

香港特別行政區政府
商務及經濟發展局
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11 January 2012

Ms Kitty Cheng
Assistant Legal Adviser
Legislative Council Secretariat
Legal Service Division
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Ms Cheng,

Copyright (Amendment) Bill 2011
Proposed amendment to section 221(2) of the Copyright Ordinance
(Provisions as to damages in infringement action)

I refer to your letter dated 6 January 2012 concerning the captioned subject. The Administration's response is set out in the paragraphs below:-

Issue (a) on page 2 of your letter

- (a) Under the *Copyright Ordinance* Cap 528 ("Ordinance"), an infringement of a right conferred by the Ordinance (notably copyright, a performer's economic right or a right of a person having fixation rights) is actionable by the rights owner and one of the reliefs available to the rights owner is damages (section 107(1) & (2) and section 220(1) & (2)). As a general rule, damages are compensatory in nature, i.e. any award is intended to put the rights owner in the same position as if the infringement had not occurred. This basic principle generally requires the rights owner to prove (i) the loss suffered by him and (ii) that the infringement in question is the effective cause of such loss.

- (b) In addition to seeking general damages, a rights owner may claim “additional damages” pursuant to section 108(2) or 221(2) of the existing Ordinance enacted in 1997 under which the Court has power to award additional damages to the rights owner as the justice of the case may require having regard to all the circumstances. Stemming from the corresponding UK statute, i.e. section 17(3) of the *UK Copyright Act 1956* (which was extended to Hong Kong by the Copyright (Hong Kong) Order 1972) as replaced by section 97(2) and 191J(2) of the *UK Copyright, Designs and Patents Act 1988*, “additional damages” has the following fundamental nature by reference to the authorities: -
- (i) the statutory provisions are drafted in the widest terms empowering the Court to have wide discretion in awarding additional damages. The relief is intended to be an enhancement of an award of ordinary damages. It has been held that the rights owner is entitled to seek additional damages provided that it is established that effective relief would not otherwise be available to the rights owner (*Ravenscroft v Herbert* [1980] R.P.C. 193 (Ch), considered and followed by *Microsoft Corporation v Able System Development Ltd. t/a Able Computer Centre* [2002] 3 HKLRD 515);
 - (ii) the relief is essentially compensatory for the harm done to the rights owner. The relatively recent UK case authorities suggest that the relief is not intended to be and cannot be solely a punitive or exemplary award. Although the relief may contain a punitive element, it can be awarded provided that the purpose of such award is not solely to punish the defendant (*Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] EWHC 409 and *Phonographic Performance Ltd v Reader* [2005] F.S.R. 42, [2005] EWHC 416 (Ch), per Mr Justice Pumfrey); and
 - (iii) the relief is not necessarily linked to commercial or financial loss suffered by the rights owner. In this regard, the relief may be seen as a statutory form of aggravated damages for compensating the injury to the plaintiff’s reputation, proper feeling of pride and

dignity, humiliation, distress, insult or pain caused by the circumstances of the defendant's conduct. It has also been held that the relief contains an element of restitution having regard to the benefit gained by the defendant (*Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] EWHC 409; paras. 21-201 & 206, *Copinger and Skone James on Copyright* (16th Edition, 2011)).

- (c) The Bill proposes to prescribe two more factors in addition to the three existing non-exhaustive factors under sections 108(2) and 221(2) of the Ordinance for the court to consider in determining whether to award additional damages to the plaintiff in a civil action for infringement. One of the new factors is contained in the new section 108(2)(d) and 221(2)(d) which is raised in your letter for discussion.
- (d) The proposed amendments do not seek to change the fundamental nature of additional damages recognized by common law (as briefly discussed in point (b) hereinabove). In other words, the new sections do not propose to introduce exemplary damages. Neither do the proposed amendments seek to fetter the court's discretion in determining by reference to the common law principles whether or not additional damages (and if so, what quantum) ought to be awarded to the plaintiff(s) in a civil action for infringement.

Issue (b) on page 2 of your letter

- (e) In view of our recognition of the practical difficulties that rights owners may encounter in proving or quantifying their actual loss, injury or harm caused by the infringement, the main objective of the proposed amendments to sections 108(2) and 221(2) is to facilitate a rights owner in an appropriate action for infringement to obtain an award of damages plus additional damages in a total amount that is more commensurate with the prejudice, loss and/or injury suffered by the plaintiff.

- (f) In some cases, the aforesaid difficulties encountered by a rights owner may be attributable to the defendant's unreasonable or unlawful conduct after the act constituting the infringement. Examples of such conduct that have been taken into account by the UK courts in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] EWHC 409 and *Peninsular Business Services Ltd v Citation Plc* [2004] F.S.R. 17 are: -
- (i) destruction of evidence of infringement;
 - (ii) attempting to conceal or disguise the infringement; and
 - (iii) persisting in the infringement in the face of a warning.
- (g) In the light of the aforesaid consideration, we propose specifying in the new sections 108(2)(d) and 221(2)(d) that the court may take into account, amongst others, the defendant's overall conduct in relation to the infringement when determining if additional damages ought to be awarded, and if yes, the quantum of such damages.
- (h) Having regard to the fundamental nature of additional damages, not every conduct of the defendant (including the conduct after having been informed of the infringement) is pertinent to determining if additional damages ought to be awarded. In this connection, the court is expected to exercise rational and sound judgment in assessing which conduct of the defendant under the new sections 108(2)(d) or 221(2)(d), if any, is pertinent to an award of additional damages. When these new provisions are read and considered in context of additional damages under the overall provisions of section 108(2) and 221(2), it should be clear that the new provisions are not to invite the court to hold a defendant liable for additional damages merely because the defendant has acted reasonably or in good faith to defend his legitimate interest or right (see also point (o) hereinbelow).

Issue (c) on page 3 of your letter

- (i) The term “the infringement” mentioned in the new sections 108(2)(d) and 221(2)(d) essentially refers to the subject matter of infringement found or upheld by the court in an action for infringement brought by the plaintiff(s).
- (j) Therefore, an allegation of infringement which is not substantiated by the plaintiff(s), or is rejected or dismissed by the court in an action for infringement is outside the scope of the new sections 108(2)(d) and 221(2)(d).

Issue (d) on page 3 of your letter

- (k) For the reasons explained in points (e) to (h) hereinabove, it follows that a person who has received a letter of demand or complaint containing an allegation of copyright infringement is legally entitled to investigate the validity of such allegation and to seek independent legal advice.
- (l) To recap point (h) hereinabove, the new sections 108(2)(d) and 221(2)(d) are not intended to catch a defendant who has been acting reasonably or in good faith to defend his legitimate interest or right.

Issue (e) on page 3 of your letter

- (m) As far as statutory additional damages are concerned, it is to our best knowledge that this relief is only available under two Ordinances, namely the *Copyright Ordinance* and the *Layout-Design (Topography) of Integrated Circuits Ordinance*, Cap 445. At present, in determining an award of such relief under the relevant provisions of both Ordinances, the court has an unfettered discretion to consider all the circumstances of the case having regard to a list of non-exhaustive factors. None of these non-exhaustive factors contain reference to the defendant’s conduct.

- (n) That said, the case authorities as stated in point (f) hereinabove at least suggest that the current provisions of the *Copyright Ordinance* on additional damages permit the court to take into account, amongst others, the defendant's conduct even though such a factor has not been spelt out in the provisions.

- (o) Given that an award of additional damages is in essence intended to enhance the compensation to a rights owner for his loss and injury caused by the actionable infringement, and that the new sections 108(2)(d) and 221(2)(d) do not seek to alter the fundamental nature and purpose of this discretionary relief, we consider that the defendant's conduct which the court may take into account by virtue of the new statutory provisions would invariably be related to the actionable infringement. This contention is supported by the case authorities cited and further considered in points (f) and (n) hereinabove.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Patricia So', with a long horizontal flourish extending to the right.

(Patricia So)

for Secretary for Commerce and Economic Development

c.c. LA
CCS(1)(3)