5th June, 2006

Ms Mary Chow
Deputy Secretary for Commerce, Industry and Technology
(Commerce & Industry)
Level 29, One Pacific Place
88 Queensway, Hong Kong

Dear Ms Chow,

Re: Copyright (Amendment) Bill 2006

We are thankful for inviting us to share our views and concerns on the proposed Copyright (Amendment) Bill 2006 at your office on 17th May 2006.

If we may, we wish to take this opportunity to show our great appreciation for the great and hard work which CITB has undertaken to put together the proposed amendments to the Copyright Ordinance with a view to updating and bringing the most difficult but vital important aspects of the copyright law in line with the international norms and obligations.

For the sake of completeness, we wish to recapitulate the main issues which we raised and discussed in the said 17th May meeting.

1. **Parallel Importation Of Musical Visual/Sound Recordings**

I Legal Framework

1.1 We, together with other copyright organizations, have stated clearly that we have always adopted the position of the United Kingdom on this issue, therefore, any importation of a copy of a copyright work into Hong Kong (same as in the United Kingdom) will infringe the copyright owner of Hong Kong if its making in Hong Kong would have constituted an infringement of copyright or a breach of an exclusive licence agreement relating to that copyright work[1].

1.2 Therefore, **it is not relevant to consider whether it was legitimately made outside Hong Kong as long as its making was an infringement of the**

[1] Sections 5 (2) (3) and 16 (2) (3) of the U.K. Copyright Act 1956. The UK Copyright Act 1956 was extended to Hong Kong by virtue of the UK Copyright (Hong Kong) Order (1972 S.I. 1724) in 1972, which came into force on 12th December 1972.
Now sections 35 (2) and .(3) of the Hong Kong Copyright Ordinance.(Cap 528). (cf. Sections 27(2) and 27 (3)of the Copyright Designs and Patents Act 1988). **Hong Kong Copyright Ordinance is modeled on the U.K. Copyright Designs and Patents Act 1988.**

copyright owner of Hong Kong in respect of the work[2]. Needless to say, the making of the copy will have been an infringement if the reproduction right was thereby infringed[3].

1.3 Under sections 177 (1) and 178 (1) of the **Hong Kong Copyright Ordinance,** copyright created or published anywhere in the world qualifies for protection in Hong Kong[4]. As in the U.K.[5], Hong Kong **only recognizes and protects the owner of copyright in respect of a work who has the exclusive rights to copy the work[6](the reproduction right), issue copies of the work to the public[7] (the distribution right) and any other of the acts as specified in section 22 (1) of the Copyright Ordinance. Not different owner of that work** in Singapore or Mainland China.[8]

1.4 If parallel imports were to be allowed from other country, say from United Kingdom, Hong Kong Copyright Law would amount to the protection of the reproduction and distribution rights of the copyright owner or exclusive licensee of the United Kingdom in respect of the same work. This is against the basic copyright principle set out above.

1.5 For the sake of clarity, Hong Kong copyright law as it now stands provides that parallel imported copies of copyright work refer those which are not made by a Hong Kong copyright owner or exclusive licensee of that copyright work and the making of these copies in Hong Kong would have constituted a copyright infringement of that work or in breach of the exclusive licence in respect of that work albeit such copies are lawfully made and sold in the country by different copyright owner of the same copyright work from which the copies are subsequently exported into Hong Kong.

1.6 If parallel imports were to be allowed in Hong Kong, this will render the importation right meaningless and deprives the copyright owner of Hong Kong the "full value" for the sale of the work.[9]

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[2] Paragraph 12-009 of Intellectual Property 2nd Edition by W.R. Cornish 1989 and note 1 above.
[3] Sections 35(2) and section 35(3) of the Copyright Ordinance and Paragraph 8-04 of the Copinger and Skone James on Copyright, 15th edition, 2005 Sweet & Maxwell.
[4] Up to now, no country has ever been denied copyright protection in Hong Kong under section 180 of the Copyright Ordinance
[5] Section 16 (1) of the United Kingdom Copyright Designs and Patents Act 1988.
[6] Section 22 (1) (a) of the Hong Kong Copyright Ordinance.
[7] Section 22 (1) (b) of the Hong Kong Copyright Ordinance.
[8]Section 22 of the Hong Kong Copyright Ordinance. Mega Laser case confirms that, if there are many owners of the same copyright work in different geographical regions, Hong Kong Copyright law protects Hong Kong Copyright owner only (CRIMINAL APPEAL NO. 453 OF 1998-judgment delivered on 10 June 1999)
[9] U.S.Supreme Court case of Quality King Distributors Inc. v. L"Anza Research International Inc., No. 96-1470, decided on March 9, 1998

1.7 Section 35 of the Copyright Ordinance simply provides that for all intents and purposes, all imported copies are infringing copies.

1.8 The protection of reproduction distribution and communication rights of the copyright owner in respect of a copyright work is one of the key objectives under Berne Convention, Trips Agreement and WIPO Internet Treaties and every member or signatory state is obliged to comply therewith. The provisions for criminal sanction against parallel importer of copies of a copyright work (now except computer program) under the Hong Kong Copyright Ordinance (as amended in 2001 and 2004) are certainly within the scope of Article 61 of the TRIPS Agreement.

II Possession Offence Against The Corporate Endusers

1.9 For the reasons stated above, we echo the views as expressed by the Hong Kong Video Development Foundation Ltd. in their earlier submissions and in the said CITB 17th May meeting that there should not be two different criminal sanction regimes for the possession offence, namely one for the pirated copy and the other for the parallel imports. The imported copies of both categories shall, for all intents and purposes, be treated as infringing copies by our copyright law as we only recognize and protect Hong Kong copyright owner and none others.

1.10 The "dealing in provision" for the possession offence of parallel imports against the corporate end-users should be deleted. There should only be one possession offence for both pirated copies and parallel import copies of a work (namely " in the course of any trade or business" offence[10]) for corporate end-users as Hong Kong Copyright Law does not protect the reproduction and distribution rights of copyright owners of other countries of the same work. As a result, **it is unnecessary to differentiate between the imported pirated copy and parallel import in order to establish an infringement of copyright in criminal sanction**.

1.11 Moreover, as it is difficult to differentiate between a parallel imported copy of a work and a pirated copy disguised as a parallel imported copy of the same work, this creates a dilemma and uncertainty among the corporate end-users

[10] During the discussion of the wordings of proposed draft section 118 (2) on 19th January 2006 at CITB office, both CITB and IPD have categorically confirmed that according to the U.K. case, Pensher Security Door CO. Ltd v Suderland City Council (2000) R.P.C. 249, the wordings " **in the course of any trade or business**" **does not cover** the business end-user who possesses a copy of an infringing work in question **"incidental to the business" of that business end-user.**
See also paragraph 4 of the Legco Brief on Copyright (Suspension of Amendments) Bill 2001 under reference CIB 09/46/12 dated 26th April 2001 in which CIB's legal advice was that the phrase " for the purpose of trade or business" had been narrowly interpreted to mean that an enterprises would commit an offence only if it was engaged in dealing in the infringing copy concerned.

that if they intend to source copies from overseas, they must satisfy that the imported copy of the same work is a copy which was lawfully made in that country, otherwise, they will face the criminal offence for using the pirated copy.

1.12 Or alternatively, if the corporate end-users were to be allowed to claim the genuine belief defence for the use of the pirated copy disguised as the parallel import, this will create a loophole for the perceived "legitimate" use of the pirated imported copy rendering the restriction of importation of the infringing copy and of the corporate possession offence meaningless and useless.

III The Importation And The Use Of Parallel Imports For Education Establishments

1.13 For the reasons stated in paragraph I, we strongly oppose that an Education Establishment may be permitted to use the parallel import copies of a work for the purpose of giving or receiving instructions as this would amount to invite the copyright owner of other country to make copies for use in that education establishment for those who give or receive instructions (this covers both the teacher and students) for the purpose of education in Hong Kong. The act would only benefit the copyright owner of that other country, the copyright owner of which is not recognized and protected by our copyright law[11]. This is in total defiance despise and ignorance of the value of creativity and investment of Hong Kong copyright owner.

1.14 No doubt, this would conflict with a normal exploitation of the work by the copyright owner of Hong Kong and unreasonably prejudice his legitimate interests in that work, i.e., amount other things, the exclusive reproduction and distribution rights granted and guaranteed to the copyright owner of Hong Kong under and by virtue of section 22 (1) of the Copyright Ordinance.

1.15 The Education Establishment is still facing the similar dilemma as how it will be able to differentiate between a parallel imported copy and an imported copy of a work disguised as a parallel import. It may either make an extensive enquiry (no less effort than it makes similar enquiry in Hong Kong) or alternatively it turns the blind eye to the issue. Neither way is the legitimate solution as our current policy dictates that our education system shall respect and protect the intellectual property rights.

1.16 Based on discussion with and the observation we have on the Education sector, it appears that the crux of the matter related to its misinterpretation and/or misunderstanding of the meaning and the operation of section 35 as related to parallel imports. The key issue is that there have already safe harbor

[11] Paragraph 1.9 of above refers.

provisions[12] for importation of parallel imports. If we simply put our heads together, the copyright owners and the education sector may work out a simple guideline which will obviate the risk and concern of attracting any criminal or civil liabilities.

1.17 **The simple guideline may simply require a teacher or a librarian to make a simple enquiry to one or several copyright organizations, by email or otherwise, to see if there is any simple reply stating that there is or is not a copyright owner or exclusive licensee of that work in Hong Kong** and if the answer is affirmative, the name of that copyright owner or an exclusive licensee[13] in Hong Kong. He will be allowed to import the copy if there is no reply within, say 14 working days, from the relevant copyright organization(s). No doubt, IFPI (Hong Kong) Ltd may serve as one stop enquiry for the clearance of the musical visual/sound recordings to be imported to Hong Kong.

1.18 At this juncture, may we bring to your special attention that Hong Kong Copyright Law only protects the copyright owner or an exclusive licensee of a work which has an exclusive right of making copies of that work, i.e. it has an exclusive reproduction right, It does not apply to an exclusive distributor which only has been granted an exclusive distribution right of that work (albeit there is no reason as why that education establishment cannot obtain its books from that exclusive distributor). Needless to say, it does not protect the copyright owner (which does not have an exclusive licensee in Hong Kong) which has an exclusive reproduction right for both Hong Kong and the country from which copies of that work are to be imported into Hong Kong as most people in the education sector might have wrongly perceived.

1.19 The education establishment may either get a copy of a work from Hong Kong exclusive distributor (which has no exclusive reproduction right) or from a reputable commercial source. Alternatively it might source from the other country as long as the imported copy of that work is lawfully made in that country.

1.20 We believe that there has always been a legitimate solution available for the import and the use of parallel imports in an education establishment, there is no justification whatsoever for any proposed amendment to be made in this regards.

1.21 The present amendment will **only cause unreasonable prejudice to the legitimate interest of the copyright owner of Hong Kong in respect of a work and will necessarily conflict with the normal exploitation of that work by the copyright owner of Hong Kong.**

[12] Sections 36 and 118 (6) of the Copyright Ordinance.
[13] Which must have an exclusive reproduction right in Hong Kong, see paragraph 1.17 below.

2. **The Removal of Criminal Liability For Education Establishment**

2.1 As we have pointed out in our earlier submission, we **strongly oppose any proposal for removal of any criminal liability for education establishments** for any act which is restricted by the Copyright Ordinance in criminal sanction regime. We strongly believe that a proper guideline drawn which would obviate the concern of both the copyright owners and the education sector will be the best and win/win solution for all the stakeholders.

2.2 The proposed amendment is disingenuous on the part of the education sector which hides its ignorance of or disrespect for the intellectual property rights under the cloak of educational objectives. It despises the real meaning and the genuine objective of "education" in our civilized society.

3 **The 4 Factors of Fair Use Defence in Education**

3.1 It appears that the Education Sector has harbored a misconception that the 4 factors are their free ticket for unlimited use of any copyrighted materials for giving or receiving instructions for the purpose of "education". However, as stated in the proposed amendment, these are the non-exclusive factors to be considered by the court for any fair use defence against any alleged copyright infringement committed by an education establishment. The guiding principle has been clearly set out in section 37 (3) of the Copyright Ordinance, which is basically the "two factors" found in the well known 3-step test.

3.2 This means that the proposed amendment will only ensure and invite litigations between the copyright owners and the education sector to see if any act is or is not a permitted act. It will take years and a lot of resources before any of the 4 factors are judicially defined. Section 121 is a good example as how it takes almost 6 years before the Court has finally observed the deficiency and the meaning and the proper use of section 121 affidavit in criminal proceedings.

3.3 This misconception is clearly discerned by the proposed deletion of sections 44 (2) and 45 (2) of the Copyright Ordinance which is aimed to remove any licensing scheme in place for education. This is contrary to the norms and practices of international communities.

3.4 The licensing schemes for education will only provide an incentive to copyright owners to offer terms and conditions which are reasonable; and will also benefit the education establishments by strengthening their bargaining positions against the copyright owners as any unreasonable terms and

conditions of the licensing scheme may be referred to the Copyright Tribunal for adjudication[14].

3.5 This will avoid any unnecessary civil litigation against the education establishments by the copyright owners. Otherwise, in the absence of the schemes, the only remedy available to the copyright owners will be by way of expensive and lengthy litigation. The costs of the litigation will eventually reflect in the prices of the copies of the work and will be borne by the parents of the students.

3.6 The end result of the proposed amendment is that the school will receive writs from time to time and the court will have to decide on a case by case basis if any specific act is within the spirit of 4 factors in the context of Hong Kong situation.

3.7 Hong Kong does not have litigious culture and we have tried to build a harmonious working environment, let keep it this way.

4 Section 43 : The Performing, Playing Or Showing Of Work, In The Course Of Activities Of Educational Establishments.

4.1 Section 34 (3) of the United Kingdom Copyright Designs and Patents Act 1988 (which is the equivalent of section 43 of the Hong Kong Copyright Ordinance) clearly excludes parents of a pupil for the purpose directly connected with the activities of education establishments as the presence of non students will change the character of the audience which will render the performance a pubic one. Berne Convention[15] does not allow for the granting of exceptions in relation to a pubic performance.

4.2 Section 28 of the Australia Copyright Act 1968 also excludes parents of a pupil for the performance of the works in the course of activities of the education establishments[16].

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[14]Section 35 (2) of the Copyright Designs and Patents Act 1988 and Para 9-97 at page 521 of the Copinger and Skone James on Copyright, 15th edition, 2005 Sweet & Maxwell in respect of recording by education establishments of broadcasts and cable programmes. (cf. Section 44 (2) of the Hong Kong Copyright Ordinance).
Section 36 (3) of the Copyright Designs and Patents Act 1988 and Para 9-98 at page 521 of the Copinger and Skone James on Copyright, 15th edition, 2005 Sweet & Maxwell in respect of reprographic copying by education establishments of passages of published works. (cf. Section 45 (2) of the Hong Kong Copyright Ordinance).

[15] The EU 2001/29/EC Directive on the "Harmonization Of Certain Aspects Of Copyright And Related Right In The Information Society" is not concerned with the public performance right and so its provisions do not have to be taken into account in relation to the amendment to section 34 of the Copyright Designs and Patents Act 1988

[16] Section 28 (3) of the Australia Copyright Act 1968 provides that "for the purposes of subsection (1), a person shall not be taken to be directly connected with a place where instruction is given by reason only that he or she is a parent or guardian of a student who receives instruction at that place.

4.3 In the 17 May CITB meeting, we have invited the policy branch to reexamine as to whether the original section 43 (3) of the Copyright Ordinance complies with Berne Convention or other treaties[17]. The proposed amendment includes grant parents or the immediate family members of a pupil will definitely change the character of the (domestic or private) performance to a public one. This cannot be a permitted act or exemption.

4.4 **The proposed amendment to section 43 ought to be withdrawn in its entirely** and perhaps, this section 43 (3) be amended to exclude parents of a pupil in order to comply with Berne Convention[18] and other treaties.

5 The Effective Technological Measures

I WIPO Internet Treaties

5.1 As we pointed out in the 17th May CITB meeting, we beg to differ from your interpretation as to the meaning of the words " *in connection with the exercise of* the authors' rights…… and that restricted acts, in respect of their works, which are not authorized by the authors concerned or permitted by law " under the WIPO Internet Treaties[19].

5.2 The WIPO Internet Treaties recognize that both the technological measures and electronic rights management information are indispensable for an efficient exercise of the rights of the copyright owners in the digital environment.

II The Technological measures And Copyright Infringement

5.3 In 1997, a year after the conclusion of WIPO Internet Treaties, Ms. Marybeth Peters, the Register of Copyrights of U. S Copyright Office, stated at a hearing regarding **the implementation of the WIPO treaties in US** that "each of the WIPO treaties includes two provisions that require member countries to provide technological **adjuncts** to copyright protection[20]." This means that it

[17] For the same reasons, section 76 exemption is too wide as it covers the free performance of all kinds of works except broadcast or cable programmes (CF section 67 of the Copyright Designs and Patents Act 1988 which covers sound recordings only). Regarding the public performance rights, please refer to Article 11*bis* of the Berne Convention; Article 9 (1) of the TRIPS Agreement; Article 15 of WIPO Performances and Phonograms Treaty and Article 2 (g) as to the definition of "communication to the public" for the purpose of Article 15.

[18] Paragraph 9-96 at page 520 of the Copinger and Skone James on Copyright, 15th edition, 2005 Sweet & Maxwell refers.

[19] Article 11 of the WIPO Copyright Treaty and Article 18 of the WIPO Performances and Phonograms Treaty.

[20] Statement of Marybeth Peters, the Register of Copyrights on H.R. 2281, the "WIPO Copyright Treaties Implementation Act" and H.R. 2180, the "On-Line Copyright Liability Limitation Act." H.R. 228 before

serves as a second layer of protection against copyright infringement in digital environment.

5.4 She further went on to clarify that "the prohibition would apply only to those measures that operate by requiring the application of information, or a process or a treatment that is authorized by the copyright owner. Moreover, the measure must do so "in the ordinary course of its operation." This would exclude technologies that may have the incidental or unintended effect of controlling access, or do so only when used in an unusual way."

5.5 This means that the technological measures must be in connection **with the exercise** of the rights of the authors (to be "effective"). It is not necessary to be tied in or bundled with the actual copyright infringement.

5.6 It is plainly obvious that, unlike analogue world, any sale of a copy of a work over on-line must be in the form of digital electronic file which cannot be dealt with by way of physical copy and any transmission over the internet produces a reproduction or copy on the recipient's computer, the copy that is on-line, remains on-line. The sale and use of the electronic files and the subsequent dealing thereof must be governed by the terms and conditions of the licence as may be imposed by the rightholder when the sale is made. The effective technological measures are part of the digital management system which aims at ensuring the terms of purchase are complied.

5.7 The Digital Millennium Copyright Act was passed in the closing days of the 105th U.S. Congress and was signed into the law by President Clinton in October 1998 in order to implement WIPO Copyright Treaty (1996) and WIPO Performances and Phonograms Treaty (1996) which covers the provisions for circumvention of technological measures and the integrity of the Copyright Management Information (Title I of the DMCA); ISP liabilities (Title II of the DMCA) etc and of course there are other amendments to the copyright in order to implement the WIPO Internet Treaties.

III U.S. Digital Millennium Copyright Act 1998 ("DMCA")

5.8 The Anti-circumvention Provisions of DMCA

a. The DMCA includes both the circumvention of effective technological protection measures ("TPMs") that control access to a work[21] and those that control the exercise of any of the exclusive rights in works[22] including right of copying.

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the Subcommittee on Courts and Intellectual Property Committee on the Judiciary**.** United States House of Representatives, 105th Congress, 1st Session , September 16, 1997

[21] Section 1201 (a) of the DMCA.

[22] Section 1201 (b) of the DMCA.

b. The DMCA prohibits the act of circumventing a technological measure and also makes it illegal to trafficking in products or services that are marketed for the purpose of enabling circumvention of TPMs[23].

c. The DMCA prohibits on trafficking devices or services for the circumvention of TPMs that control the exercise of exclusive rights[24] since the copyright law alone would not be fully "adequate and effective" to prevent the making or distributing such device or services.

d. Although, the DMCA does not define the copy control per se as a TPM, the enforcement of the exercise of the exclusive reproduction right as one of the exclusive rights of the copyright owner [25]would be sufficient to provide "adequate and effective protection".

e. Furthermore, **the DMCA differentiates between copyright infringement and unauthorized circumvention of TPMs**. Section 1201 (c) (1) provides that anti-circumvention provisions have no impact on rights or remedies or defenses under copyright. Section 1201 (c) (2) further provides that the copyright liability, if any, of producers or distributors of circumvention products and services is unchanged.

f. Therefore, **it is not necessary to prove copyright infringement to establish any violation of the anti-circumvention provisions. In short, any prosecution of the circumvention of TPMs must be proved on its own.** Such an action may be brought by the creator of TPM whose technological protection system is compromised. Consequently fair use defense or other copyright defenses do not apply[26].

g. The DMCA provides effective protection for technological measures by prohibiting both the act of circumvention and dealing in or with circumvention devices, without conditioning this protection with questions of copyright infringement. This has been the position of the US on the implementation of the WIPO Internet Treaties. Similar position has been adopted in EU Information Society Directive[27] in 2001and in U.K[28] in 2003.

IV <u>Circumvention OF the Purpose Designed For and Rendered by Technological Measures</u>

[23] Sections 1201 (a) 1 (A) and 1201 (a) 2 of the DMCA.
[24] Section 1201 (b) of the DMCA.
[25] Paragraph 5.5 a above refers.
[26] Section 1201 (c) of DMCA
[27] Recital 48 and Article 6 of the EU 2001/29/EC Directive on the "Harmonization Of Certain Aspects Of Copyright And Related Right In The Information Society".
[28] Sections 296 ZA –ZF of the Copyright Designs and Patents Act 1988.

h. Therefore, we respectfully submit that the international norms and obligations are to provide "adequate legal protection and effective legal remedies" against the circumvention of effective technological protection measures used by right holders to restrict unlawful and unauthorized acts under the WIPO Internet Treaties.

i. The Effective technological measures are any technology, devices or components which are designed, **in the normal course of its operation**, for the **purpose** of the intended **protection** of **a copyright work. Protection means the prevention or restriction of any acts** that are **not authorized by the copyright owner** of that work and are **restricted by the Copyright Law.**

j. Any act or device which "circumvents" such purpose of intended protection of a copyright work designed for and rendered by an effective technological measure amounts to violation of anti-circumvention of TPM.

k. The purpose of the anti-circumvention provisions is to prohibit the trade in device or act which circumvents the intended protection of a copyright work without regard to whether that assisted copyright infringement. **All that need to be proved is that it is intended to protect a copyright work or "to prevent or restrict copyright infringement" of a copyright work[29].**

l. In short, **in order to provide for the "adequate legal protection and effective legal remedies" against the circumvention of effective technological protection measures used for the purpose of the intended protection of a copyright work**, **the Copyright Ordinance must differentiate between copyright infringement and unauthorized circumvention of effective technological measures**, **It must not be necessary to prove copyright infringement in order to establish a violation of the anti-circumvention provisions**.

5.9 We therefore urge the Government to amend the proposed Bill accordingly. The act of circumvention or trade in anti-circumvention devices covers those which enable or facilitate the circumvention of effective technological measures only without any reference to any act of copyright infringement.

6 Others

We have been able to focus and concentrate on the issues which we consider are of most urgent important and relevant to our recording industry, we will make submission to clarify these issues further and other issues as the Bills

[29] See the views of Laddie J as expressed in Sony v Ball (2004) EWHC 1738, Ch. D.

Committee moves the Bill for second reading of the Copyright (Amendment) Bill 2006 in due course.

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
The Hon SIN Chung-kai, JP / Chairman of Bills Committee on Copyright (Amendment) Bill 2006
Ms Leong May Seey / IFPI Asian Regional Office
Mr Gadi Oron / IFPI Secretariat