to prepare for it.

VI. **Issues not dealt with in the 2003 Bill**

We note that certain matters raised in the Consultation Document have not been dealt with in the 2003 Bill and we would be interested to know what arrangements are being planned in relation to them. These include (with the relevant chapter reference of the Consultation Document indicated in brackets): permitted acts for educational purposes (Chapter 2); permitted acts for visually impaired persons (Chapter 3); permitted acts related to free public showing or playing of broadcast or cable programme (Chapter 4); unauthorised reception of subscription television programmes (Chapter 6); and licensing bodies (Chapter 7).

We trust that you will find our comments are constructive. If you have any questions or comments on the above, please contact Mr. Peter Tisman, Deputy Director (Business & Practice) at 2287 7084.

Yours faithfully,



WINNIE C.W. CHEUNG
SENIOR DIRECTOR
PROFESSIONAL & TECHNICAL DEVELOPMENT
HONG KONG SOCIETY OF ACCOUNTANTS

c.c.: Commerce, Industry and Technology Bureau (Attn: Mr. Donald Chen)