



THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Submission in response to the consultation paper entitled “Proposals for Strengthening Copyright Protection in the Digital Environment”

Executive Summary

AmCham commends the Administration for creating a good framework for protecting copyright in the digital environment, however, AmCham is disappointed to see Hong Kong step back from global leadership in protecting Intellectual Property. The Administration has proposed a good framework for protecting copyrighted works in the digital environment. AmCham is, however, very concerned that with this proposal, Hong Kong has chosen to await legal reforms in other jurisdictions, rather than pursue the leadership role it has so long maintained in protecting the rights of the creative community in Hong Kong and around the globe.

AmCham commends the Administration for creating the new Right of Communication for copyrighted works. AmCham is pleased the proposal imposes criminal sanctions, and does so in a technology neutral manner by deleting the reference to the specific technology of “streaming” as a condition for the imposition of criminal penalties.

AmCham is concerned that the proposed law will have little impact on illegal peer-to-peer file sharing. Taken together, the Administration’s position on Norwich Pharmacal, statutory damages, criminal downloading, and graduated response, leaves rights holders’ with no effective new tools to stem the growing Internet piracy the proposals purportedly are intended to address. AmCham encourages the Legislative Council to reconsider each of the issues.

- **New criminal provisions will not reach most illegal peer-to-peer file sharing.** AmCham is concerned that imposing criminal liability only on those who initially post an illegal file to a peer-to-peer network will be effective in only the rare case. The structure of peer-to-peer networks typically precludes the rights holder from identifying the initial source for a file available on that network. Furthermore, there is no distinction between a downloader and uploader so long as the user of the computer makes files on that computer available to the peer-to-peer network for uploading. In light of these facts, the proposed provisions will have little impact as to peer-to-peer networks.
- **Without an expedited process to identify infringers, rights holders cannot pursue infringement cases in a timely fashion.** AmCham urges the Legislative Council and the Administration to institute expedient means by which Norwich Pharmacal orders are obtained.
- **AmCham is disappointed that the Administration has rejected statutory damages for the unique case of copyright infringement.** AmCham encourages the Legislative Council to take reference from other jurisdictions including the United States, Canada, Singapore and the PRC and institute statutory damages for copyright infringement. AmCham believes adopting statutory damages would not have “far reaching implication on other civil proceedings” because the Hong Kong government can choose to restrict statutory damages to this unique case.

AmCham urges the Hong Kong government to take the forward-thinking steps to implement a graduated response system. Jurisdictions around the world including France, Taiwan, South Korea and New Zealand have graduated response laws. Others, including the U.K., Australia, Singapore and the U.S., are working toward implementing such rules either in law or in practice. AmCham urges the Hong Kong government to take this step toward more effective protection for copyrighted works on the Internet.

Clear and specific statutory language is needed as a basis for cooperation in developing a Code of Practice for OSPs. AmCham supports the Administration’s proposal to provide for a statutory limitation of liability regime for OSPs. However, AmCham favors the combined features of “notice and take-down” and “graduated response” as the clearer set of legal guidelines for the development of the proposed Code of Practice. Absent specificity in the law, an opportunity for a partnership between rights owners and OSPs to combat online piracy may be lost.

Introduction

On November 17, 2009, the Commerce and Economic Development Bureau (“Administration”) issued a consultation document to seek public views on revised proposals to strengthen copyright protection in the digital environment.

The American Chamber of Commerce in Hong Kong ("AmCham") is pleased to provide its views on the Administration's consultation paper entitled *Proposals for Strengthening Copyright Protection in the Digital Environment*.

For several years the Administration has undertaken to address challenging issues in copyright protection for the digital environment. In 2008, AmCham commented on the Administration document entitled *Preliminary Proposals for Strengthening Copyright Protection in the Digital Environment* ("2008 Submission"). The proposals set out in the current Administration's consultation paper build on the preliminary proposals of 2008 to address some of the most vexing issues critical to preserving copyright in the digital environment. AmCham's members have had direct experience with legal solutions to these issues in a number of jurisdictions around the world, including the United States, Australia and Singapore. It is in this context that we commend your progress as evidenced by these revised proposals. However, AmCham is concerned that after years of deliberation, as to critical issues, with the revised Administration proposals Hong Kong firmly places itself in the role as global follower, as other jurisdictions take new and clear steps to protect copyright. Historically, Hong Kong has led in combating piracy with strong laws and competent enforcement. The digital environment has presented new challenges to the creative industries in Hong Kong and globally. Unfortunately, although several good steps are proposed, in our view the current document falls short of providing the tools widely acknowledged to provide strong copyright protection in the digital environment, particularly those necessary to address illegal file-sharing on peer-to-peer networks.

The Administration's Proposals

New Rights and Exemptions

AmCham commends the Administration in providing for recognition of a copyright owner's right to authorize communication of their works to the public. AmCham also is pleased that the Administration provides for criminal sanctions for contravention of the right of communication where the contravention is committed in the course of business conducted for profit or where it is made to such an extent as to affect prejudicially the copyright owner. AmCham appreciates the Administration assuring the new provision is technology neutral by striking the reference to specific technologies such as "streaming." However, new language in the current set of proposals provides that the Administration will consider exceptions to the right of communication. AmCham urges caution in considering such exemptions. Furthermore, AmCham would be concerned were the consideration of exemptions to delay implementation of the law.

Although AmCham does not believe there is evidence that supports the need for an exemption from infringement liability for media-shifting, AmCham appreciates the Administration's interest in crafting provisions to assure users of copyrighted sound recordings that they can continue to shift those sound recordings among devices around the home. AmCham commends the Administration for limiting this provision to sound recordings.

Addressing Illegal Peer-to-Peer File Sharing

The Administration has proposed a good framework for protecting copyrighted works in the digital environment. However, the proposals fail to adequately address the greatest threat to copyright owner interests, that of peer-to-peer file sharing. It is AmCham's view that taken together, the Administration's position on Norwich Pharmacal, statutory damages, criminal downloading, and graduated response, leaves rights holders' with no *effective* new tools to stem the growing Internet piracy the proposals purportedly are intended to address.

In 2008, AmCham expressed its view to the Administration that absent an alternative process such as that in U.S. law (the DMCA expedited subpoena process), the Administration should focus on streamlining the process by which Norwich Pharmacal orders are obtained in Hong

Kong. AmCham reiterates the importance of rights holders' ability to expeditiously identify infringers and encourages the Legislative Council to consider the views AmCham expressed in its 2008 Submission.

AmCham supports the proposal by the Administration to prescribe in law additional factors to assist the court in considering the award of additional damages. However, AmCham reiterates its strong view that statutory damages are appropriate in copyright infringement cases in Hong Kong. Instituting such damage awards will not have the "*far reaching implication on other civil proceedings*" the Administration is concerned about so long as the Administration and the Legislative Council choose to restrict statutory damages to this unique case and take reference from other jurisdictions including the United States, Canada, Singapore and the PRC.

AmCham supports the Administration proposal to institute criminal sanctions against those who infringe upon the rights holder's right of communication. However, AmCham is concerned that absent new criminal liability pertaining to unauthorized downloading and peer-to-peer file-sharing activities, previously rejected by the Administration, the proposals taken together will be of little practical effect to combat illegal peer-to-peer file sharing. As AmCham commented in its 2008 Submission, we appreciate that the deficiencies we have identified with regard to criminal penalties for downloading may be addressed by the Administration's criminal penalties for infringing the right of communication. However, because the proposed criminal liability goes only to the act of 'initiating' an unauthorized communication, the provision is inadequate to *effectively* address peer-to-peer file sharing. Given the technical structure of peer-to-peer networks, there are two major flaws with the proposal. First and foremost, it is the most rare case for a copyright holder to be able to identify who *initially* posted an illegal file to a peer-to-peer network. Thus, the proposal makes new sanctions available in only the most extraordinary case. Furthermore, although to some it may make sense to provide criminal penalties with regard only to those who upload -- and not those who download -- illegal files, on peer-to-peer networks the distinction is rare. The basic technical structure of a peer-to-peer network has each computer on the network functioning as both a download *and* upload computer. From the perspective of one seeking to protect a copyright interest, there is no distinction between a downloader and uploader, so long as the user of the computer is making files on that computer available to the peer-to-peer network. Taken together, these facts preclude meaningful value of the proposed criminal provisions in enforcing copyright on peer-to-peer networks. Concern that a wider criminal sanction could ensnare casual downloaders is already dealt with by the requirement that such infractions must occur in the course of business or where it is made to such an extent as to affect prejudicially the copyright owners.

Illegal Peer-to-Peer and Graduated Response

AmCham is disappointed that the Administration has elected to take the roll of follower with regard to important new approaches to combating egregious illegal peer-to-peer file sharing. For example, jurisdictions around the world including France, Taiwan, South Korea and New Zealand have enacted or are in the process of enacting graduated response laws. Others, including the U.K., Australia, Singapore and the U.S., are working toward implementing such rules either in law or in practice. AmCham urges the Hong Kong government to take the forward-thinking steps to implement a graduated response system.

The Administration concludes in its proposals that graduated response proposals are so "clouded by debate" that it is not an "opportune time to consider introducing such a system in Hong Kong, especially when its implications are yet to be *fully tested* in overseas jurisdictions." (Emphasis added.) As the Administration's proposals outline, there are very concrete concerns and issues that serve as guideposts to instituting such a system, and other jurisdictions that have implemented the system are following those guideposts. Debate that has clouded graduated response proposals concern, in AmCham's view, rectifiable issues. For example, one of the key concerns is that due process be afforded when the penalty is that of impairing or suspending Internet access. AmCham agrees that due process should be a component of a graduated

response system, and that due process procedures as to the ultimate penalty must be clearly articulated in the law. Hong Kong has a proud history of assuring its citizens due process in the legal system; doing so in this new context should not be a great challenge and may serve as illustrative to other jurisdictions. The delay of waiting for a “fully tested” legal regime will only allow for the continued growth of global online piracy, further challenging the Hong Kong and international creative industries.

Taken together, as AmCham has recommended, a *notice and take-down* model with graduated response provides both a good mechanism by which to educate Internet users and thus deter infringement, and provide a penalty most effective in curtailing illegal behavior. The system has a clear educational benefit to users in that the user is given notice of their alleged infringement and an opportunity to either dispute the allegations or cease the illegal behavior. Indeed, under systems enacted in other jurisdictions, the user has two such opportunities before any sanction effecting Internet access is available to the rights holders. Furthermore, AmCham is of the view that restricting or suspending Internet access is the penalty most closely related to the illegal behavior, and thus, most relevant to effective enforcement.

AmCham supports the Administration’s proposal to provide for a statutory limitation of liability regime for OSPs. However, AmCham favors the combined features of “notice and take-down” and “graduated response” as the clearer set of legal guidelines for the development of the proposed Code of Practice. Absent specificity in the law, rights holders and OSPs will have limited assurances as to the respective legal benefits that accrue when undertaking their responsibilities under the Code of Practice. An opportunity for a partnership between rights owners and OSPs to combat online piracy may be lost. AmCham recommends the Legislative Council reconsider these proposals.

The Administration has set out the goal of achieving appropriate strong protections for copyrighted works in the digital environment. However, absent a rapid mechanism to identify infringers through an expedited Norwich Pharmacal process, the availability of clear and appropriate penalties that actually reach illegal peer-to-peer file-sharing and a clear and more specific legal framework to implement a response to such file-sharing, rights holders have no effective new means to address the most challenging infringements on the Internet, those occurring on peer-to-peer networks. AmCham recommends the Legislative Council evaluate the Administration’s proposals in this light. Furthermore, AmCham urges the Administration to reconsider its position on these issues with a more comprehensive understanding of the combined effect of its current proposals.

Conclusion

AmCham looks forward to continuing to work with the Administration and Legislative Council to craft its legislation to provide strong protection for Hong Kong’s creative community and would be happy to further discuss this submission.

Attachment: *The American Chamber of Commerce in Hong Kong Submission in response to the consultation paper entitled Preliminary Proposals for Strengthening Copyright Protection in the Digital Environment (August 2008).*

The American Chamber of Commerce in Hong Kong is a volunteer and independent business organization, which was established in 1969 and now has a history of over 35 years. AmCham is one of the most dynamic and influential international economic organizations in the Asia-Pacific region, representing more than 3,200 member companies and enterprises from over 30 nations, with members from the United States, Europe and across Asia. Among them, there are large multinational corporations as well as small and medium-sized enterprises. The objectives and duties of AmCham include representing our diverse membership on issues of common interest and serving as an advocate with governments.





THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

Submission in response to the consultation paper entitled Preliminary Proposals for Strengthening Copyright Protection in the Digital Environment

Introduction

The Commerce and Economic Development Bureau (“Administration”) issued a consultation document in December 2006 to seek public views on whether and how Hong Kong’s copyright protection regime should be strengthened in this digital era to meet the challenges of technological change. Over 600 submissions were received from both copyright owners and users.

The Administration has now taken the results of that consultation and has prepared a set of proposals on which they are seeking further public comment.

The American Chamber of Commerce in Hong Kong (“AmCham”) is pleased to provide its views on the Administration’s consultation paper entitled *Preliminary Proposals for Strengthening Copyright Protection in the Digital Environment*.

Background

AmCham is a volunteer and independent business organization, which was established in 1969 and now has a history of over 35 years. AmCham is one of the most dynamic and influential international economic organizations in the Asia-Pacific region, representing more than 3,200 member companies and enterprises from over 30 nations, with members from the United States, Europe and across Asia. Among them, there are large multinational corporations as well as small and medium-sized enterprises. The objectives and duties of AmCham include representing our diverse membership on issues of common interest and serving as an advocate with governments.

Proposals

The proposals set out in the Administration’s consultation paper address difficult issues that are of critical importance to upholding copyright protection in the digital environment. AmCham’s members have had direct experience of regulatory solutions to these issues in a number of jurisdictions around the world, including the United States, Australia and Singapore. In the light of this experience, AmCham welcomes the Administration’s proposal to enact a technology neutral right of communication that is supported by criminal sanctions, as well as the proposal to supplement the existing additional damages provision with further factors that the court is obliged to have regard to.

However, AmCham remains a strong advocate of enacting a statutory damages provision to ensure that copyright owners are provided with the right incentives to enforce their rights and thereby deter further infringements. AmCham also firmly believes that the existence of secondary liability along with the enactment a limitation of liability scheme is the most effective way to facilitate cooperation between online service providers (“OSPs”), copyright owners and users on issues such as caching and the removal of infringing content.

Finally, AmCham considers that the Administration does need to revise its criminal sanctions to address the threat posed by certain types of online piracy, and notes that it is opposed to the introduction of any media or format shifting exception in Hong Kong until such time as proponents of

those exceptions can present cogent evidence to the Administration that the proposed exceptions are necessary in Hong Kong.

Executive Summary

1. *Right of Communication - to introduce a right of communication covering all modes of electronic transmission for copyright works, with related criminal sanctions against the breach of this right*
 - Supported by AmCham, provided that reference to specific technologies, such as “streaming”, is omitted.
2. *Caching By Online Service Providers - to introduce a copyright exemption for temporary reproduction of copyright works by OSPs, which is technically required for (or enables) the transmission process to function efficiently*
 - Opposed by AmCham. AmCham prefers a DMCA-like limitation of liability regime for caching activities.
3. *Voluntary Code Of Practice For Online Service Providers - to facilitate the drawing up of a voluntary code of practice for OSPs in combating internet infringements, the compliance with which or otherwise will be prescribed in law as a factor that the court shall take into account when determining whether an OSP has authorized infringing activities committed on its service platform*
 - Opposed by AmCham. AmCham would like a DMCA-like limitation of liability scheme as a foundation, upon which voluntary codes of practice may be built.
4. *Reliance on ‘Norwich Pharmacal’ Principles to Identify Infringers - to continue relying on the ‘Norwich Pharmacal’ principles, as opposed to introducing an alternative infringer identity disclosure mechanism that is not subject to scrutiny by the court.*
 - Opposed by AmCham. AmCham proposes a streamlined Norwich Pharmacal procedure.
5. *Revised Additional Damages Provision - to prescribe in law additional factors to assist the court in considering the award of additional damages, in lieu of introducing statutory damages for copyright infringement actions.*
 - Partly supported by AmCham. AmCham supports the implementation of statutory damages, in addition to the additional factors proposed by the Govt.
6. *No New Criminal Liability Pertaining To Unauthorized Downloading And Peer-To-Peer (P2p) File-Sharing Activities - to refrain from introducing new criminal liability pertaining to unauthorized downloading and peer-to-peer (P2P) file-sharing activities*
 - Not opposed by AmCham, provided that the proposed communication offence is amended to remove the current streaming restriction.
7. *Media Shifting Exception - to enact a media shifting exception in Hong Kong*
 - Opposed by AmCham

RIGHT OF COMMUNICATION

The proposal to introduce a right of communication covering all modes of electronic transmission for copyright works, with related criminal sanctions against the breach of this right

AmCham welcomes the Administration’s proposal to introduce a right of communication that covers all modes of electronic transmission for copyright works. AmCham considers that the enactment of a

technology neutral right of communication will help ensure that Hong Kong's copyright laws remain relevant despite the constantly changing online environment. It will also ensure that the minimum rights under Hong Kong's laws:

- conform to the corresponding provisions in the 1996 WIPO Internet Treaties;¹ and
- are harmonised with the copyright legislation enacted by its regional trading partners, Australia, New Zealand and Singapore.

AmCham also supports the Administration's proposal to enact criminal sanctions for contravening the proposed right of communication. Given the prevalence of online piracy and the difficulties that copyright owners face in detecting it, AmCham considers that civil sanctions alone are not sufficient to deter infringements of the proposed right of communication.

AmCham's view is that criminal sanctions ought to apply to contraventions of the right of communication where the contravention is committed in the course of business, for financial gain or commercial advantage. Criminal sanctions should also apply where the infringement is not motivated by financial gain and the like, but it occurs on such a scale that it affects prejudicially the copyright owner. This latter type of infringement is capable of causing copyright owners to suffer significant damage despite the absence of a financial motivation on the part of the infringer.

AmCham therefore welcomes the Administration's proposal to criminalise infringements of the proposed communication right made for the purpose, or in the course, of a business (being a business conducted for profit, which includes the provision to the public of a service consisting of unauthorised communication of copyright works). AmCham is also pleased to see that the Administration is inclined toward introducing an offence that criminalises infringements of the right of communication that are not motivated by financial gain.

However, AmCham does not support the proposal to restrict this latter offence to circumstances where the infringement is committed by *streaming* the copyright work. AmCham considers that this technology specific requirement restricts the application of this offence unnecessarily and offends the Administration's otherwise technology neutral approach toward its copyright legislation. Technology is changing at a rapid rate. Focusing narrowly on the activity of streaming will tie the new law to a present day technology and does not permit flexibility to address new forms of criminal communication. For example, the intentional mass distribution of copyright works by means other than streaming and without a commercial profit motive would appear not to attract criminal liability under the proposed provision, despite the extremely harmful nature of such activity. There is no such restriction in the Copyright Ordinance's distribution offence, and its introduction would be without precedent elsewhere in the world.

If the Administration wishes to address concerns voiced by users that criminal sanctions for infringements of the proposed right of communication will create uncertainty or affect the normal sharing of ideas or information through electronic means, then AmCham considers that the best way to do so is to enact a defence to the proposed communication offence that is similar to that found in section 118(3) of the Copyright Ordinance. Section 118(3) excuses the accused from liability for certain offences (including the distribution offence) if the accused can prove that he or she did not know and had no reason to believe that the copy in question was an infringing copy of the copyright work.

CACHING BY ONLINE SERVICE PROVIDERS

The proposal to introduce a copyright exemption for temporary reproduction of copyright works by OSPs, which is technically required for (or enables) the transmission process to function efficiently

AmCham maintains its view previously expressed to the Administration that it does not consider it necessary to enact a temporary copying exception that allows OSPs to cache copyright works. Many

¹ WIPO Copyright Treaty and WIPO Performances and Phonograms Treaty (WCT and WPPT).

of AmCham's members have operations in the United States and Canada where there is no such exception and as a matter of practice, that has not stifled the development of online services or presented intractable uncertainty for OSPs. AmCham's members report that their local experience in Hong Kong has been no different.

In addition to the exception being unnecessary, AmCham is concerned that the enactment of a temporary copying exception for OSPs' caching activities might have unintended consequences that affect copyright owners adversely. This is because the reproduction right is at the centre of how copyright owners exploit their works in the digital environment and it would be most unfortunate if the enactment of a caching exception for OSPs precluded copyright owners from adopting new business models for exploiting their copyright works online. The proposal would appear to turn traditional notions of copyright on their head, by providing that copyright owners could "opt out" of allowing their work to be reproduced without their authorization. The Administration's proposal would not meet the first step of the 3-step test, which provides that limitations be confined to "special cases", since the exception would apply in *all* cases except those where the copyright owner has specified otherwise. This can hardly qualify as being confined to special cases.

AmCham's view is that the preferable alternative would be for the Administration to enact a limitation of liability regime – similar to that enacted by the United States' Digital Millennium Copyright Act of 1998 ("DMCA") – that applies to caching activities. By enacting a limitation of liability scheme instead of an exception to the reproduction right, Hong Kong will preserve the ability of copyright owners to obtain injunctions against OSPs to prevent further infringements of cached copyright material and/or preserve evidence. This ability to obtain injunctions is important in the digital environment because it is one of the few methods by which copyright owners can stem the spread of pirated materials across the internet. It would also more closely comply with the 3-step test, by preserving certain essential rights for copyright owners.

A limitation of liability approach to addressing the issue of caching by OSPs would also be consistent with the legislation enacted in Australia, New Zealand and Singapore. Given the borderless nature of the internet and the role that OSPs play in facilitating the transmission of material over this network, AmCham views the harmonisation of Hong Kong's laws with that of its regional trading partners to be a very important objective, and urges the Administration to do so wherever possible.

VOLUNTARY CODE OF PRACTICE FOR ONLINE SERVICE PROVIDERS

The proposal to facilitate the drawing up of a voluntary code of practice for OSPs in combating internet infringements, the compliance with which or otherwise will be prescribed in law as a factor that the court shall take into account when determining whether an OSP has authorised infringing activities committed on its service platform

AmCham shares the Administration's view that online copyright infringement will only be combated effectively through cooperation between OSPs, copyright owners and copyright users.

In general, AmCham supports efforts to develop voluntary codes of conduct to address fast-changing copyright issues that new technologies present. However, in AmCham's experience, it is sometimes necessary - as it is in the present case - to enact legislation that sets out the "ground rules" before that voluntary cooperation can occur.

A voluntary scheme along the lines proposed may not provide OSPs, copyright owners and copyright users with the certainty that they require to modify their behaviours and cooperate in a full, regular and productive way. For example, under the Administration's current proposal, an OSP's compliance with the voluntary code will not necessarily absolve the OSP of authorisation liability for infringements committed by its users. By the same token, an OSP's failure to comply with a voluntary code will not necessarily result in that OSP facing authorisation liability.

AmCham favours a scheme which provides a clear guide for OSPs seeking to minimise their exposure to authorisation liability and promotes the cooperative behaviour that the Administration is seeking to foster. Indeed, these obstacles to a voluntary scheme explain why Hong Kong's regional trading partners, including Australia, Singapore, New Zealand and the PRC, have all dismissed voluntary

regulation in favour of legislated limitation of liability schemes, upon which further cooperation can be established.

As conveyed to the Administration previously, AmCham believes that a limitation of liability scheme that provides clear incentives for OSPs would constitute the best foundation for effective cooperation between OSPs, copyright owners and copyright users. Such a scheme offers copyright owners a prompt and efficient method of removing infringing content hosted by OSPs, while providing OSPs with the certainty that they require as to the procedures they need to follow to avoid liability for authorising copyright infringement. End users also stand to benefit from the enactment of a notice and takedown scheme which would outline their ability to challenge takedown notices in legislation. We note the reference to a “notice and notice” scheme which would not, in our view, provide copyright owners with an effective mechanism to prevent ongoing infringement. OSPs should take down infringing material expeditiously, upon receiving notice from rightsholders.

Limitation of liability schemes, such as that enshrined in the DMCA, have withstood the test of time and proved to be a fair compromise between copyright owners, users and OSPs. Such a regime has informed the development of equivalent schemes enacted in Australia and Singapore, and AmCham would welcome the enactment of such a scheme in Hong Kong. The Administration need not be concerned that enacting a limitation of liability scheme would preclude voluntary cooperative efforts among stakeholders in Hong Kong; on the contrary, AmCham views the enactment of a limitation of liability scheme as setting the basic foundations upon which voluntary cooperative efforts can flourish.

In summary, AmCham supports the Administration’s efforts to ensure greater cooperation between copyright owners, copyright users and OSPs, but believes that such efforts must include the enactment of a limitation of liability scheme that clearly outlines the kinds of steps that an OSP would be obliged to take in order to qualify for a limited safe harbour. A limitation of liability scheme establishes a clear basic framework for cooperation between stakeholders, which can be supplemented by voluntary codes of practice where appropriate.

RELIANCE ON ‘NORWICH PHARMACAL’ PRINCIPLES TO IDENTIFY INFRINGERS

The proposal to continue relying on the ‘Norwich Pharmacal’ principles, as opposed to introducing an alternative infringer identity disclosure mechanism that is not subject to scrutiny by the court

AmCham acknowledges the Administration’s concern that the DMCA’s expedited subpoena regime does not involve any judicial oversight of the decision to issue a subpoena, but notes that the DMCA subpoena regime is not without safeguards, including judicial oversight of challenges brought by persons to whom subpoenas are issued, to ensure that due process is followed by copyright owners. For example, in order to have the US District Court issue a subpoena in the first place, copyright owners must declare that they have a good faith belief that the particular use of their copyright work is infringing, and undertake to only use the identity information that they seek from OSPs for the purpose of enforcing their copyright. As a matter of practice, AmCham considers that these safeguards have been effective to overcome the types of abuses cited by the Administration in its consultation paper.

Nevertheless, if the Administration maintains its view that any infringer identity disclosure process in Hong Kong must be subject to judicial scrutiny at all stages of the process, then AmCham submits that the Administration ought to focus its efforts on streamlining and simplifying the existing Norwich Pharmacal procedure. This procedure is presently so cumbersome and expensive that few copyright owners in Hong Kong have sought to rely on it: AmCham’s searches show that there have only ever been two reported cases of copyright owners obtaining Norwich Pharmacal orders from Hong Kong’s High Court for the purpose of identifying infringers.² These orders came at a significant expense to the record company copyright owners who were not only required to pay their own legal costs, but also the OSPs’ legal costs and costs of compliance with the orders. AmCham considers that this state of affairs is rather unsatisfactory given the rampant pace with which online piracy is growing and the difficulties copyright owners face in identifying infringers.

² *Cinepoly Records Co Ltd v Hong Kong Broadband Network Ltd* [2006] HKCU 1500; *Cinepoly Records Co Ltd & Ors v Hong Kong Broadband Network Ltd & Ors* [2006] HKCU 191.

In order to strike the right balance between providing an efficient and inexpensive process for copyright owners to identify infringers, and not overlooking due process requirements (including the need for judicial oversight), AmCham submits that the Administration ought to introduce a new process whereby:

- a copyright owner can apply for a Norwich Pharmacal order, without notice to the OSP against whom they are seeking the order, using the expedited form of originating summons and by filing any supporting affidavits; and
- a duty judge sitting in chambers can decide that application without the need for a hearing.

Adopting such a process, with the protection of a right for OSPs to challenge any order made against them, would reduce the complexity, uncertainty and costs presently involved in applying for Norwich Pharmacal orders. AmCham considers that the proposed process would also strike a more reasonable balance between the interest of copyright owners in obtaining quick, inexpensive disclosure of infringers' identities, and ensuring that due process requirements are met.

REVISED ADDITIONAL DAMAGES PROVISION

The proposal to prescribe in law additional factors to assist the court in considering the award of additional damages, in lieu of introducing statutory damages for copyright infringement actions

AmCham supports the Administration's proposal to prescribe in law additional factors to assist the court in considering the award of additional damages, as further discussed below. However, AmCham remains of the strong view that the enactment of a statutory damages regime would better secure the important objectives of providing:

- copyright owners with a sufficient incentive to take action against infringers; and
- sanctions that deter further infringements, as required by Article 41 of the TRIPS Agreement.

Moreover, AmCham considers that both of the Administration's stated objections to the enactment of a statutory damages regime in Hong Kong's copyright legislation can be addressed. First, the enactment of a statutory damages regime for copyright infringement will not necessarily have "*far-reaching implications on other civil proceedings*". Statutory damages will only become available for other torts if the legislature decides that that is the appropriate course to take. There are unique policy reasons for a statutory damages regime applicable to intellectual property infringements, given the inherent difficulties in determining the extent of losses. Making statutory damages available for copyright infringement is not akin to "*opening the floodgates*" by a court establishing a new principle of liability.

Secondly, AmCham is confident that the Administration will be able to successfully undertake the task of specifying a range (or ranges) of damages that will do justice to the wide spectrum of copyright infringements that occur in Hong Kong. The Administration will be able to draw guidance from the experience of other jurisdictions that have enacted statutory damages regimes in their copyright legislation, including the United States³, Canada⁴, Singapore⁵ and the PRC⁶. These jurisdictions have each faced and addressed the very concern that the Administration raised, often by incorporating a mental element into the statutory damages calculation such that wilful infringers are liable to a higher range of statutory damages than innocent infringers.

With these reservations about the enactment of a statutory damages regime in Hong Kong's copyright legislation cast to one side, AmCham urges the Administration to reconsider its position on the introduction of this important enforcement measure in Hong Kong. AmCham strongly believes that the

³ Section 504(c) of Title 17 of the U.S. Code

⁴ Section 38.1 of the Copyright Act of Canada

⁵ Section 119(2)(d) of the Copyright Act of Singapore

⁶ Article 48 of the Copyright Law of the People's Republic of China

enactment of a statutory damages regime would lead to greater enforcement of Hong Kong's Copyright Ordinance as copyright owners would no longer be discouraged by the prospect of small damages awards due to their inability to prove the full extent of their losses.

This increase in enforcement action alone will deter some 'would-be' infringers, and when coupled with the effect of infringers being able to calculate their copyright infringement liability within a specified range, AmCham is confident that the introduction of a statutory damages regime for copyright infringement in Hong Kong would deter further infringements, as required by Article 41 of the TRIPS Agreement.

Nevertheless, AmCham welcomes the Administration's proposal to prescribe in law additional factors to assist the court in considering the award of additional damages. In particular, AmCham supports the Administration's proposal to introduce the need to deter similar infringements of copyright and the conduct of the defendant after the act constituting infringement as factors that the court ought to have regard to in determining the quantum of additional damages. AmCham is aware that these factors have been a feature of Australia's additional damages provision since 2000, and have been consistently relied upon by copyright owners to support deterrent level additional damages awards. AmCham would welcome Hong Kong's leverage of the Australian caselaw on this point.

In addition to the factors set out in paragraph 23 of the Administration's consultation paper, AmCham considers that there are two other factors that the Administration ought to incorporate into any revised additional damages provision:

- the extent to which a copyright owner's legal costs cannot be recovered from the infringer; and
- all other relevant matters.

The first of these factors is designed to ensure that copyright owners are compensated fully for taking enforcement action to preserve their statutory entitlement, whereas the second factor set out above is an important 'catch-all' factor that allows the court to take into account circumstances that are peculiar to the case at hand. Furthermore, the introduction of this second factor would harmonise Hong Kong's additional damages provision with that enacted in Australia and Singapore.

NO NEW CRIMINAL LIABILITY PERTAINING TO UNAUTHORISED DOWNLOADING AND PEER-TO-PEER (P2P) FILE-SHARING ACTIVITIES

The proposal to refrain from introducing new criminal liability pertaining to unauthorised downloading and peer-to-peer (P2P) file-sharing activities

AmCham concurs with the Administration that the existing distribution offence in section 118(1)(g) of the Copyright Ordinance, together with the proposed criminal sanctions for contraventions of the right of communication, will apply to some illegal downloading and peer-to-peer file sharing activities.

AmCham's view is that these offences are likely to be sufficient to criminalise the activities that cause AmCham's members to suffer the greatest harm ***provided that*** the proposed communication offence that applies where there is no motivation of financial gain is not restricted to the situation where the infringing communication is streamed to the recipient. Indeed, already much streaming technology is facilitated by P2P services, and as such, it would appear that the disadvantages of singling out the "streaming" of copyright works in the Administration's proposed communication offence are already evident. We therefore urge the Administration to recognize that the pace of regulation cannot match the speed of technology, and as such, should retain a technology-neutral stance in relation to criminalising infringements on a commercial scale.

In the event that the Administration retains the streaming restriction in the proposed communication offence, AmCham urges the Administration to enact a commercial scale infringement offence to address the prevalence of infringement in the online environment that is not motivated by financial gain. Unfortunately, Hong Kong's existing copyright offences (with the notable exception of the distribution offence mentioned above) are not well placed to address this type of infringement because they are all predicated on the infringement being motivated by financial gain. Commercial scale

infringement offences, which apply where the infringer has no motivation of financial gain, have been enacted in the United States, Australia and Singapore. AmCham notes that they are not designed to criminalise isolated instances of unauthorised downloading, but rather persistent, systematic infringements that cause copyright owners to suffer significant loss and damage. Moreover, these offences are not peculiar to the online environment and therefore do not create any asymmetries in regulation that the Administration is concerned to avoid. If the Administration is inclined to enact a commercial scale infringement offence, it will need to make a choice between the US approach,⁷ and the Australian and Singaporean approach,⁸ to defining what constitutes commercial scale infringement. Indeed, AmCham believes that the value of the original work in the aggregate that is involved in the downloading or uploading activities should be the basis for making such a determination.

Thus, in order to address the challenges presented by the online environment in which infringement not motivated by financial gain is rife, AmCham submits that the Administration ought to (i) remove the streaming restriction in its proposed communication offence or (ii) enact a commercial scale infringement offence similar to that adopted in the United States, Australia and Singapore. AmCham would welcome the Administration's implementation of either of these measures.

MEDIA SHIFTING EXCEPTION

The proposal to enact a media shifting exception in Hong Kong

AmCham is opposed to the introduction of any media or format shifting exception in Hong Kong until such time as proponents of those exceptions can present cogent evidence to the Administration that the proposed exceptions are necessary in Hong Kong, for each particular category of works. As content owners and OSPs experiment with business models in the rapidly evolving digital environment, great strides have been made in providing users with the ability to experience copyright works in a multitude of ways, on various devices. The desire by consumers to format shift their media is driving industry efforts to provide greater interoperability and security, so as to give consumers what they want, while still ensuring the appropriate incentives for content providers to invest in new business models. Care should be taken in creating new exceptions in this environment not to disturb a market that is already moving in the right direction.

In AmCham's opinion, it is not enough for copyright users to merely assert that the enactment of media or format shifting exceptions is necessary, or to point to other jurisdictions that have enacted similar exceptions. AmCham's members span a broad range of industries from manufacturing to media and entertainment, and they do not have any direct experience of how Hong Kong's current exceptions regime is failing to accommodate the legitimate activities of copyright users. AmCham believes that the Administration should be reluctant to disturb the careful balance struck by the existing exceptions regime in Hong Kong's Copyright Ordinance unless there is strong evidence that it is appropriate to do so.

Even where the evidence justifies the introduction of media or format-shifting exceptions, international experience shows that those exceptions need to be crafted very tightly in order to satisfy the TRIPS/Berne Convention's 3-step test.

AmCham notes that the private copying exceptions enacted in Australia and New Zealand only apply in respect of specific types of copyright works and notably, not in respect of software, computer games or digital copies of films. Furthermore, the Australian and New Zealand private copying exceptions are contingent on copyright users complying with a number of conditions that are designed to ensure that the exceptions only permit copying for truly private purposes. AmCham considers that these conditions constitute an essential element of any media or format-shifting exception, and urges the Administration to pay close regard to those enacted in Australia and New Zealand, and proposed in

⁷ In the United States, wilful infringements are criminalised where a person reproduces or distributes during any 180-day period 1 or more copies of 1 or more copyright works, which have a total retail value of more than USD\$1,000.

⁸ In Australia and Singapore respectively, 'commercial scale' and 'significant' infringement are defined by reference to a list of factors - such as the volume and value of any illegally downloaded or uploaded copies of works - that a court takes into account in determining whether or not the infringement was on a commercial scale.

the UK, in the event that the Administration satisfies itself that it is both necessary and desirable to enact a media shifting exception in Hong Kong.

The Administration should also bear in mind that any media or format shifting exception introduced by the Administration will be open to abuse, and must be drafted in such a way as to accommodate new and emerging business models that copyright owners might seek to use in respect of their works. Furthermore, having recently enacted laws to safeguard the efficacy of Technical Protection Measures (TPMs), we urge the Administration to underline its commitment to ensuring that the legal protection of TPMs is not compromised by the creation of any exceptions for the purposes of format shifting, as we believe that to do otherwise may eviscerate existing protections.

CONCLUSION

AmCham looks forward to working with the Administration to craft its legislative proposals, and would be happy to further discuss the points made in this submission.

August 2008