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**Report of the Bills Committee on
Copyright (Amendment) Bill 2006**

Purpose

This paper reports on the deliberations of the Bills Committee on Copyright (Amendment) Bill 2006 (the Bill).

Background

2. The Administration has declared that its aim is to provide Hong Kong with a strong system of copyright protection to facilitate the development of a knowledge-based economy and creative industries. On one hand, copyright owners demand stronger protection through the introduction of new civil and criminal sanctions. On the other hand, the general public and business end-users of copyright works are wary of criminal sanctions and the introduction of new civil rights for copyright owners. Hong Kong is also obliged to meet certain minimum standards under the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

3. To formulate the way forward, the Administration consulted the public on a number of copyright-related issues from December 2004 to February 2005¹. In June 2005, it submitted its preliminary proposals for consultation with the Panel on Commerce and Industry (the CI Panel) and stakeholders. Having regard to the views received, the Administration refined its proposals and briefed the CI Panel and various stakeholders again in November 2005. To implement various proposals to enhance copyright protection and to make the copyright exemption regime more flexible, the Administration introduced the Bill into the Legislative Council (LegCo) on 29 March 2006.

¹ The Commerce and Industry Branch of the Commerce, Industry and Technology Bureau issued a consultation document entitled "Review of Certain Provisions of Copyright Ordinance" in December 2004.

The Bill

4. The Bill seeks to amend the Copyright Ordinance (Cap. 528) (CO) to :
- (a) make permanent the existing scope of the criminal offence provisions relating to possession of infringing copies of copyright works for use in business;
 - (b) provide new civil and criminal liabilities to enhance protection for copyright owners;
 - (c) improve the flexibility of the copyright exemption regime under certain circumstances and without unreasonably prejudicing the rights of copyright owners;
 - (d) relax the restrictions on the use of parallel imports; and
 - (e) strengthen enforcement against copyright offences.

The Bills Committee

5. At the House Committee meeting on 31 March 2006, Members decided to form a Bills Committee to study the Bill. Hon SIN Chung-kai was elected Chairman of the Bills Committee and its membership list is in **Appendix I**. The Bills Committee has held 24 meetings. Apart from discussion with the Administration, the Bills Committee has met with deputations and considered written submissions from interested parties. Individuals and organizations that have submitted views to the Bills Committee are listed in **Appendix II**.

Deliberations of the Bills Committee

6. Members of the Bills Committee agree that it is important for Hong Kong to develop an effective copyright protection regime. Nevertheless, they are also concerned that the free-flow and dissemination of information arising from the use of copyright works should not be unduly affected. The Bills Committee is aware of the divergent views held by copyright owners and users over many of the proposals in the Bill and is keen to ensure that the key proposals have struck a reasonable balance between the interests of stakeholders. The Bills Committee has examined the policy and legal aspects of various copyright-related issues including the following :

- (a) Business end-user criminal liability (paragraphs 7 to 29);
- (b) Directors'/partners' criminal liability (paragraphs 30 to 35);

- (c) Defence for employees (paragraphs 36 to 38);
- (d) Meeting international requirements on copyright protection (paragraphs 39 to 40);
- (e) Anti-circumvention provisions (paragraphs 41 to 63);
- (f) Rights Management Information (paragraphs 64 to 66);
- (g) Proposed liberalization in the use of parallel imports (paragraphs 67 to 83);
- (h) Copyright exemption (paragraphs 84 to 111);
- (i) Rental rights for films and comic books (paragraphs 112 to 115);
- (j) Issues related to improving enforcement efficiency and operation of CO (paragraphs 116 to 121); and
- (k) Other related matters (paragraphs 122 to 125).

Business end-user criminal liability

Business end-user possession offence (new section 118(1)(f) in clause 22(1) and new section 118(2A) in clause 22(3))

7. Members recall that amendments were made to CO in 2000 to make the possession of an infringing copy of any type of copyright work for use in business a criminal offence. However, the public in general considered the scope of the new criminal provision too wide and might hamper the dissemination of information in enterprises and educational activities. In June 2001, the Copyright (Suspension of Amendments) Ordinance 2001 (the Suspension Ordinance) was enacted to suspend the new criminal provisions except as they applied to computer programs, movies, television dramas and musical recordings (the Four Categories of Works). The validity period of the Suspension Ordinance has been extended by resolution of LegCo on four occasions until 31 July 2007 to enable the Administration to formulate a long-term solution.

8. Having considered the views received during public consultation and subsequent discussion with stakeholders, the Administration proposes in the Bill to maintain the existing scope of business end-user possession criminal liability to cover only the Four Categories of Works. Opportunity is also taken to redraft existing section 118(1) of CO to make it clear that the criminal offence of possession of infringing copies of copyright works applies to all categories of works in a "dealing in"² business context. Where such possession is only for business end-use which does not consist of dealing in infringing copies, criminal

² "Dealing in" business includes selling, letting for hire, or distributing for profit or reward.

liability will only apply to the Four Categories of Works but not other types of copyright works such as printed works.

9. The Bills Committee notes the strong objection from copyright owners of printed works to the exclusion of publications from the scope of business end-user possession criminal liability. They reiterate their demand for criminal sanctions similar to those for the Four Categories of Works because it is unfair to accord less protection to a specific type of copyright works. According to the Hong Kong International Publishers' Alliance (HKIPA) and the International Intellectual Property Alliance (IIPA), such exclusion is inconsistent with Article 61 of the TRIPS Agreement. The Administration however holds a different view. The said Article requires WTO members to provide for criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. The Administration considers that the possession of an infringing copy of a copyright work for use in business merely as an end-user does not amount to such severity and its current proposal therefore does not conflict with the requirement under Article 61 of the TRIPS Agreement.

10. The Bills Committee notes that the Administration's proposal has the support of trade organizations of the banking, retail management, industrial and commercial sectors. The Consumer Council suggests removing all end-user criminal liabilities at an opportune time. Members note the Administration's point of view that due to the intrinsic nature of printed works such as books and newspapers, criminalizing the possession of a photocopy of any printed work in the course of business (which already attracts civil liability under the existing law) may be too draconian.

Business end-user copying/distribution offence (new section 119B in clause 24)

11. To address the concerns of copyright owners of printed works without impeding the free-flow of information in business/education, the Administration has proposed to criminalize only significant infringing acts. It has proposed to introduce a new section 119B to criminalize those acts of making with a view to distributing or distributing infringing copies of copyright works published in four types of printed works, namely newspapers, magazines, periodicals and books. Criminal liability will be incurred if the copying and distribution is done on a regular or frequent basis resulting in financial loss to the copyright owners concerned.

12. To avoid any adverse impact on classroom teaching, the Administration has proposed to exempt from the proposed criminal offence educational establishments which are non-profit making or subvented by the Government. To allay the concerns of the business sector, the Administration has also proposed to provide the following defences in order that business operations will not be adversely affected :

- (a) the business end-user made a request for a licence, but failed to receive a timely response;

- (b) the business end-user could not obtain commercially available copies and could not obtain a licence on reasonable commercial terms; or
- (c) the business end-user did not know that the copies he made or distributed had infringed copyright.

As a related issue, the Administration has indicated to the Bills Committee its policy intent that the defence provisions should also cover the scenarios in which the copyright owners cannot be identified or located. To clarify this policy intent, the Administration will make Committee Stage Amendments (CSAs) to expressly provide that it is a defence for the business end-user charged to prove that he could not, after making reasonable enquiries, ascertain the identity and contact details of the copyright owner.

13. Many of the business organizations submitting views to the Bills Committee indicate objection to the proposed copying/distribution offence for reasons that the dissemination of information and normal operation of business may be adversely affected. Some query the severity of the infringement problem faced by the publication industry and whether it is justified to criminalize business end-users.

14. Some deputations including the Hong Kong Video Development Foundation (HKVDF), the International Federation of the Phonographic Industry (Hong Kong Group) Limited (IFPI (Hong Kong Group)) and the International Association of Scientific, Technical and Medical Publishers (STM) object to the exemption of educational establishments from the proposed copying/distribution offence. They argue that these institutions are capable of distributing copyright materials to such an extent as to affect prejudicially the interest of the copyright owner. They consider that without criminal sanction or digital rights management systems, schools will become the safe haven for on-line piracy. According to the Administration, the proposed exemption is to avoid causing impediment to classroom teaching and schools will still incur civil liability for copyright infringement. While members share the view that due consideration should be given to normal teaching and educational needs, they agree that schools should be encouraged to acquire licences from copyright owners so as to absolve themselves from possible civil liability arising from the making and distribution of copies of copyright works.

15. The Bills Committee has sought the Administration's response to some deputations' suggestion that as photocopying and distribution of newspaper/magazine articles for internal circulation, discussion or reference does not involve wilful intent on the part of the business enterprise to prejudice the legitimate interests of the copyright owners, such in-house activities should be exempted so long as no direct financial gain is involved. The Administration's view is that extensive copying and distribution of newspaper/magazine articles for internal circulation in business may still constitute significant infringement if it is done on a regular or frequent basis. The Administration does not consider it

appropriate to exempt such activities from the proposed criminal liability as business end-users should acquire appropriate licences from the copyright owners concerned if they need to make copies for distribution for business use on an extensive scale and on a frequent or regular basis.

16. The Bills Committee is aware of the business practice of the legal profession whereby quite a large number of copies of relevant parts of law books are made for internal reference, circulation or preparation for court proceedings. It has also noted the suggestion of the Hong Kong Bar Association that the Administration should consider providing general exemption from civil and criminal liabilities to legal professionals for the purpose of providing legal services and to persons assisting these professionals in providing such services. The Administration reaffirms that existing section 54 of CO already provides copyright exemption for acts done for the purposes of judicial proceedings. As regards general exemption, the Administration has consulted the book publishing industry which does not see any strong reason for giving such exemption to cater for the operational needs of a specific profession. Nevertheless, the industry is prepared to discuss with the legal profession and work out an appropriate licensing scheme. The Administration has also indicated its readiness to facilitate the discussion between concerned copyright licensing bodies and the legal profession.

The "safe harbour" provisions (new section 119B(3), (14), (15) and (16) in clause 24)

17. The Administration has proposed to specify, by way of subsidiary legislation subject to negative vetting by LegCo after enactment of the Bill, a set of numeric limits within which the proposed business end-user copying/distribution offence will not apply (known as the "safe harbour"). The proposed "safe harbour" formulation for copyright works in newspapers, magazines, periodicals and books (including academic journals), together with some examples provided by the Administration is at **Appendix III**. The Administration has explained that the numerical thresholds of the "safe harbour" seek to quantify what constitutes infringing acts in relation to printed copyright works done on a significant scale and to give effect to the policy intent that only serious acts will be criminalized.

18. The Bills Committee notes that some copyright owners consider the proposed thresholds too lax. For example, the Hong Kong Copyright Licensing Association (HKCLA) has counter-proposed that for newspapers, magazines and periodicals, the numerical perimeter should be set at 300 infringing copies (instead of 1 000 copies as proposed by the Administration) of copyright works within a 14-day period. Book publishers have also counter-proposed that the retail value of the total number of infringing copies of books made for distribution or distributed within a 180-day period should not exceed \$3,000, as opposed to \$8,000 proposed by the Administration; and that infringing copies made or distributed cumulatively not exceeding 30%, instead of 50%, of the books within a 180-day period would not be counted for the calculation of the retail value. The Hong Kong Comics and Animation Federation objects to the "safe harbour" proposed by the Administration which they consider will in effect render nil protection to

investment by the publication industry. The Bills Committee has also received views from trade organizations and professional bodies including the Chinese Manufacturers' Association, Federation of Hong Kong Industries, the Hong Kong General Chamber of Commerce and the Hong Kong Institute of Certified Public Accountants (HKICPA) that the proposed "safe harbour" formulation may not be easy to understand and that the numeric thresholds may suffice for small and medium enterprises (SMEs) but may be grossly inadequate for large business establishments or large-volume users.

19. The Bills Committee is concerned about the lack of agreement over the proposed "safe harbour" formulation and how such differences will be resolved. Publishers consider that the Administration should work out and submit the detailed "safe harbour" formulation for the Bills Committee's consideration in conjunction with its scrutiny of the Bill, instead of dealing with it at a later stage after passage of the Bill. The Administration has assured members that it will maintain dialogue with copyright owners and business users with a view to reaching some common grounds as far as practicable. Since the Bill contains a host of other proposals to strengthen the existing copyright protection regime, the Administration sees merits in its early passage. The "safe harbour" provisions will be prescribed by Secretary for Commerce, Industry and Technology (SCIT), after enactment of the Bill, by way of regulation to be made under proposed section 119B(14). Meanwhile, the business end-user copying/distribution offence provision under proposed section 119B(1) of the Bill will not commence operation until the enactment of the regulation prescribing the numeric limits within which criminal liability will not arise. The Administration has confirmed that it will conduct public education activities to publicize to the business community the numeric perimeters of the "safe harbour" provisions before commencement of the relevant provisions.

Proposed regulation-making power of SCIT (new section 119B(14) and (16) in clause 24)

20. In examining proposed section 119B(14) which seeks to empower SCIT to specify by way of regulations the circumstances under which the proposed business end-user copying/distribution offence will not apply, the Bills Committee notes that as currently drafted, the proposed provision does not spell out, in a definitive manner, the factors to which SCIT should make reference to when specifying such circumstances. There is a concern that since the scope of the empowering provision is so wide, it may be difficult to ascertain whether the regulations to be made by SCIT under section 119B(14) will be within scope and not ultra vires of the primary legislation.

21. Responding to members' concern about the need to define more clearly the scope of the empowering provision, the Administration will revise proposed section 119B(14) to empower SCIT to make regulations for excluding the application of the proposed offence provision while a new subsection (15) will set out the perimeters (e.g. the number of infringing copies made or distributed) that SCIT will draw reference to and other matters (e.g. methods for determining the

number of infringing copies made or distributed) that SCIT will provide for when prescribing the "safe harbour" formulation. A new subsection (16) seeks to empower SCIT to make regulations for excluding certain modes of making or distributing infringing copies of copyright works from the proposed offence. The Administration has indicated that the distribution of infringing copies through Intranets is one such possible exclusion. The availability or otherwise of a licensing scheme has been expressly named as a relevant factor (discussed in paragraphs 24 to 26).

22. The Bills Committee notes that HKIPA maintains its view that details of the "safe harbour"-related provisions should be drawn up for the Bills Committee's consideration. The Administration reiterates that the regulations to be made under proposed section 119B(14) and section 119B(16) are subsidiary legislation subject to LegCo's negative vetting and Members will still have the opportunity to scrutinize them in detail.

23. On book publishers' comment that "academic journals" should include all professional, technical and medical journals, the Administration has undertaken to discuss with publishers' associations on how to define "academic journals" when drafting the regulations on the "safe harbour".

Application of the proposed copying/distribution offence to the electronic media (new section 119B(16) in clause 24)

24. The Bills Committee notes that according to the Administration, the current criminal offence under CO against prejudicial distribution of infringing copies of copyright works already catches distribution via uploading an infringing copy on an Internet website accessible by any person. As such, it has proposed to exclude this means of distribution from the new business end-user copying/distribution offence under proposed section 119B(5) of the Bill.

25. As regards the uploading of an infringing copy onto the Intranet or other private networks for distribution, the Administration has proposed to include such an act under the business end-user copying/distribution offence. However, the Administration recognizes that appropriate licensing schemes to enable users to use copies of printed works in an electronic environment must be available before the proposed offences can take effect in relation to materials uploaded on private networks including Intranets. Given the difference between electronic distribution and distribution of physical copies, the Administration has found it necessary to formulate a separate set of "safe harbour" for electronic distribution through consultation with the concerned copyright owners and users.

26. The Bills Committee notes that no appropriate licensing scheme is yet in place as the matter is still under consideration by the publishing industry. Members also note HKCLA's specific proposal on the method for calculating the number of infringing copies distributed on the Intranet platform. It has suggested that where logs showing the actual number of access to an infringing copy uploaded on the Intranet is not available, the number of infringing copies

distributed should be presumed to be 10% of the number of persons who can potentially access the infringing copy on the network. Pending a decision on these key issues, the Administration has proposed to defer the application of the proposed copying/distribution offence to private networks. In principle, members have no objection to this approach and note that the deferred application arrangement will be specified in the regulations to be made by SCIT under the new section 119B (16).

Exemption from the business end-user criminal liability for actions relating to heritage preservation and conservation (Amendments to section 118 in clause 22(3) and to section 119B in clause 24)

27. Heritage conservation is an essential part of Hong Kong's cultural policy and is being implemented by public libraries, museums and the Hong Kong Film Archive (HKFA) managed by the Leisure and Cultural Services Department. In conserving the film heritage of Hong Kong, HKFA may receive donated copies of films or salvage with unclear status of copyright ownership. However, it may not be feasible to seek copyright clearance of the donated or salvaged copies before HKFA can act on the copies to preserve their quality. The Administration has pointed out that the business end-user possession offence for the Four Categories of Works has posed a potential problem to HKFA. The Administration has therefore proposed CSAs to introduce a new section 118(2DA) to provide that the offence should not apply to the possession by HKFA of an infringing copy of copyright work, being a donated or salvaged item, for the purpose of its doing of any act to preserve the copy before a licence is obtained from the concerned copyright owner. Before HKFA makes use of a film for purposes other than preservation, it should seek prior authorization of the concerned copyright owner. However, it may not always be possible by reasonable inquiry to ascertain the identity and contact details of the copyright owner concerned. The Administration has therefore proposed CSAs to introduce a new section 118(2DB) to provide that for films copies of which cannot be obtained on reasonable commercial terms, the business end-user possession offence would not apply to HKFA if it is not possible by reasonable inquiry to ascertain the identity and contact details of the copyright owners of the films. Without this exemption, HKFA may have to withhold use of the film for a long period until such time as HKFA has reason to believe that the term of copyright³ has expired.

28. The Administration has informed members that over the years, the libraries, archives and museums owned by the Government have received a vast volume of donated items of copyright works of significant historical, cultural or heritage value from members of the public, including artists, authors and scholars and these items are accessible by the public for reference purposes and are used within the premises of the libraries, museums and archives. On special occasions, these materials may be loaned to other libraries or archives (including libraries,

³ Existing sections 17 to 21 of CO provide for the duration of copyright for various types of copyright works. The Bill does not seek to amend these sections. In the course of deliberation, the Bills Committee has given views on the existing term of copyright protection and these are reported in paragraph 122.

archives and museums owned by the Government) for research or exhibition purposes. However, it is quite impracticable to ascertain whether each and every such donated item consists of infringing copies of copyright works and whether the existing practice of providing these items for reference by the public will be caught by the new business end-user copying/distribution offence under proposed section 119B. The Administration has therefore proposed CSAs to provide an exemption to these institutions in respect of those collections which are, in the opinion of the Director of Leisure and Cultural Services (DLCS), of cultural, historical or heritage importance and which are only distributed for on-the-spot reference or lending to other libraries or archives (including libraries, archives and museums owned by the Government) for research or exhibition purpose. The Administration has also proposed to empower SCIT to prescribe, on the advice of DLCS, by way of notice any other non-profit making libraries and archives to which the exemption will apply, subject to the conditions, if any, specified by way of regulations.

29. The Bills Committee notes that the aforesaid exemptions will not affect the rights of copyright owners, if any, to take civil action in relation to the infringing copies in question. According to the Administration, the proposed exemptions have been carefully crafted to safeguard the interests of copyright owners. The Bills Committee notes that while HKIPA does not have objection in principle to recognizing a well-defined exclusion of "works of historical, cultural or heritage value", it is concerned whether the proposed CSAs, as currently drafted, would include networked or online distribution of the infringing copy. The Administration has confirmed that the exemption would only apply to the making of a single copy of item forming the special collection for the purpose of preserving or replacing the item against loss, deterioration or damage. No exemption is provided for the copies made in the course of networked or online distribution. It has also clarified that "special collection" is not intended to include best-selling items.

Directors' /partners' criminal liability (new section 118(2F) and (2H) in clause 22(4), new section 119B(6) and (8) in clause 24)

30. At present, it may not be easy to prove that a copyright-related offence has been committed with the consent or connivance of the director/partner of a company as required under existing section 125 of CO. As a result, many cases of business end-user piracy would only result in the company, as a legal entity, being convicted and fined. To promote corporate accountability and responsible governance, the Administration has proposed to introduce a new section 118(2F) and a new section 119B(6) to provide that if a body corporate or a partnership has done an act attracting the business end-user criminal liability, the director(s) of the body corporate or the partner(s) of the partnership responsible for its internal management will also be liable unless there is evidence showing that they have not authorized the infringing act in question. If there is no such director or partner, the person responsible for the internal management under the immediate authority of the directors or partners of the body corporate or partnership would be liable. The Administration has advised that the burden of proof placed on the defendant is only an evidential burden which can be discharged if the defendant can adduce

sufficient evidence to raise an issue that he has not authorized the infringing act in question. The type of evidence that the defendant may adduce for this purpose is spelt out in a non-exhaustive list under new section 118(2H) and new section 119B(8), and includes consideration of whether the defendant has introduced policies or practices against the use of infringing copies.

31. The Bills Committee notes the objection from a number of trade organizations to the proposed evidential burden. One of their main concerns is that operators of SMEs usually do not have the requisite resources or knowledge to ascertain whether their staff have used or installed certain infringing copies of copyright works. The Consumer Council has expressed grave reservation that the proposed provisions may have the effect of reversing the burden of proof and may be inconsistent with the fundamental right to presumption of innocence. While agreeing that intellectual property rights should be respected as part of good corporate governance, members appreciate the worry of SMEs and urge the Administration to consider specifying in law in a definitive and exhaustive manner the types of evidence that directors/partners may adduce for discharging the evidential burden.

32. The Administration has assured members that to discharge an evidential burden, not a legal burden, the defendant is only required to adduce sufficient evidence to raise an issue on certain matters that are required to be proved by the prosecution. The burden of proof remains with the prosecution to substantiate the offence in question. The Administration has also referred to decided court cases in which it has been ruled that the imposition of an evidential burden on the defendant is not inconsistent with the presumption of innocence.

33. Having considered deputations' and the Bills Committee's concern for specific guidelines, the Administration will introduce CSAs to provide that if the court is satisfied that the defendant has set aside financial resources and directed the use of such resources, or incurred expenditure, for acquisition of :—

- (a) a sufficient number of copies of the copyright work concerned which are not infringing copies for the use of the body corporate/partnership in question; or
- (b) appropriate licences to make or distribute copies of the copyright work concerned to meet the needs of the body corporate/partnership in question,

then, the defendant will be regarded as having adduced sufficient evidence to raise an issue that he has not authorized the infringing act in question. As to what constitutes a "sufficient" number of genuine copies of the copyright work concerned or appropriate licences, this would have to be determined in the light of the needs and operation of individual enterprises.

34. The Bills Committee notes that notwithstanding the proposed CSAs, some business organizations, including the Federation of Hong Kong Industries, the

Hong Kong Retail Management Association and the Hong Kong General Chamber of Commerce maintain their objection to the proposed evidential burden.

35. Members have stressed the importance of suitable publicity and education programmes to ensure awareness in the business community, especially SMEs, of the implications of the proposed directors'/partners' liability. The Administration has confirmed that it will launch public education and publicity activities to get the business community, including SMEs, prepared and allow enterprises to take compliance measures before the new provisions come into operation. According to the Administration, an education process of such a nature normally takes nine to 12 months. It has therefore not accepted a suggestion from the Business Software Alliance (BSA) to specify a commencement date for the proposed directors'/partners' liability in the Bill. Instead, it will monitor the situation and determine when the provisions should be brought into effect and publish a commencement notice in the Gazette accordingly.

Defence for employees (new section 118(3A) and (3B) in clause 22(6), new section 119B(10) and (11) in clause 24)

36. To address concerns that employees are in a weak position to refuse to commit infringing acts requested by their employers, the Administration has proposed to introduce new defence provisions for employees. These provisions will only apply if the employees are not in a position to make or influence a decision regarding the acquisition, removal or use of the infringing copy, or the making or distribution of the infringing copies.

37. The Bills Committee notes that the Administration's proposal has the support of the banking sector. The Administration has also clarified that whether an employee is in a position to make or influence a decision regarding the acquisition or removal or use of the infringing copy is to be determined on the facts of individual cases. Regarding the Consumer Council's concern about the absence of a similar defence for employees involved in the commercial dealing of infringing copies which are parallel-imported copies, the Administration's stance is that the proposed defence will only apply to business end-user offences and not to offences of commercial dealing in infringing copies. The Bills Committee is aware of strong objection raised by deputations representing the IT/software industry for fear that the proposed defence may be subject to abuse and that a similar defence is not available in other jurisdictions. Another concern raised by the business sector is that both employers and employees should be equally obliged to abide by the law. On a deputation's suggestion that only employees as defined by the Employment Ordinance (Cap. 57) (EO) can invoke the proposed defence, the Administration's advice is that under EO, it is still necessary to refer to the common law to determine whether an employment relationship exists and the meaning of "employee". As such, the Administration does not see the need to change the existing definition of "employee" under CO⁴.

⁴ Under section 198(1) of CO, "employed", "employee", "employer" and "employment" refer to employment under a contract of service or of apprenticeship.

38. The BSA has submitted to the Bills Committee that the proposed employees' defence may be inconsistent with the offence of conspiracy under section 159A of the Crimes Ordinance (Cap. 200) and that the defence will defeat the operation of the conspiracy offence. The Administration has advised that the conspiracy offence under the aforesaid section is committed when a person agrees with any other person(s) that a course of conduct which will involve the commission of any offence shall be pursued. The element of "agreement" is essential. The Bills Committee notes that in the Administration's view, where an employee simply obeys the order of his employer to use the pirated software in business, one may argue that there is no "agreement" between the employer and the employee as the latter is just carrying out the order of the former and should not therefore be liable for conspiracy under the Crimes Ordinance anyway.

Incorporation of the World Intellectual Property Organization (WIPO) Copyright Treaty and WIPO Performances and Phonograms Treaty ("Internet Treaties") requirements

39. WIPO concluded the Internet Treaties in December 1996 to update and improve the protection of copyright and related rights in the light of new digital technologies. Most of the requirements in the Internet Treaties are already provided in the CO. The Administration has proposed to incorporate the few remaining requirements into the CO so that Hong Kong's intellectual protection regime will comply with these international standards. The proposed amendments include :

- (a) to give rental rights for literary, dramatic or musical works included in sound recordings (clause 4);
- (b) to introduce new provisions to grant moral rights to performers with regard to their live aural performances or performances fixed in sound recordings (clause 53);
- (c) to introduce a new provision to grant rental rights to performers over sound recordings of their performances and to empower the Copyright Tribunal to give consent on behalf of owners of such rights in certain cases (clauses 39 and 41); and
- (d) to amend the definition of "performance" in section 200 of CO to make clear that it covers performance of artistic works and expressions of folklore (clause 37(2)).

40. The Bills Committee has considered the proposed provisions and raised no objection.

Anti-circumvention provisions

41. Copyright owners have the option of using "technological measures" to prevent copyright infringement. Examples include encryption of data or special

chips which prevent unauthorized digital copying. At the same time, there are also devices used to circumvent these technological measures. One example is "mod chips" that can be inserted into digital game machines so that pirated copies of computer games can be loaded onto the machines. The Bills Committee notes that copyright owners from various creative industries have demanded stronger protection against activities that circumvent the technological measures used to protect copyright works. However, the education sector and some organizations including the Consumer Council are concerned that over-regulation may affect users' legitimate access to copyright works and hinder scientific research and technological development.

Meaning of effective technological measure (new section 273 in clause 55)

42. The Bills Committee notes that according to copyright owners of the publishing, musical recording and entertainment software industries, the examples of effective technological measures listed under proposed section 273(2) are incomplete as they do not include user-identification and passwords for clients of on-demand or other e-commerce businesses. There is also the suggestion that all access-control technological measures should be included in the definition of "technological measure" in proposed section 273(3), regardless of whether the measure is designed for the prevention or restriction of acts which are restricted by copyright in the work.

43. The Administration has explained that its current proposal is in line with the relevant requirements under the Internet Treaties that contracting parties should provide adequate legal protection and effective legal remedies against circumvention of effective technological measures used by authors/performers. These technological measures are used (a) in connection with the exercise of authors'/performers' rights under the Treaties and the Berne Convention; and (b) to restrict acts that are not authorised by the authors/performers concerned or permitted by law. According to the Administration, the currently proposed definition is similar to those adopted in the anti-circumvention provisions of the United Kingdom (UK) and the relevant European Council Directive and is on par with the international norm. On the question of whether other control measures are covered under the meaning of effective technological measure, the Administration has advised that this would depend on whether such measures are applied in relation to copyright works for the protection of copyright. The examples listed under proposed section 273(2) (namely, "encryption, scrambling and any other transformation of the work") are not meant to be exhaustive.

44. As a related issue, the Administration will propose a CSA to amend section 273(1) to reflect that in addition to copyright owners, the exclusive licensees and those persons duly authorized by the copyright owner may also use effective technological measures to control the use of copyright works.

Civil remedies for circumvention of technological measures (New sections 273A and 273B in clause 56)

45. The Administration has proposed that a person who commits any of the following acts will be civilly liable if they know that the circumvention will lead to copyright infringement:

- (a) makes, imports, exports, deals in, or possesses for use in business, circumvention tools that circumvent technological measures (including both copy protection measures and access control measures);
- (b) provides services to circumvent these technological measures; or
- (c) commits the act of circumventing these technological measures.

46. The Bills Committee notes that a number of organizations representing the musical recording, broadcasting, film and software industries object to the requirement to prove "knowledge of infringement of copyright" on the part of the circumventor or the person who deals in circumvention devices in order to establish the civil liability. They have submitted that such a "knowledge requirement" is a barrier to effective protection of technological measures. It will also create loopholes in enforcement since distributors dealing with circumvention devices may easily escape liability by claiming that they thought the devices would be used for non-infringing purposes. The copyright owners share the concern that it is very difficult to prove the mental state of the defendant. The Law Society of Hong Kong (the Law Society) comments that the wrongful act is the circumvention of technological measures rather than the infringement of copyright.

47. The Administration has confirmed that its policy objective is to protect copyright works in relation to which technological measures have been applied from copyright infringement. The proposed provisions do not seek to protect technological measures *per se*. It has also cautioned that without the "knowledge requirement", a person who performs "permitted acts" under Division III of Part II of CO may become civilly liable where he has circumvented the technological measures for purposes such as research or private study. Nevertheless, having considered the industries' concern, the Administration will delete the proposed "knowledge requirement" from sections 273A and 273B. The Administration has submitted a proposal to include a defence provision under proposed section 273A so that a user may absolve his liability if he can establish to the court's satisfaction that the act of circumvention is done for the purpose of carrying out a non-infringing act. However, no defence will be provided to persons who deal in circumvention devices (i.e. section 273B) as the Administration considers that prohibition against the supply of such devices is the most effective way to combat the problem.

48. The Bills Committee notes that copyright owners from the musical recording, broadcasting, and movie industries have strong objection to the proposed

defence provision in section 273A(1A). On one hand, the Bills Committee understands the concern of copyright owners that the proposed defence provision may be abused by hackers and their call for de-linking copyright infringement from the act of circumvention, given the heavy investments they have put in to develop technological measures to protect their creative works. On the other hand, members are also aware of the importance of ensuring users' legitimate interests in using copyright works under certain permitted acts of the CO (e.g. the important function of the education and library sectors in knowledge preservation and their view that hacking a technological measure solely for the purpose of archival and preservation-related activities should not be held liable under proposed section 273A). The Bills Committee has urged the Administration to formulate a revised proposal which can cater to users' legitimate needs without affecting the development of the creative industries.

49. The Bills Committee has also considered information on whether and how overseas jurisdictions have included a similar "knowledge requirement" in their copyright laws to deal with circumvention activities. Members note that different approaches are being adopted by overseas jurisdictions. For example, the IFPI (Hong Kong Group) refers to the Digital Millennium Copyright Act implemented in the United States (US) and opines that it should not be necessary to prove copyright infringement in order to establish violation of the anti-circumvention provision. According to the Administration, UK adopts a scheme whereby complaints can be made to the Secretary of State who would then investigate the matter and make directions as appropriate. Referring to the UK experience, the Administration has expressed reservation on a joint-industry suggestion to adopt separate anti-circumvention regimes for computer programs (where there is a knowledge requirement) and other categories of works (where there is no such knowledge requirement).

50. After further considering the views of copyright owners and users, the Administration has agreed to remove the defence provision under proposed section 273A, the effect of which will make the act of circumventing any effective technological measure civilly liable. However, this would be subject to two proposals to address the concerns of users, especially the library and education sectors. Firstly, the civil liability under section 273A will not apply if the act of circumvention is done by the librarian or archivist of a library or archive specified under existing section 46 of CO, and the act is done for the sole purpose of carrying out any of the permitted acts under sections 50, 51 and 53 of CO⁵. Secondly, if the application of civil liability under section 273A is likely to cause or has caused undue encroachment on users' legitimate interests, the Administration will provide exceptions to the relevant provisions in the form of subsidiary legislation to be made by SCIT under proposed section 273H should copyright owners fail to address users' concerns using voluntary measures. To safeguard users' interests, the Administration will put on hold the commencement of section 273A until the first list of exceptions has been drawn up after consultation with copyright owners

⁵ Sections 50, 51 and 53 relate to supply of copies to other libraries, replacement copies of works, and copying of articles of cultural or historical importance respectively.

and users and enacted.

51. The Bills Committee has no objection to the Administration's revised proposal. However, there is concern about the scope of "specified libraries" and whether it would include private libraries, such as those operated by private clubs on a commercial/profit-making basis. The Administration has clarified that SCIT is empowered under existing section 46 of CO to specify, by notice in the Gazette, libraries and archives for the permitted acts in section 47 to 53 of CO. Until such a notice is published, the libraries specified under the First Schedule and the Second Schedule to the Copyright (Libraries) Regulations (enacted in 1973 and saved by the transitional provisions of the CO) should be able to enjoy the permitted acts in the Ordinance during the transitional period. The policy intent is to ensure that the functions of preserving copyright works by those libraries and archives covered under sections 50, 51 and 53 of the CO would not be adversely impaired after the removal of the defence provision in section 273A(1A). Hence, the libraries in the two Schedules will be adopted for the purposes of applying the exception to the civil liability imposed by proposed section 273A. The Administration has indicated that it will embark on a separate legislative exercise to specify, by notice in the Gazette under section 46 of the CO, libraries and archives for the permitted acts in section 47 to 53 of CO. The Bills Committee notes that in the context of that exercise, the Administration will review if the libraries in the two Schedules enacted in 1973 are still appropriate in present-day circumstances.

52. The Bills Committee notes the concerns of some copyright owners that the act of exhibiting in public or distributing a circumvention device would attract civil liability under proposed section 273B only if the act is done in a business context. The copyright owners are concerned that although some persons do not distribute such devices in a business context, the effect of such activities can cause substantive prejudice to their interests. Having noted the copyright owners' views, the Bills Committee has no objection to the Administration's proposed CSA to section 273B so that prejudicial distribution of such devices in a non-business context may also attract civil liability.

Criminal liability relating to circumvention activities (new section 273C in clause 56)

53. To combat the sale of modified game consoles and other tools which help the public to pirate copyright works, the Administration has proposed to make it a criminal offence for a person who makes for sale or hire, imports or exports for sale or hire, or deals in any circumvention tools or provides circumvention services on a commercial basis. The Administration is concerned that use of technological measures by copyright owners may affect certain legitimate activities. For example, the use of copy protection measures in broadcast may prevent recording of the programmes for subsequent viewing in a domestic environment. The Administration has therefore proposed to exclude from criminal liability those technological measures that prevent the recording of a broadcast or cable programme upon its reception. Moreover, the new criminal liability will not apply to television signal decoders which already attract criminal liability under the

Broadcasting Ordinance (Cap. 562). The Administration has also proposed to introduce a defence for those who did not know or had no reason to believe that the relevant device or service enabled or facilitated the circumvention.

54. The Bills Committee notes that one of the major concerns raised by copyright owners and industry associations is that the scope of criminal liability should be expanded to cover other acts, such as the public exhibition or distribution of a circumvention device otherwise than in the course of business to such an extent as to affect prejudicially the copyright owner. In this connection, the Administration's response is that the acts prohibited under proposed section 273C are largely in line with those under proposed section 118(1) of the Bill in relation to infringing copies of copyright works. Its policy intent is to combat trading in circumvention devices instead of criminalizing distributions made in a non-business context. The Administration considers that the proposed offence under section 273C has struck a right balance between protecting copyright works to which technological measures have been applied and the legitimate uses of copyright works. Members also note HKICPA's view that the proposed scope of criminal liability is broadly acceptable.

Exceptions to the civil and criminal provisions (new sections 273D, 273E, 273F and 273H in clause 56)

55. The Administration has proposed to provide exemption for circumvention activities that have the following purposes:

- (a) achieving interoperability of an independently created computer program;
- (b) research into cryptography;
- (c) identifying and disabling the function of a technological measure to collect or disseminate information which tracks and records the manner of a person's use of a computer network in order to protect privacy;
- (d) security testing for a computer or computer system/network;
- (e) gaining access to parallel imported copies of copyright works;
- (f) preventing access by minors to harmful materials on the Internet;
- (g) law enforcement; and
- (h) recording broadcast or cable programmes for purposes of private time-shifting⁶.

⁶ "Time-shifting" refers to the recording of programming to a storage medium to be viewed or listened to at a time more convenient to the viewer.

56. Proposed section 273H of the Bill seeks to empower SCIT to exclude, by notice in the Gazette, certain copyright works or circumvention tools from the application of the civil and criminal provisions where he is satisfied that certain use of copyright works or circumvention device would not infringe copyright and the anti-circumvention provisions would adversely affect the public's legitimate use of such works.

57. In examining the aforesaid exceptions, the Bills Committee notes that in general, copyright owners in the music, software and broadcasting industries consider that the proposed exceptions should be narrowed down and only allowed to the extent that they will not affect prejudicially the rights and legitimate interests of copyright owners. The Law Society is not convinced that the exemptions are necessary insofar as those activities may already be licensed or constitute fair dealing under the existing law. Educational bodies however have indicated support for the exceptions proposed in the Bill.

58. The Administration has informed members that its proposal is in line with legislative provisions in other jurisdictions and the exceptions have been carefully crafted to avoid possible abuses for illegitimate purposes. For instance, the exceptions for protection of privacy and protection of minors under proposed section 273F are subject to the "sole purpose test" whereby only devices which have the sole purpose of protecting privacy or minors would fall within the scope of the exception. The "working collaboratively" requirement is applicable to the exceptions which permit software development activities to achieve interoperability or for purposes relating to computer security and research into cryptography. The Administration's intention is to allow a person who is working jointly with another person on the above projects to make or supply specific circumvention devices to the second-mentioned person to enable him to carry out the project. Nonetheless, noting copyright owners' concerns, the Administration will introduce CSAs to refine the exception provisions. For avoidance of doubt, it will introduce CSAs to add the "no copyright infringement" requirement for the exception for research into cryptography under proposed section 273D.

59. The Bills Committee has noted that the proposed CSAs to section 273F(11) seek to address the computer game industry's strong objection that the exception at 273F(11) might exempt from the criminal net the commercial dealing of some existing modified game consoles as the relevant technological measure contained a measure controlling market segmentation on a geographical basis. The Administration has clarified that with the proposed CSAs, the exception would only apply to the circumvention devices the sole purpose of which is to overcome the regional coding, or other measure for controlling market segmentation on a geographical basis. In other words, with the commencement of the concerned provisions, commercial dealing of such modified game consoles will attract criminal sanctions. In practice, users may need to acquire specific game consoles designed for playing computer games issued for the respective geographical regions.

60. The Bills Committee has noted the strong objection from the broadcasting industry over the exception for private time-shifting purposes under new section 273F(12). According to the industry, it has become common for the same technological measure to be used in relation to copyright works delivered over different media platforms due to technological convergence. Hence, it is unlikely for a particular set of technological measure to be used only in relation to video-on-demand services. The industry has also submitted that no similar exception on private time-shifting can be found in the copyright legislation of other countries. On account of the existing industry practice which already provides for appropriate arrangements to allow private time-shifting activities, the Administration has agreed to introduce a CSA to delete proposed section 273F(12). If problems arise in future, the Administration may consider invoking the mechanism under proposed section 273H to provide exception for technological measures for private time-shifting purposes.

61. In examining the empowering provision under proposed section 273H of the Bill, members are concerned whether the proposed provision, as currently drafted, may have conferred very wide power on SCIT to determine the exceptions to the application of the anti-circumvention provisions. The Administration's view is that SCIT's power is not unfettered and is subject to the conditions that (a) any use of or dealing with the work or performance in question does not constitute an infringement of copyright or the rights in performances; and (b) any such use or dealing has been adversely impaired or affected as a result of the application of the anti-circumvention provisions. The Administration has also confirmed that the notice to be made by SCIT under proposed section 273H is subsidiary legislation subject to negative vetting by LegCo.

62. Members also consider it important that the copyright protection regime should be capable of encompassing the latest technological developments in the circumvention of technological measures and that the legislative provisions should not be overtaken by technological advancement. Acknowledging members' concern, the Administration has pointed out that proposed section 273H aims to provide a mechanism under which exceptions, including those brought about by technological developments, can be prescribed by SCIT as and when necessary in future. The Administration has also assured the Bills Committee that it will consult stakeholders on the proposed exceptions before publishing the relevant notice in the Gazette.

63. The Bills Committee notes that the Administration will not commence the operation of proposed 273A of the Bill relating to civil liability for circumvention of technological measures until the first list of exceptions has been drawn up and enacted after consultation with copyright owners and users. The Administration will also make some textual amendments to proposed section 273H to reflect the intention. On some copyright owners' suggestion to specify a commencement date for section 273A instead of deferring its commencement as currently proposed, the Administration remains of the view that the use of a commencement notice to bring new liability provisions into effect on an appropriate date will be more flexible and desirable.

Rights Management Information (clause 57)

64. With the growing popularity of lawful distribution of copyright works over the Internet, copyright owners need to incorporate data in digitized works through which copyright can be managed. For example, open or hidden data may be inserted with information about authorship, copyright ownership and licence terms. This is known as Rights Management Information (RMI).

65. At present, those who provide RMI can seek civil remedies against anyone who interferes with it (e.g. removes or alters it). Copyright owners have pointed out that they themselves may not be the person providing RMI in all copies of their works. They have requested that both they and their exclusive licensees should be given the right as well. The Administration has acceded to this request. It has also proposed to add the condition that the person interfering with the RMI will not be civilly liable unless he or she knows that this will lead to copyright infringement.

66. Some deputations from the film and broadcasting industries consider the requirement that the plaintiff has to prove "knowledge of copyright infringement" a barrier to enforcement. The Administration's explanation is that Article 12 of the WIPO Copyright Treaty and Article 19 of WIPO Performances and Phonograms Treaty require contracting parties to provide adequate and effective legal remedies against any person who knowingly interfere with RMI knowing or having reasonable grounds to know that it will induce, enable, facilitate or conceal an infringement of rights covered by the Internet Treaties. The Administration therefore submits that the "knowledge requirement" under proposed section 274(2A) and (2B) of the Bill is consistent with the relevant requirements under the Internet Treaties. It has also pointed out that similar provisions are contained in the UK copyright law and the relevant European Union Directive.

Proposed liberalization in the use of parallel imports

Shortening the period of criminal liability for parallel importation (clause 7(2))

67. Under the existing CO, it is a criminal offence to deal in, or to import otherwise than for private and domestic use, any parallel imported copyright work if the work has been published anywhere in the world for 18 months or less. Besides, using or possessing a parallel imported movie, television drama or musical recording for use in business during the said 18-month period is also a criminal offence. If the copyright work has been published for more than 18 months, the above acts would only attract civil liability. One of the most controversial proposals under the Bill is the shortening of the criminal liability period from the existing 18 months to nine months under section 35(4)(b) of CO.

68. The Bills Committee notes that the education sector, the Consumer Council and the business sector, particularly retailers, are strongly in favour of decriminalizing the parallel importation of genuine copyright works; while

copyright owners, particularly the film, music and publishing industries are strongly against it. The major view in support of liberalization is that the primary aim of CO is to combat copyright piracy. Parallel imported copyright works are not pirated goods but goods lawfully made outside Hong Kong and royalties have already been paid for these items. Hence, the existing 18-month criminal sanction period only serves to protect the interest of exclusive licensees and is not conducive to free flow of goods. Those sectors opposing the proposed shorting of the criminal liability period are of the view that it will weaken protection for copyright owners and stifle the development of Hong Kong's creative industries. The music and video industries share the view that the exclusive licensee should have the same copyright protection as the copyright owner in Hong Kong. The film and music industries have stressed the importance of the window of time (currently 18 months) provided by the prohibition against illegal parallel importation so that the investors/producers can implement their marketing strategies without the fear that parallel importers will free-ride on their marketing and promotional efforts for the copyright works in question. The Television Broadcasting Ltd also shares similar concern. The IFPI (Hong Kong Group) Ltd, the Hong Kong Publishing Federation Ltd and the HKVDF have jointly submitted to the Bills Committee their strong view that the 18-month criminal sanction period is the minimum period which allows the copyright investors to recoup their investment in Hong Kong. Members are fully aware of the diametrically different views held by copyright owners and users and have urged the Administration to strike a reasonable balance between their interests in proposing an appropriate formulation.

69. The Administration has made it clear that with Hong Kong being the freest market economy in the world, its long-term objective is to fully liberalize the use of parallel imports of copyright works in Hong Kong. Nevertheless, to balance users' aspiration for free circulation of parallel imports and the impact of liberalization on copyright owners and the business operations of various creative industries, the Administration has considered it prudent to adopt a progressive approach in liberalizing parallel imports. It will introduce the necessary CSAs to provide for a criminal sanction period of 15 months, instead of nine months as proposed in the Bill. The Bills Committee notes that copyright users maintain their call for full liberalization while the publication industry, television broadcasting and musical recording industry reiterate that the 18-month criminal sanction period should be retained, if not extended. The Hong Kong Comics and Animation Federation stresses the need for the 18-month criminal sanction period because of the lead time needed to obtain the licence from the Japanese licensors and to arrange translated comic titles.

70. The Bills Committee understands that it is difficult for any revised proposal to meet the opposing interests of copyright owners and users in full. Members nevertheless note that the Administration has undertaken to review the length of the criminal sanction period as and when appropriate, as well as to keep in view the effectiveness of new measures to facilitate criminal enforcement against parallel imports.

Enforcement against illegal parallel importation (clauses 7(2A) and 27(4))

71. Some members have questioned the efficacy or otherwise of enforcement actions against illegal parallel importation, in particular the difficulties in obtaining sufficient evidence to take out prosecution. They note that since 2002 and up to October 2006, C&ED has received 54 complaints alleging the sale of parallel imported copies of copyright works. They are concerned that of the substantiated complaints, only three cases have been prosecuted with conviction secured in one case only.

72. In this connection, the Administration has referred to the high standard of proof required in bringing prosecution against commercial dealing of parallel imported copies of copyright work. One major difficulty is the need to obtain direct evidence from copyright owners, in particular those located overseas, and from overseas manufacturers to prove that the copy in question is an infringing copy by virtue of section 35(3) of CO.

73. Having considered the concerns about the need to step up enforcement, the Administration has proposed CSAs to place an evidential burden on the defendant whereby any optical disc which does not bear a licensed manufacturer's code will be presumed to be an imported copy; and a copy containing a description restricting sales of the copies to places outside Hong Kong, or a description of the place of manufacture other than Hong Kong, will be presumed to be an imported copy. Regarding members' concern about prevailing practices in overseas jurisdictions, the Administration's advice is that the above presumptions for facilitating enforcement against the commercial dealing of parallel imported copyright works are broadly in line with the approach adopted by Australia relating to the proof of copyright subsistence and ownership in a work in general. However, the Administration is not aware of any decided cases on this subject or similar measures targeted at facilitating proof of parallel imports in the copyright legislation of other jurisdictions. If the proposed presumptions are enacted, Hong Kong will be the first jurisdiction in the world to put in place such facilitation measures. To alleviate the burden on copyright owners, in particular those located overseas, to attend court in person, the Administration has proposed to allow the copyright owner or any person acting on his behalf to make an affidavit stating that a licence to make the copy in question has been granted to an overseas licensee (i.e. the manufacturer) but such right does not cover the making of it in Hong Kong. The above proposed provisions are intended to apply to both civil and criminal proceedings.

74. The Administration has also proposed that decriminalization in relation to parallel imported copies of copyright works should apply retrospectively for any acts done in relation to copies imported before commencement of the amendment. However, the right to seek civil remedies by copyright owners against any infringing acts committed before the commencement of the amended provisions will not be affected.

Proposed removal of civil and criminal liability for business end-use of parallel-imported copyright works (clauses 8 and 45)

75. The Bill has proposed to add a new section 35B and a new section 229A to CO to permit business end-use of parallel imports of copyright works and fixations, except for commercial dealing purposes or public playing of movies, TV dramas, musical sound/visual recordings by organizations other than educational establishments and libraries. Educational bodies, trade associations, the Consumer Council and some professional bodies support the proposal as it can provide more choices to consumers and SMEs and is in line with the Government's policy to liberalize parallel importation of other commodities.

76. The Bills Committee is aware of the opposition maintained by the publication, film and music industries against the proposed liberalization for fear that it will lead to an influx of cheaper parallel imports, which deals a heavy blow to the investment incentives and growth of the industries concerned. There is also the worry of pirated copies of copyright works being disguised as parallel-imported copies as the two are sometimes difficult to differentiate. The IFPI (Hong Kong Group), in raising strong objection to permitting educational establishments to use parallel imported copies of copyright works for the purpose of giving or receiving instructions, has suggested that guidelines should be drawn up to require teachers/librarians to make enquiries with copyright owners' organizations to ascertain whether there is any copyright owner/exclusive licensee of the work in Hong Kong. If no reply is received within a certain period of time, they can acquire the parallel imported copies.

77. The Heads of Universities Committee (HUCOM) has pointed out to the Bills Committee that universities cannot afford to check with local agents on the availability of exclusive licensees before placing orders with vendors, the main reasons being that scholarly books are very limited in supply and seldom reprinted. Prior enquiry with local agents will cause undue delay in procurement. Moreover, universities often need to procure copies of multimedia products from overseas suppliers as the contents of the imported copies may be different from local editions.

78. On balance, the Administration has considered it appropriate to maintain the current proposal in the Bill in order to give greater flexibility and wider choices for educational establishments and libraries to source the necessary copyright materials for educational and library purposes. The Bills Committee notes the Administration's stance.

Definition of "lawfully made" (amendment to clause 35)

79. Pursuant to existing provisions of CO, a parallel-imported copy of copyright work is an infringing copy by virtue of section 35(3) which was lawfully made in a country, territory or area where the copy was made. The Administration has explained to the Bills Committee that in line with its interpretation as reflected in previous exercises to amend the CO, "lawfully made", in relation to a copy of a

work, refers to a copy which was made with the consent of a person who is entitled to the copyright in the work in the country, territory or area where the copy was made, but does not include a copy that was made in a country, territory or area where there is no law protecting copyright in the work or where the copyright in the work has expired. In this regard, the Bills Committee notes that the Law Society holds a different view on the interpretation. It considers that "lawfully made" should be limited to copies made (whether in Hong Kong or elsewhere) with the authorization of the Hong Kong copyright owner, but not the overseas copyright owner in those cases where the ownership is in different hands in different territories.

80. To put its intention beyond doubt, the Administration has proposed a definition of "lawfully made" under section 198(3) by way of a CSA (i.e. clause 35(5)). It has further advised that the reference to "lawfully made" has to be read in conjunction with the ensuing expression of "in the country, territory or area where it was made" whenever it appears in the CO, the Bill or the proposed CSAs. As section 35(3) of CO also covers "pirated copies" made abroad, the reference of "which was lawfully made in the country, territory or area where it was made" is used to state clearly that the concerned context relates to parallel imports. For cases where the copyright is in different hands in different territories, so long as the copy was made with the authorization of the overseas copyright owner in the territory where the copy was made, it should be regarded as "lawfully made" in the context of parallel importation.

81. The Law Society is of the view that the proposed definition removes the rights of authors to restrict importation of infringing copies and thus fails to "protect by law the achievements and the lawful rights and interests of authors in their literary and artistic creation" as enshrined in Article 140 of the Basic Law. In its response, the Administration has informed the Bills Committee that the TRIPS Agreement does not contain any required standard for the treatment of parallel imports. It disagrees that the proposed definition under section 198(3) is inconsistent with Article 140 of the Basic Law and points out that it is in line with the approach adopted in Australia and Singapore. The Law Society nevertheless maintains its view that goods made without the licence of the Hong Kong copyright owner are infringing products insofar as Hong Kong copyright is concerned and should not be regarded as "lawfully made".

82. The Bills Committee notes the latest proposal submitted by the Law Society to add a new section 121(2D) under clause 27(5) to enable a copyright owner in Hong Kong, by using the section 121 procedure, to put in as sufficient evidence that a copy was not "lawfully made" by stating in an affidavit that it was not made by or with the authorization of the Hong Kong copyright owner or any other person entitled to copyright in the country, territory or area in which the copy was made. According to the Law Society, the new section seeks to provide a procedure for adducing evidence on behalf of copyright owners, whether in Hong Kong or overseas, and recognizes Hong Kong's obligations under the TRIPS Agreement to accord the same treatment to Hong Kong copyright owners and overseas copyright owners, and hence is legally necessary. It considers that the

proposed amendments reflect the existing section 121 of CO.

83. In the Administration's view, it is doubtful whether the proposed provision will serve any useful purpose in negating a defence that the subject matter of the proceedings is in fact a parallel-imported copy and not a pirated copy. If the defendant argues his case by claiming that the copy in question was lawfully made in the place of manufacture, he would need to adduce evidence. If he has already adduced evidence to raise an issue that the copy was lawfully made, any evidential burden imposed under new section 121(2D) would already have been discharged. The Administration is not aware of such a facilitation provision in any other country, territory or area and points out that split copyright ownership is rare in practice. The proposed provision is not called for from a practical point of view since examiners acting on behalf of copyright owners can act as expert witnesses to prove that the copies in question are pirated copies. The Administration does not consider that the absence of the "affidavit provision" as proposed by the Law Society contravenes Article 3 of the TRIPS Agreement. It advises that the introduction of a new affidavit provision seeking to impose an evidential burden on the defendant should only be pursued if there are strong needs to address enforcement or operational problems in light of operational and enforcement experience. Hon Margaret NG has given notice on 15 June 2007 to move CSAs to clause 27 of the Bill to add a new section 121(2D) as proposed by the Law Society. The Law Society and the Administration have also exchanged views on the drafting of the proposed provision, as well as on the Administration's comments that the proposed provision as currently drafted is inconsistent with other provisions in CO⁷.

Copyright exemption

84. The existing CO lists item-by-item specific acts which can be permitted under copyright law⁸. Having reviewed the existing provisions, the Administration considers that this approach is rather rigid and cannot easily cater for social and technological changes and new circumstances, especially in education and public administration. It has proposed to introduce more flexibility into the copyright exemption regime by adopting the "fair dealing" approach. In determining whether a dealing constitutes "fair dealing", it is proposed in the Bill that the court should take into consideration the following non-exhaustive factors:

- (a) the purpose and character of the dealing, including whether such dealing is for profit-making and of a commercial nature;
- (b) the nature of the copyright work in question;

⁷ In a series of exchange of correspondences between the Administration and the Law Society (duly circulated to the Bills Committee) after the Bills Committee reported to the House Committee on 8 June 2007, both sides detailed their arguments on the need or otherwise for proposed section 121(2D) and on its legal and drafting aspects.

⁸ Detailed provisions on "Acts Permitted in relation to Copyright Works" are contained in Division III of PART II of the CO.

- (c) the amount and substantiality of the portion dealt with in relation to the copyright work as a whole; and
- (d) the effect of the dealing upon the potential market for or value of the copyright work.

85. The Bill contains provisions on fair dealing for education and public administration, as well as for performances and fixation of performances. The proposed fair dealing provisions, as well as the existing permitted acts, are all subject to the primary consideration set out in section 37(3) of CO, i.e. the act does not conflict with a normal exploitation of the work by the copyright owner and does not unreasonably prejudice the legitimate interests of the copyright owner⁹.

86. The Bills Committee notes a suggestion from the commercial sector and from the accounting profession that the fair dealing provision should also apply to the business sector and to regulatory/professional bodies respectively. Members note that in the public consultation exercise which ended in early 2005, copyright owners were generally opposed to the introduction of a general fair dealing provision whilst views from users were divided. Having considered the interests of copyright owners and the fact that the existing permitted acts under CO already cover certain uses for education and public administration, the Administration has proposed to restrict the scope of the new fair dealing provision to these two purposes only. Referring to existing section 59 of CO which provides a copyright exemption for the doing of particular acts specifically authorized by Ordinances unless the Ordinances provide otherwise, the Administration advises that regulatory or professional bodies which commit any acts specifically authorized by Ordinances can already enjoy copyright exemption.

Fair dealing for education (clauses 12 and 48)

87. Under proposed section 41A of the Bill, fair dealing with a work by a teacher or pupil for the purpose of giving or receiving instruction in a specified course of study provided by an educational establishment would not infringe copyright. Similar fair dealing provision for performance or fixation is provided under proposed section 242A of the Bill.

88. The Bills Committee notes that the proposal is supported by the education sector. However, copyright owners of the music, film, video and publishing industries object to the proposed fair dealing provision for fear that it will create a commercial market of developing and offering "teaching materials" that would otherwise require authorization from copyright owners and will ultimately undermine the market value of the copyright works and stifle the creative industries in Hong Kong. Whilst noting the differences in positions, members' general view

⁹ Section 37(3) of CO reads "In determining whether an act specified in this Division may be done in relation to a copyright work notwithstanding the subsistence of copyright, the primary consideration is that the act does not conflict with a normal exploitation of the work by the copyright owner and does not unreasonably prejudice the legitimate interests of the copyright owner".

is that given the importance of education to society, it is reasonable for certain copyright exemption to be made available to meet educational needs. However, they recognize that copyright owners' interests should also be protected so as to foster the development of value-added and creative industries. The Bills Committee has therefore urged the Administration to maintain dialogue with the stakeholders and suitably balance their interests.

89. One of the major concerns of copyright owners is the application of the proposed fair dealing provision for education in a digital environment and their fear that schools may become a safe haven for online piracy. They suggest that the applicability should be conditional on the adoption of "access control" measures to restrict access to the materials and "use control" measures to prevent or inhibit unauthorized downloading or further dissemination of the copyright works. The Administration's view is that abusive use of copyright works by schools would unlikely qualify as "fair dealing". Moreover, it may be too stringent to require schools to adopt technological measures which are complicated, not readily available in the market and costly. Nevertheless, to provide additional safeguards to allay copyright owners' concern and to encourage schools to take steps to properly manage the copyright works they put on their school network system, the Administration has proposed CSAs to section 41A that where any dealing with a work involves the making available of a work on wire or wireless network wholly or partly controlled by an educational establishment, the applicability of the fair dealing provision should be subject to :

- (a) the adoption of technological measures to restrict access to the copies of copyright works made available on the school network system so that the copies are not accessible to anyone other than those necessary for the purpose of receiving and giving instruction in the specified course of study in question or for the purposes of maintaining or managing the network; and
- (b) the copies stored in the school network system should not be retained for a period longer than is necessary or, in any event, for a period longer than 12 consecutive months.

90. The Bills Committee does not object to the proposed arrangements but some members have sought the Administration's assurance that the additional safeguards are viable and will not impose an undue burden on the education sector, in particular pre-primary, primary and secondary schools which may not be equipped with the necessary technical support. The Administration has advised that the consultation with the education sector reveals that the current network infrastructure of schools should be capable of supporting the adoption of the technological measures to restrict access (e.g. the use of password). The Concern Group of the Education Sector on Copyright Law has not indicated objection to the proposed CSAs. While some copyright owners such as the publishing industry maintains its reservation on the efficacy of the proposed safeguards, the Administration considers that the proposed provision, which has been drawn up after extensive discussion with the education sector, together with the fair dealing

provision under proposed section 41A(2), should be adequate in safeguarding against possible abuse. To tie in with the enactment of the fair dealing provisions, the Administration will also launch public education activities to facilitate understanding of and compliance with the requirements.

91. The Bills Committee notes that in response to the higher education sector, the Administration will amend proposed section 41A to clarify its policy intention that an act of fair dealing under the said section may be done by or on behalf of a teacher (such as by a clerk) or by a pupil.

Performing, playing or showing work in the course of activities of educational establishments (clause 13)

92. The Administration has proposed to improve the permitted acts for education by amending section 43 of CO to expand the composition of audience in the said section to include "near relatives"¹⁰ so that the performance, playing or showing of a copyright work before them (e.g. a literary, dramatic or musical work) in the course of activities of educational establishments can qualify as a permitted act. At present, such audience consists of teachers and pupils of an educational establishment and the parents or guardians of the pupils. According to the Administration, the proposed definition of "near relative" has been formulated with regard to the practical needs of educational establishments and the consideration that the scope of the audience should not be expanded too wide so as not to affect the interests of copyright owners.

93. The Bills Committee agrees that expanding the composition of audience in relation to the permitted acts for education is consistent with the objective of encouraging more active family participation in school activities. However, some members have questioned the appropriateness of providing an exhaustive definition of "near relative" in proposed section 43(3) and doubt whether this will be helpful in serving the intended purpose of better meeting the needs of educational establishments. There may also be practical difficulty for schools in exercising the permitted act if verification of the persons' identity is required. There is a suggestion that it may be more desirable to delineate the scope of audience from the angle of teaching relationship instead of blood relationship as currently proposed in the Bill.

94. Having considered members views, the Administration has proposed CSAs to amend section 43 so that the permitted act will apply if the target audience consists wholly or mainly of teachers and pupils at the educational establishment, parents or guardians of pupils at the educational establishment, and other persons directly connected with the activities of the educational establishment. Under this revised approach, the determining factor is whether the target audience comprises wholly or mainly the aforesaid persons. Where an educational establishment organizes an activity which is open to all the friends and relatives of its pupils or

¹⁰ "Near relative" is defined in proposed section 43(3) of the Bill to mean a parent, grandparent, spouse, brother or sister, half-brother or half-sister, child (including illegitimate or adopted child), grandchild, or son-in-law or daughter-in-law (including a spouse of an illegitimate or adopted child).

even the general public, the establishment should not rely on this permitted act and should seek prior authorization from the concerned copyright owners if public performance of copyright works is involved in the activity. The Bills Committee has not raised any objection to the revised proposal.

Proposed removal of existing restriction on certain permitted acts by educational establishments (clauses 14, 15, 49 and 50)

95. Under existing sections 44(2) and 45(2) of CO, the permitted acts of recording broadcasts and cable programmes or making reprographic copies of copyright works by educational establishments will not be permitted if there are relevant licensing schemes granting authorization for the recording or copying concerned. The Bill proposes to remove such restriction by deleting the aforesaid sections. The proposal is supported by the education sector which has indicated that even if such restriction is removed, there is no intention on its part to evade acquiring licences from copyright owners.

96. The Bills Committee notes the strong objection from copyright owners who opine that collective licence should be the most efficient way to deal with the use of copyright works in the digital environment or where a large number of copyright owners and works are involved. They consider the proposed deletion of existing section 44(2) of CO inconsistent with international norms and will lead to increased litigations against schools. The Administration has explained to the Bills Committee that the proposal was formulated after a public consultation exercise in 2001. The Administration's initial thinking was that as the recording permitted under existing section 44 is still subject to the primary consideration under existing section 37(3) that it should not conflict with a normal exploitation of the work by the copyright owner, or unreasonably prejudice his legitimate interests, the proposed removal of section 44(2) will facilitate teaching without prejudicing the interests of copyright owners in an unreasonable way. Nevertheless, having considered the worry of the copyright owners and the fact that there has not been any significant problem in the education sector's use of the existing permitted act under section 44(2), the Administration has decided to retain existing section 44(2) and will move a CSA to this effect.

97. Publishers maintain their strong opposition to the proposed removal of existing section 45(2) which provides for a similar restriction in respect of the permitted act of reprographic copying to a reasonable extent. They are gravely concerned that the proposed removal of the restriction will weaken the voluntary licensing scheme established by the industry, and reduce the incentives for the education sector to renew existing licence agreements.

98. On the reasons for removing existing section 45(2), the Bills Committee has been advised that under the existing agreement between publishers and the education sector, free copying under specified conditions is permitted even when there is a licensing scheme available. However, some of these conditions are considered too restrictive. Hence, the proposed deletion of section 45(2) will enable the education sector to make copies even though some of the specified

conditions are not met. Nevertheless, having considered copyright owners' worry about the adverse implications of deleting section 45(2) on the industry's licensing scheme, the Administration has decided to introduce CSAs to retain existing section 45(2) and to include a subsection in section 41A to expressly state that any making of reprographic copies which does not fall within section 45 may still be covered under the fair dealing provision under proposed section 41A if the requisite conditions are satisfied. As such, the education sector can still rely on the fair dealing provision for copyright exemption even through a licensing scheme is available and hence, section 45 does not apply to the copying in question.

99. The Bills Committee has sought information on the availability or otherwise of relevant licensing schemes, given that the permitted acts in question would not be allowed if such licensing schemes are in place. According to the Administration, there is at present no licensing scheme authorizing the recording of a cable or broadcast programme for educational purposes. Nevertheless, there are three licensing bodies¹¹ which have registered on a voluntary basis with the Copyright Licensing Bodies Registry of the Intellectual Property Department.

Fair dealing for public administration (clauses 16 and 51)

100. Under existing section 54(1) of CO, copyright is not infringed by anything done for the purposes of the proceedings of LegCo or judicial proceedings. The Administration has proposed to add a new section 54A to provide that fair dealing with a work by the Government, the Executive Council, the LegCo, the Judiciary or any District Council for the purpose of efficient administration of urgent business will not infringe copyright. According to the Administration, the proposed fair dealing provision seeks to provide flexibility to the existing exemption regime to meet the community's increased expectation for timely response by the public administration in urgent matters. On whether a definition of "urgent business" should be provided in law as suggested by some copyright owners, the Administration considers it more desirable to adopt the ordinary meaning of "urgent". Whether there is a need for something to be dealt with immediately would depend largely on the circumstances at the material time.

101. Members of the Bills Committee have questioned the rationale for including LegCo and the Judiciary under proposed section 54A, given that proceedings of LegCo and judicial proceedings are already covered by the permitted act provisions in existing section 54 of CO. They also question whether the requirement of "urgent business" under proposed section 54A will affect the application of the fair dealing provision to LegCo. At the request of the Bills Committee, the Administration sought the views of The Legislative Council Commission (LCC) and the Judiciary Administrator on its proposed amendments and the intended improvement.

102. According to the Administration, the proposed provision is welcomed by the Judiciary Administrator. The Administration has explained to LCC that with

¹¹ They are the Composers and Authors Society of Hong Kong Limited, the Hong Kong Copyright Licensing Association Limited and the Hong Kong Reprographic Rights Licensing Society Limited.

the possible exception of complaints the processing of which does not always end up in LegCo proceedings, the current exemption under existing section 54 of CO by and large covers business done by LegCo for the purpose of exercising its functions and powers under the Basic Law. However, LCC has reflected that when a complaint from the public is received, it may be difficult to determine at the outset whether further processing of the case would ultimately end up in LegCo proceedings. Moreover, as the subject matter of complaints may not always constitute "urgent business", the Administration agrees that the fair dealing provision in proposed section 54A of the Bill may not give LegCo the full assurance that it can legitimately ask for. Moreover, LCC is concerned that copyright exemption should not only cover an act done by LegCo, but should cover an infringing act done by a person (e.g. a staff member of the LegCo Secretariat) for the purposes of LegCo's exercising or performing its powers and functions pursuant to Article 73 of the Basic Law and other applicable laws (e.g. the Legislative Council (Powers and Privileges) Ordinance (Cap.382)).

103. To address LCC's concern, the Administration will introduce a new section 54B to provide that copyright is not infringed by anything done by or on behalf of the members of LegCo; or LCC, for the purposes of the exercise and discharge by LegCo of its powers and functions. The effect of the proposed provision is that copyright exemption is available for an act done by or on behalf of LegCo Members or LCC for the purpose of the exercise and discharge by LegCo of its powers and functions pursuant to Article 73 of the Basic Law and other applicable laws. Correspondingly, the Administration will introduce a new section 246B to provide for the same permitted act for performers' right. The LCC has agreed to the Administration's revised proposal. The Bills Committee has not raised any objection to the sections 54B and 246B.

Exemptions for certain professionals in respect of the business end-user possession offence (new section 118(2E) in clause 22(3))

104. Certain professionals such as lawyers and auditors may be required in the normal course of work to possess/use infringing copies of copyright works. The Administration has proposed to introduce a new section 118(2E) in the Bill to exempt the following persons possessing infringing copies from the business end-user possession offence:

- (a) persons who need to provide professional legal advice pertaining to the copies,
- (b) persons who need to provide investigation service in relation to the infringing copy to the copyright owner concerned; or
- (c) persons who are given the infringing copies by their clients and who possess such copies on the clients' premises.

105. The Hong Kong Bar Association is of the view that confining the exemption to "giving legal advice" is too narrow as a legal professional may

possess an infringing copy for the purposes of drafting, appearing in courts or other legal services. Having considered the concern, the Administration has agreed to revise proposed section 118(2E) to provide that the proposed exemption will apply to the possession of an infringing copy for the purpose of providing legal services in relation to the infringing copy.

106. Regarding the persons who can enjoy the proposed exemption, the Bills Committee notes that the Administration will introduce CSAs to clarify its policy intent that the exemption will apply to legal professionals who have been admitted to practise law in Hong Kong and overseas lawyers who have been admitted in other jurisdictions to practise overseas law, including government lawyers and in-house lawyers. The Administration has also agreed to extend the proposed exemption to persons serving a pupillage under the Barrister (Qualification for Admission and Pupilage) Rules (Cap. 159, sub. leg. AC) as they are not employees of their masters. As regards other personnel such as legal executives, staff working in law firms and trainee solicitors (who are not qualified to act as solicitors under the Legal Practitioners Ordinance (Cap. 159)) who may need to possess infringing copies provided by their employers in the course of employment, the Administration has advised that these persons may rely on the employees' defence under proposed section 118(3A).

New permitted act for persons with a print disability (clause 11)

107. In order to meet the special reading needs of persons with a print disability, the Administration has proposed to introduce a new permitted act to facilitate the production of specially adapted copies of copyright works for their use. This will enable persons with a print disability or specified bodies, under specified circumstances, to make accessible copies (e.g. in the form of a Braille, large-print, electronic version, or sound recording) of certain copyright works without infringing copyright. Persons with a print disability include persons with blindness or visual impairment and those who are not able, through physical disability, to hold or manipulate a book, or to focus or move their eyes for reading. A specified body refers to a non-profit making educational establishment, or a non-profit-making organization which is charitable or for the well-being of persons with a print disability. The proposed permitted act will apply to copyright works published in printed or electronic forms and will not apply unless the person or specified body seeking to make the copies has made reasonable enquiries and is satisfied that accessible copies cannot be obtained at a reasonable commercial price. Moreover, in the case of a specified body, it needs to notify the copyright owners within a reasonable period of time before or after making the accessible copies and to keep relevant records for the inspection of copyright owners.

108. The Bills Committee notes that the proposed permitted act has the support of relevant stakeholders including educational bodies, the Hong Kong Society for the Blind and the Hong Kong Blind Union.

New permitted act for playing sound broadcast in vehicles (clauses 18 and 52)

109. At present, playing copyright works in public requires the copyright owners' prior authorization. In order that drivers' access to news, traffic or weather information through radio broadcasts should not be hampered, the Administration has proposed a new permitted act provision that it is not an infringement to play a sound broadcast inside a vehicle for the purpose of affording the driver of the vehicle access to public information. The Bills Committee notes that according to the Administration, the permitted act under proposed sections 81A and 258A has been formulated in the light of the views collected during the public consultation conducted in 2001 and has been carefully drafted not to apply to the playing of radio broadcast in public for the enjoyment of passengers as such act is subject to royalty payment.

110. The Bills Committee notes a deputation's view that the new permitted act is not in compliance with Article 13 of the TRIPS agreement and Article 9(2) of the Berne Convention which allows exceptions and limitations to the exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interest of the right holder. The Administration however contends that the scope of the proposed permitted act is narrowly defined and is subject to the overriding principles in section 37(3) of CO.

111. Some members have pointed out that as there are often other passengers on board a vehicle (such as a tourist coach), there may be practical difficulty in determining whether the playing of the sound broadcast in question is for the purpose of affording the driver access to public information, or for entertaining the passengers on board. Moreover, it is also necessary not to cause any confusion that the playing of sound broadcast in a private context such as for family members inside a private car would constitute public playing and hence, would require exemption under CO. The Administration has accordingly introduced CSAs to reflect more clearly that the proposed permitted act only covers the playing of a sound broadcast inside the vehicle primarily for the purpose of affording the driver access to public information. The new section 258A (i.e. the same permitted act for performers' rights) will be amended in the same way.

Rental rights for films and comic books (clauses 4 and 61)

112. The film, music and comic book industries have considered that the proliferation of rental activities has deprived them of sale income and licence fees. They demand the introduction of rental rights for their works. In response, the Administration has proposed that copyright owners will be able to obtain civil remedies for violation of the rental rights. The Administration has also proposed to expand the jurisdiction of the Copyright Tribunal to cover licences/licensing schemes regarding renting of copies of films and comic books to the public.

113. Under existing section 25(3) of CO, the term "rental" expressly excludes making available copies of the copyright works for on-the-spot reference use. In submitting views to the Bills Committee, the comic book industry has expressed

the strong view that on-the-spot reference of comic books should also be subject to rental right. Otherwise, cafes and tea houses can offer comic books to their customers for "on-the spot" reference but without paying any copyright royalty or attracting any legal liability. Having regard to this type of business operation, the Administration has agreed to introduce a CSA to section 25 to extend the coverage of "rental" to include the making available of copies of the work for on-the-spot reference subject to direct or indirect payment. The Hong Kong Comics and Animation Federation welcomes the amendment.

114. In this connection, the Bills Committee has raised the concern that the rental rights provision may lead to unintended consequences such as adversely affecting the normal activities of establishments which are not engaged in the business of commercial rental of comic books. One example cited by members is the provision of comic books in clubhouses of private residential estates for the enjoyment of their members/residents free of charge. While each case has to be considered on its facts, the Administration has advised that generally speaking, such activity will not be caught under the rental rights provision if it is merely incidental to the services/facilities provided at the clubhouse. However, if a private club operates a fee-charging service for its members to read comic books at its premises, the rental rights provision will apply.

115. The Administration has proposed to introduce a saving provision so that the proposed rental rights would not apply to stocks of films and comic books acquired for commercial rental purposes prior to the commencement of the amended provisions. Some members are concerned that it would be difficult for copyright owners to distinguish between stocks acquired before and after the commencement date, in particular where classic films are concerned. Question has been raised as to the onus of proof for "existing stock". The Administration's advice is that the onus of proving that the stocks in question were acquired before the commencement date of the amended provisions rests with the defendant, not the plaintiff. Whether the copies of the film in question constitute existing stocks would need to be determined on the facts of individual cases.

Issues related to improving enforcement efficiency and operation of CO

Time limit for prosecution (clause 26)

116. Section 120A of CO stipulates that "no prosecution for an offence under the Ordinance shall 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". The Administration has explained that owing to the frequent need to obtain evidence from overseas copyright owners, the growing complexity of copyright-related offences and possible involvement of triad and syndicate elements in some cases, the current time limitation provision in CO (namely, one year from the date of discovery of the offence or three years from the date of commission of the offence, whichever is earlier) is considered too restrictive from the enforcement point of view. Hence, it has proposed to remove the "one year" limb from the existing provision. The opportunity is also taken to

introduce a similar amendment to the Prevention of Copyright Piracy Ordinance (Cap. 544).

117. As the proposed amendment to section 120A of CO will help ease the time constraint on C&ED in taking out enforcement and prosecution actions, the Bills Committee supports the amendment. Members also note the support of film industry organizations. On whether the revised time limit will result in any delay on the part of C&ED in taking out prosecution, the Administration has assured the Bills Committee that the proposed amendment only stipulates the time limit beyond which a charge cannot be laid against the defendant. It does not mean that C&ED will take up to three years to complete investigation and take out prosecution as it has always strived to complete investigation and take out prosecution expeditiously.

Proof of absence of licence from copyright owners (clause 27)

118. When prosecuting a criminal act under section 118 of CO (e.g. distributing or selling infringing copies), the prosecution needs to prove, inter alia, that the offending acts were done without the licence of the copyright owner. Difficulties may arise if the copyright owner is unable to testify in court (such as when he is overseas) and when there are layers of sub-licensing involving different licensees. Hence, the Administration has proposed to introduce new provisions to section 121 of CO so that an affidavit may be sworn stating on behalf of the copyright owner that the copyright owner has not licensed the defendant to do the offending acts. Nevertheless, where the court considers that there is a genuine dispute on whether a licence has been granted, it can require the copyright owner to attend before the court to give evidence.

119. The Bills Committee notes the suggestion of the software industry that the proposed amendments should refer to the absence of "authorization" rather than "a licence" as some industries do not issue licences to resellers or sub-distributors but only provide general authorization to them. The Administration's response is that in the present context, a licence means a permission to do an act restricted by copyright and its legal advice is that there is no difference between "authorization" and "licence". Nevertheless, the Administration has introduced a CSA to improve the drafting of the proposed provision. It also confirms that there is support from authoritative legal textbooks that the expression "a licence of a copyright owner" can be interpreted to cover the sub-licence granted by the licensee under the authorization of the copyright owner.

Proposed amendments to improve the operation of CO (various clauses)

120. The Bills Committee notes that the Bill also seeks to incorporate into CO the related amendments in the Suspension Ordinance so as to make permanent the deletion of the phrase "in connection with" from the expression "for the purpose of, in the course of, or in connection with, any trade or business" in the relevant criminal provisions in CO. The Administration has also taken the opportunity to delete the phrase from the relevant civil provisions in the CO. The effect is that activities incidental to or marginally related to business will fall outside the scope

of the civil law and criminal offence provisions. Members have no objection to the proposed amendments.

121. The Administration has proposed to amend the definition of the term "business" in section 198 of CO to put it beyond doubt that it also includes business conducted other than for profit. It has also accepted the Bills Committee's suggestion to reinstate the reference to "trade or profession" in the definition so as to avoid any misinterpretation that the Administration intends to change the coverage of the term.

Commencement (clause 2)

122. The Administration has advised that different sections may have different commencement dates to be appointed by SCIT. While certain provisions (notably those relating to copyright exemptions and liberalization of parallel imports) will take effect upon enactment of the Bill, provisions imposing new civil/criminal liabilities (such as those relating to rental rights and directors'/partners' liability) will not commence operation until such time after a reasonable period has been allowed for the affected parties to acquire the necessary licences or for rental licensing schemes/rental versions of copyright works to become available. Before the new liabilities come into effect, the Administration has undertaken to arrange publicity and public education programmes to enhance public awareness of the new requirements. The Administration has also taken note of the Bills Committee's view that to avoid causing confusion, the enacted sections should, where practicable, commence operation by batches in one or two stages.

Other concerns

123. The Bills Committee has also examined a number of copyright-related issues which are not covered in the current legislative exercise.

Term of copyright protection in Hong Kong

124. Under the CO, the term of copyright protection of a copyright work generally expires 50 years after the last calendar day of the year of death of the author of the work. The Bills Committee has considered the question of whether the term of copyright protection should be extended by 20 years to 70 years, similar to that adopted by some overseas jurisdictions including the United States, the European Union, Singapore, Australia and Japan. The Administration has advised that the existing term of copyright protection under CO is in compliance with the requirements laid down in the TRIPS Agreement¹². The Bills Committee has noted the Administration's concern that a change to the existing term of copyright protection would require further study and thorough public consultation in view of its possible impact on the development of creative industries, the interests of

¹² According to the TRIPS Agreement, the term of protection of a copyright work should be no less than 50 years after the last calendar day of the year of death of the author of the work or (for a work of which the term cannot be calculated on the basis of the author's life) 50 years from the end of the year of publication or the year of making the work.

copyright owners and the availability of copyright works in the public domain. The Administration has undertaken to keep in view international developments and consider conducting public consultation on the subject as and when appropriate.

Copyright protection in the digital environment

125. In the light of advances in technology and the development of broadband infrastructure, members are increasingly concerned about issues related to the protection of copyright in the digital environment, such as the legal liability for unauthorized uploading and downloading of copyright works and the need to safeguard against over-regulation which may stifle the development of the Internet services sector. The Bills Committee notes that the Administration has issued a consultation document in December 2006 to seek the community's views on the subject. The consultation period ended on 30 April 2007 and the Administration will brief the CI Panel on the way forward in due course.

Committee Stage Amendments

126. The Bills Committee has no objection to the Administration's proposed CSAs and will not move any CSA in its name. It also notes that following the passage of the resolution moved by the Secretary for Constitutional Affairs under section 54A of the Interpretation and General Clauses Ordinance (Cap. 1) at the Council meeting of 13 June 2007, the Administration will move a CSA to amend references to the post title of "Secretary for Commerce, Industry and Technology" in the Bill. Hon Margaret NG has given notice on 15 June 2007 to move CSAs to clause 27(5), (6), (7), (8) and (9) of the Bill.

Recommendation

127. The Bills Committee supports the resumption of the Second Reading debate on the Bill.

Consultation with the House Committee

128. The House Committee was consulted on 8 June 2007 and supported the recommendation of the Bills Committee in paragraph 127.

Bills Committee on Copyright (Amendment) Bill 2006

Membership list

Chairman Hon SIN Chung-kai, JP

Members Hon Margaret NG
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon Bernard CHAN, GBS, JP
Hon CHAN Kam-lam, SBS, JP
Dr Hon Philip WONG Yu-hong, GBS
Dr Hon YEUNG Sum
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Audrey EU Yuet-mee, SC, JP
Hon Vincent FANG Kang, JP
Hon LI Kwok-ying, MH, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Prof Hon Patrick LAU Sau-shing, SBS, JP
Hon Albert Jinghan CHENG

(Total : 18 Members)

Clerk Miss Polly YEUNG

Legal Adviser Miss Kitty CHENG

Date 1 July 2006

Bills Committee on Copyright (Amendment) Bill 2006

**Organizations/individuals which/who have submitted views on the
Copyright (Amendment) Bill 2006 to the Bills Committee**

Organizations

Copyright owners associations

1. Anglo-Chinese Textbook Publishers Organization
2. Aristo Educational Press Ltd
3. Association of American Publishers (USA)
4. Business Software Alliance
5. Chung Tai Educational Press
6. Commercial Press (HK) Ltd
7. Copyright Agency Ltd
8. Educational Booksellers' Association Ltd
9. Entertainment Software Association
10. Enrich Publishing
11. Excellence Publication Co Ltd
12. Federation of Hong Kong Filmmakers
13. Film Industry Response Group
14. Golden Harvest Entertainment (Holdings) Ltd
15. Greenwood Press
16. Happy Mind Ltd
17. Hong Kong and International Publishers' Alliance
18. Hong Kong Book and Magazine Trade Association Ltd
19. Hong Kong Book and Stationery Industry Association Co Ltd
20. Hong Kong Comics & Animation Federation Ltd
21. Hong Kong Copyright Licensing Association Ltd
22. Hong Kong Educational Publishers Association
23. Hong Kong Educational Publishing Co
24. Hong Kong Kowloon and New Territories Motion Picture Industry Association Ltd
25. Hong Kong Publishing Federation Ltd
26. Hong Kong Reprographic Rights Licensing Society
27. Hong Kong Video Development Foundation Ltd
28. Hon Wing Book Co Ltd
29. Hung Fung Book Co Ltd
30. Intercontinental Group Holding Ltd
31. Intercontinental Video Ltd
32. International Association of Scientific, Technical & Medical Publishers
33. International Federation of Reproduction Rights Organizations

34. International Federation of the Phonographic Industry
35. International Federation of the Phonographic Industry (Hong Kong Group) Ltd
36. International Intellectual Property Alliance
37. Jing Kung Educational Press
38. Modern Education Network Ltd
39. Modern Educational Research Society Ltd
40. Motion Picture Association
41. Movie Producers and Distributors Association of Hong Kong Ltd
42. Oxford University Press (China) Ltd
43. Phonographic Performance (South East Asia) Ltd
44. Pilot Publishers Services Ltd
45. Pilot Publishing Co Ltd
46. Precise Publications Ltd
47. Religious Education Resource Centre
48. Springer China Ltd
49. Sino United Publishing (Holdings) Ltd
50. Tai Chung Publisher Ltd
51. TimeWarner
52. Witman Publishing Co (HK) Ltd

Educational bodies/Libraries

53. Concern Group of the Education Sector on Copyright Law
54. Hong Kong Association for Computer Education
55. Heads of Universities Committee
56. Hong Kong Institute of Education
57. Hong Kong Library Association
58. Hong Kong Professional Teachers' Union
59. Hong Kong Subsidized Secondary Schools Council
60. Joint University Librarians Advisory Committee
61. Open University of Hong Kong
62. Task Force on Copyright in Education, Established under the Heads of Universities Committee

Broadcasters

63. Cable and Satellite Broadcasting Association of Asia
64. Hong Kong Cable Television Ltd
65. Hong Kong Televisioners Ltd
66. PCCW Ltd
67. Television Broadcasts Ltd

Trade associations

68. American Chamber of Commerce in Hong Kong
69. Chinese General Chamber of Commerce

70. Chinese Manufacturers' Association of Hong Kong
71. Federation of Hong Kong Industries
72. Hong Kong Association of Banks
73. Hong Kong General Chamber of Commerce
74. Hong Kong Record Merchants Association Ltd
75. Hong Kong Retail Management Association

Professional bodies and law firms

76. Hong Kong Bar Association
77. Hong Kong Information Technology Federation
78. Hong Kong Institute of Certified Public Accountants
79. Hong Kong Institute of Trade Mark Practitioners
80. Institute of Electrical and Electronics Engineers (Hong Kong Joint Chapter)
CAS/COM
81. Law Society of Hong Kong
82. Lovells (Hong Kong)
83. Professional Information Security Association
84. Project Management Institute Hong Kong

Concern groups

85. Consumer Council
86. Hong Kong Blind Union

Individuals

87. Hon LI Kwok-ying
88. Hon WONG Ting-Kwong
89. Mr YIP Ming, Edward

**The "safe harbour" formulation proposed by the Administration
(Extract from the Legislative Council Brief on the
Copyright (Amendment) Bill 2006)**

We announced in November 2005 the following safe harbour perimeters for the proposed business end-user copying/distribution criminal offence for printed works –

- (a) For copyright works in newspapers, magazines and periodicals (excluding academic journals), the proposed business end-user copying/distribution criminal offence will not apply if the aggregate number of infringing copies made from all copyright works concerned for distribution or distributed does not exceed 1,000 copies within any 14-day period; and
- (b) For copyright works in books (including academic journals), the proposed business end-user copying/distribution offence will not apply if the total retail value of the infringing copies made for distribution or distributed within a 180-day period does not exceed \$8,000, assuming that one infringing copy of more than 15% of the number of pages of the book concerned (a qualifying infringing copy) only will count for the purpose of calculating the retail value perimeter. Non-qualifying infringing copies will not count for the purpose of retail value calculation except when the cumulative number of copies made/distributed within the 180-day period exceeds 50% of the number of pages of the book concerned, in which case all the non-qualifying infringing copies together will count for the purpose of calculating the retail value perimeter.

2. Below are some examples to illustrate the operation of the safe harbour –

Example I (For the safe harbour in paragraph (a) above)

A company makes for distribution 10 infringing copies each of the following news articles everyday -

- 1 news article from Newspaper A
- 2 news articles from Newspaper B
- 2 news articles from Newspaper C
- 3 news articles from Newspaper D

This company also makes for distribution 10 infringing copies each of the following feature articles within a 14-day period –

1 feature article from Magazine E
2 feature articles from Periodical F

Total number of infringing copies made for distribution within the 14-day period

= (1+2+2+3) news articles x 10 copies x 14 days + (1+2) feature articles x 10 copies

= 1120 + 30 copies

= 1150 copies

Hence, the extent of copying for distribution by this company exceeds the safe harbour.

Example II (For the safe harbour in paragraph (b) above where copies made on each occasion exceed 15% of the number of pages of a book)

A company makes for distribution 10 infringing copies each of the following three reference books within a 180-day period (each book comprises 100 pages and costs HK\$300) –

16 pages from Book A
16 pages from Book B
16 pages from Book C

The retail value of the infringing copies made by this company within the 180-day period

= 10 copies x 3 books x \$300

= \$9,000

Hence, the extent of copying for distribution by this company exceeds the safe harbour.

Example III (For the safe harbour in paragraph (b) above where copies made on each occasion do not exceed 15% of the number of pages of a book)

A company makes for distribution 10 infringing copies each of the following pages from a reference book within a 180-day period (the book comprises 100 pages and costs HK\$300) -

- 10 pages from the Book on Day 1 (cumulatively 10% of the book)
- 10 pages from the Book on Day 2 (cumulatively 20% of the book)
- 10 pages from the Book on Day 3 (cumulatively 30% of the book)
- 10 pages from the Book on Day 4 (cumulatively 40% of the book)
- 10 pages from the Book on Day 5 (cumulatively 50% of the book)
- 10 pages from the Book on Day 6 (cumulatively 60% of the book)

The retail value of the infringing copies made by this company within the 180-day period

$$= 10 \text{ copies} \times \$300 = \underline{\$3,000}$$

Hence, the extent of copying for distribution by this company does not exceed the safe harbour.