

## **Bills Committee on the Copyright (Amendment) Bill 2014**

### **Criminal Cases in Copyright Infringement**

#### **Purpose**

At the meeting on 17 July 2014, the Administration was requested to provide information on precedent cases involving the use of the concept of "substitution for the work" as one of the non-exhaustive factors for determining whether any distribution of a copy of a work was made to such an extent as to affect prejudicially the owner of the copyright in the work. This paper provides the information required.

#### **Relevant Provisions in Hong Kong and Some Other Common Law Jurisdictions**

2. Currently, distribution of an infringing copy of a copyright work for the purpose of or in the course of any trade or business<sup>1</sup> which consists of dealing in infringing copies of copyright works constitutes an offence under section 118(1)(e) of the Copyright Ordinance (Cap. 528). In other cases, distribution of an infringing copy may constitute an offence under section 118(1)(g) if the distribution is to such an extent as to affect prejudicially the copyright owner (hereinafter referred to as "the prejudicial distribution offence"). It has been affirmed by the Hong Kong Court of Final Appeal that "distribution" instead of being limited to conventional distribution of hard copies also covers distribution of electronic copies through the Internet.<sup>2</sup>

3. To tie in with the introduction of a new communication right under the Copyright (Amendment) Bill 2014 (hereinafter referred to as "the Bill"), corresponding criminal sanctions against infringing communication of a copyright work to the public are introduced. The proposed criminal sanctions, mirroring the existing sanctions available against unauthorised distribution in section 118(1)(e) and 118(1)(g) of the Ordinance, are targeted at copyright infringements conducted (a) for the purpose of or in the course of any trade or business that consists of communicating copyright works to the public for profit or reward; or (b) to such an extent as to affect prejudicially the copyright owner (hereinafter referred to as "the prejudicial communication offence"). The Bill

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<sup>1</sup> "Business" also includes business conducted otherwise than for profit – section 198(1) of the Copyright Ordinance.

<sup>2</sup> *HKSAR v Chan Nai Ming* [2005] 4 HKLRD 142; [2007] 1 HKLRD 95; [2007] 2 HKLRD 489.

therefore maintains the existing line demarcating the boundary between criminal and civil liability arising from copyright infringement. Our policy intent is to combat large-scale piracy.

4. Similar statutory provisions (covering the right of communication and the corresponding criminal sanctions against infringing communication) are found in the UK and Australia -

- (a) the UK introduced the right of communication to the public and the corresponding offence against infringing communication into its Copyright, Designs and Patents Act 1988 in 2003; and
- (b) in Australia, the right of communication and the corresponding offence against infringing communication were introduced into the Copyright Act 1968 in 2001.

For easy reference, the relevant provisions in the UK and Australia are extracted at Annex.

### **Meaning of “Prejudice”**

5. At present, the copyright laws in Hong Kong, the UK and Australia do not specify what amounts to “prejudice” in the context of the prejudicial distribution/communication offence. To allay netizens’ concerns regarding the possible impact of the criminal liability for the proposed prejudicial communication offence on the free flow of information across the Internet and to provide greater legal certainty, the Bill clarifies the threshold of criminal liability in relation to the existing prejudicial distribution and the proposed prejudicial communication offences.

6. Regarding the existing prejudicial distribution offence (section 118(1)(g)), Clause 57 of the Bill adds the following subsection (2AA) after section 118(2) –

“For the purposes of subsection (1)(g), in determining whether any distribution of an infringing copy of the work is made to such an extent as to affect prejudicially the copyright owner, the court –

- (a) may take into account all the circumstances of the cases;  
and

- (b) in particular, may take into account whether economic prejudice is caused to the copyright owner as a consequence of the distribution, having regard to whether the infringing copy so distributed amounts to a substitution for the work.”

7. In a like vein, regarding the proposed prejudicial communication offence (new section 118(8B)(b)), Clause 57 of the Bill also includes the following subsection (8C) –

“For the purposes of subsection (8B)(b), in determining whether any communication of the work to the public is made to such an extent as to affect prejudicially the copyright owner, the court –

- (a) may take into account all the circumstances of the cases; and
- (b) in particular, may take into account whether economic prejudice is caused to the copyright owner as a consequence of the communication, having regard to whether the communication amounts to a substitution for the work. ”

These formulations have been drawn up having regard to relevant decided cases in Hong Kong, the UK and Australia, conclusion of deliberations of the previous Bills Committee<sup>3</sup> as well as the views received from the public consultation and from our engagement with copyright owners and users groups.

### **Case Law in Hong Kong**

#### *HKSAR v Chan Nai Ming*<sup>4</sup>

8. This so-called “Big Crook” case is a landmark case in which the court examines what constitutes “*to such an extent as to affect prejudicially the copyright owner*”. The defendant in this case, by using the BitTorrent technology to create seed files on his computer for three movies and then advertising the existence of those files through newsgroups on the Internet, enabled other netizens to download and obtain copies of the movies. On

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<sup>3</sup> On the Copyright (Amendment) Bill 2011.

<sup>4</sup> [2005] 4 HKLRD 142 (Reasons for Verdict of Tuen Mun Magistrates’ Court); [2007] 1 HKLRD 95 (judgment for appeal against both conviction and sentence before the Court of First Instance of the High Court); and [2007] 2 HKLRD 489 (judgment for appeal against conviction before the Court of Final Appeal).

conviction for three counts of attempting to distribute an infringing copy of a copyright work to such an extent as to affect prejudicially the rights of the copyright owner, the defendant was sentenced to three months' imprisonment. His appeals against conviction and sentence were dismissed by the Court of First Instance of the High Court. His conviction was further upheld by the Court of Final Appeal.

9. In considering the meaning of “prejudice”, the presiding magistrate considered that the phrase “affect prejudicially” was not defined in the Copyright Ordinance but it was clearly wide in scope. He considered that “prejudice” was not necessarily restricted to economic prejudice but economic prejudice would be the obvious area to which attention should be directed. In the context of copyright piracy of movies, the court highlighted that prejudice should be measured not only by the potential loss in sales but also other related matters such as the movie rental market. There was evidence that soon after each of the movie files had been published on the newsgroup, 30 to 40 computer users became involved in the downloading process. In this connection, the court held that distribution of the movies to 30 or 40 or more downloaders would inevitably involve prejudice to the copyright owners (presumably because those who downloaded the infringing copies would not pay for obtaining legitimate copies of the movies). Taking into account that the distribution of infringing copies was not amongst a few friends but in a public open forum, the court found that the intention of the defendant must have been to distribute much more widely than simply to one downloader. Accordingly, the defendant's acts amounted to an attempt to distribute to such an extent as to affect prejudicially the copyright owner.<sup>5</sup> As the issue of “prejudice” was not further contested by the parties in the subsequent appeal proceedings before the High Court and the Court of Final Appeal, the above ruling by the presiding magistrate on “prejudice” has become the authority in Hong Kong and there has not been any other local case decided on this issue.

### **Case Law in the UK**

10. In *R v Emmanuel Nimley*,<sup>6</sup> the defendant, a university student, recorded a number of newly released films in a cinema by using his mobile phone. He subsequently uploaded the infringing copies of these films to a public Internet site where the films could be watched by members of the public. He pleaded guilty to and was convicted of, inter alia, three counts of distributing an infringing copy of a copyright work to such an extent as to affect prejudicially

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<sup>5</sup> See paragraphs 35 to 39 of Reasons for Verdict in [2005] 4 HKLRD 142.

<sup>6</sup> [2010] EWCA Crim 2752.

the copyright owner. Initially, the court sentenced him to six months' imprisonment for all charges. Upon appeal, his custodial sentence was quashed and a community service order with 120 hours unpaid work was imposed. As the defendant was convicted on his own plea, the issue of what constitute "prejudice" was not discussed by the court.

### **Case Law in Australia**

11. In *Griffiths v United States of America and Another*,<sup>7</sup> the Australian court discussed whether an act amounts to "affect prejudicially" in the context of copyright piracy. According to the prosecution case, the defendant conspired to engage in Internet software piracy in the US in violation of the US law. The defendant was the head of an Internet software piracy group known as Drink Or Die (DOD), which was allegedly involved in unauthorised reproduction of copyrighted software and distribution of the pirated software over the Internet. When newly "cracked" or pirated software was released, a DOD leader, usually the defendant, would make available such information to DOD members. In order to reward its members, DOD maintained a number of sites known as "leech sites" from which DOD members could download many thousands of pirated software, games, movies and music. Apart from facilitating the communication to DOD members about the group's illegal activities in secure Internet chat sites, the defendant oversaw the maintenance and operation of DOD's file transfer sites which were protected by security mechanisms. Between November 2000 and December 2001, DOD had cracked and released more than 275 software programmes worth more than US\$1,000,000.

12. As the defendant was in Australia at the material time, the US authorities sought extradition of the defendant to the US pursuant to the Australian Extradition Act so that he could stand trial in the US. One material issue for the purpose of extradition was the double criminality requirement, namely whether the defendant's conduct contrary to the US laws would have also constituted an extradition offence if it had taken place in Australia. The issue hinged on whether the defendant's acts affected prejudicially the rights of the copyright owner under s.132AI of the Australian Copyright Act 1968, which is a criminal offence.

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<sup>7</sup> [2005] FCAFC 34.

13. The appeal judges<sup>8</sup> made the following comments in concluding that the double criminality requirement had been satisfied -

*“Given the object of the conspiracy, the manner of its performance and the resultant open access it gave to software that was otherwise intended for commercial gain, it would in our view be open properly to infer that the release by DOD of any cracked software programme to its own sites would of itself without more “[affect] prejudicially the owner of [that] copyright”. The reason for this is that an alternate and illegitimate source for the owner’s work knowingly would have been created with the intent that it be used by members who would make it available to others. The evidence in the supporting documents is that such sources were so used.”*  
(emphasis added)

14. It can be distilled from this case that in determining the “prejudice” issue, the court would look into all the circumstances of the case, particularly the effects of the defendant’s conduct in providing an alternate and illegitimate source for the owner’s work thereby substituting the legitimate market for the copyright work and economic prejudice would be an important factor to consider.

### **Codification of “Prejudice”**

15. Some commonalities may be drawn from the above cases. First, the courts took into account all circumstances of the cases. Secondly, the infringement involves more or less a complete reproduction of the original work which can be used as a substitute for the original work. Thirdly, the mode of distribution, namely through the Internet, enables a potentially large number of members of the public to receive the infringing copies. Fourthly, the infringer’s overall conduct has the potential in displacing the demand for the original work thereby shrinking the legitimate market for the copyright work. In the light of the above factors, economic prejudice has been caused to the copyright owners even though some infringers may not have an apparent profit motive.

16. The approach in clarifying the threshold of criminal liability in relation to the prejudicial distribution offence and the prejudicial communication offence

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<sup>8</sup> The primary judge adopted an “unjust enrichment analysis” which involved “treating the infringer’s acquisition of an article of value (measured by reference to the retail value of the copyright owner’s product) as being at the expense of the owner and hence affecting the owner prejudicially.”

in the Bill (see paragraphs 6 and 7 above) has been distilled from the applicable principles from the local and overseas authorities involving large-scale copyright infringement, and first appeared in Clause 51 of the Copyright (Amendment) Bill 2011. After examination, the previous Bills Committee agreed with the Administration some Committee Stage Amendments to refine the drafting to require the court to take into account all the circumstances of the case and, in particular whether more than trivial economic prejudice is caused to the copyright owner, having regard to factors including “whether the infringing copy so distributed/ the communication amounts to a substitute for the work”<sup>9</sup>. Taking into account the views that we gauged from the 2013 public consultation and from our engagement with copyright owners and users, we have further refined the drafting as now showed in paragraphs 6 and 7 above, highlighting economic prejudice and the factor of whether the infringing copy distributed or the infringing communication amounts to a substitution for the work and omitting the reference to “more than trivial”<sup>10</sup>.

17. To conclude, by highlighting economic prejudice and the factor of whether the infringing copy distributed or the infringing communication amounts to a substitution for the original copyright work, it would provide clearer guidance to users and owners of copyright works, the prosecution as well as the court in clarifying the threshold of criminal liability in relation to the “prejudicial distribution” and “prejudicial communication” offences. It would achieve our policy objective of targeting large-scale copyright piracy, and go a long way towards addressing concerns that Internet users may inadvertently be caught by the criminal net.

## **Presentation**

18. Members are invited to note the information provided in this paper.

Commerce and Economic Development Bureau  
Intellectual Property Department  
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<sup>9</sup> The other two factors being:  
(a) the nature of the work, including its commercial value (if any);  
(b) the mode and scale of distribution/communication.

<sup>10</sup> See paragraphs 9 and 10 of the Legislative Council Brief on the Bill.

## **The UK**

### Copyright, Designs and Patents Act 1988

#### Section 20(2)

References in this Part to communication to the public are to communication to the

public by electronic transmission, and in relation to a work include —

- (a) the broadcasting of the work;
- (b) the making available to the public of the work by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them.

#### Section 107(2A)

A person who infringes copyright in a work by communicating the work to the public— (a) in the course of a business, or

(b) otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the copyright,

commits an offence if he knows or has reason to believe that, by doing so, he is infringing copyright in that work.

## **Australia**

### Copyright Act 1968

#### Section 10

**“communicate”** means make available online or electronically transmit (whether over a path, or a combination of paths, provided by a material substance or otherwise) a work or other subject-matter, including a performance or live performance within the meaning of this Act

#### Section 132AI

(1) A person commits an offence if:

- (a) the person distributes<sup>1</sup> an [infringing] article, with the intention of:
  - (i) trading; or
  - (ii) obtaining a commercial advantage or profit...

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<sup>1</sup> According to section 132AA of the Copyright Act 1968, distribution in the context of the prejudicial distribution offence under section 132AI covers distribution by way of communication.



- (2) A person commits an offence if:
- (a) the person distributes<sup>1</sup> an article; and
  - (b) the article is an infringing copy of a work or other subject matter;  
and
  - (c) copyright subsists in the work or other subject matter at the time of the distribution; and
  - (d) the extent of the distribution affects prejudicially the owner of the copyright.