representing the recording industry worldwide

IFPI Submissions on the Hong Kong Copyright (Amendment) Bill 2014

October 2014

INTRODUCTION

IFPI represents the recording industry worldwide, with a membership comprising some 1300 record companies in 66 countries and affiliated industry associations in 56 countries. Our membership includes the major multinational recording companies and hundreds of independent record companies, large and small, located throughout the world, including in Hong Kong.

In June 2014, the Government of Hong Kong introduced the Copyright (Amendment) Bill 2014 (the "Bill") to the Legislative Council to:

(a) provide for fair dealing exceptions for the purposes of:-
  (i) parody, satire, caricature and pastiche,
  (ii) commenting on current events and
  (iii) quotation

(b) clarify the criminal liability for copyright infringement generally; and

(c) re-introduce the package of legislative amendments first proposed in 2011.

In general, we are supportive of the Government's initiative and efforts to introduce the long overdue copyright amendments to update the copyright regime in Hong Kong. We also applaud the Government's decision not to include an exception for user-generated content in the Bill, while introducing certain exceptions which aim at encouraging creativity. However, we are very concerned that some parts of the Bill are seeking to expand the scope of exceptions to copyright without adequate justification and safeguards.

IFPI has already submitted comments in relation to some of the Bill's provisions, which were previously contained in the Copyright (Amendment) Bill 2011 ("2011 Bill") or discussed in the public consultation on parody launched in July 2013 (the "Consultation"). Please see copies of IFPI's previous submissions dated July 2011, October 2013 and November 2013 enclosed herewith as Annex A, Annex B and Annex C respectively. We affirm and re-submit our comments made in these previous submissions. We will now make additional comments on the new provisions introduced under the Bill.

QUOTATION

The proposed section 39(2) of the Bill (and the parallel provision for performance or fixation under the proposed section 241(2)) provides that:-

> *Copyright in a work is not infringed by the use of a quotation from the work (whether for the purpose of criticism, review or otherwise) if –*
> *(a) the work has been released or communicated to the public;*
> *(b) the use of the quotation is fair dealing with the work;*
> *(c) the extent of the quotation is no more than is required by the specific purpose for which it is used; and*
> *(d)*[1] *(subject to subsection (6)) the use of the quotation is accompanied by a sufficient acknowledgment.*

This exception was not laid out in the Consultation and should therefore not have found its way into the Bill without a thorough consultation with stakeholders.

We are of the view that the phrase "*whether for the purpose of criticism, review or otherwise*" will open the door for an unlimited range of purposes into the exception, making the provision not compliant with the Three-Step Test established under Article 13 of the TRIPS Agreement and Article 16 of the WPPT, which sets out that any exceptions and limitations:-

(i) shall only apply to certain special cases – this requires that an exception should be clearly defined and narrow in its scope;
(ii) do not conflict with the normal exploitation of the work; and
(iii) do not unreasonably prejudice the legitimate interest of the rights holder.

These three conditions apply on a cumulative basis, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in a failure to comply with the Three-Step Test and, as a consequence, the exception should be disallowed.

The non-exhaustive purposes of "*criticism, review or otherwise*" are not clearly defined and are too wide in scope, so that this exception would not be confined to "certain special cases" under the Three-Step Test. In fact, this would create uncertainty in the law as to what is or is not permitted. The exception should only permit quotation for a clear and narrow range of purposes.

We note that subsection 2(c) requires that "*the extent of the quotation is no more than is required by the specific purpose for which it is used*". However, it is unclear what the "specific purposes" that the law intends to cover are, given the ill-defined and non-exhaustive purposes stated in section 39(2) / section 241(2). Without proper clarification, the reference to "specific purposes" under subsection 2(c) would have no real meaning. We are of the view that in order to be compliant with the Three-Step Test, the language in this provision should enumerate the specific purposes that could qualify for the exception.

[1] This subsection (d) is not included in the parallel provision of section 241(2).

We respectfully submit that the proposed section 39(2) (and the parallel provision for performance or fixation under the proposed section 241(2)) should thus be amended to read as follows:-

> *Copyright in a work is not infringed by the use of a quotation from the work ~~(whether~~ for the purpose of criticism~~,~~ or review ~~or otherwise)~~ if –*
> *(a) the work has been released or communicated to the public;*
> *(b) the use of the quotation is fair dealing with the work;*
> *(c) the extent of the quotation is no more than is required by the specific purpose for which it is used; and*
> *(d)[2] (subject to subsection (6)) the use of the quotation is accompanied by a sufficient acknowledgment.*

COMMENTING ON CURRENT EVENTS

The proposed section 39(3) (and the parallel provision for performance or fixation under the proposed section 241(3)) of the Bill provides that:-

> *Fair dealing with a work for the purpose of reporting or commenting on current events does not infringe any copyright in the work or, in the case of a published edition, in the typographical arrangement, if (subject to subsection (6)) the dealing is accompanied by a sufficient acknowledgement[3].*

Again, this exception was not laid out in the Consultation and we are disappointed that it has been included in the Bill without thorough prior consultation with all interested parties.

In fact, "commenting on current event" is an unprecedented exception, which is, for example, not provided for in the UK Copyright, Designs and Patents Act 1988, on which the Hong Kong Copyright Ordinance is modelled. It is important to note that after thorough reviews over the past few years, no such exception has been brought into the UK law under the recent amendments by the Copyright and Rights in Performances (Quotation and Parody) Regulations 2014. Thus, we respectfully submit that extra care must be taken by the Hong Kong government and Legislative Council in deciding whether or not to enact this exception.

In considering whether to introduce any new exception, the Government and the Honourable Legislative Councillors need to carefully consider the objectives and effects of such exception supported with evidence and justifications. Strong evidence of an actual problem and an imbalance in the interests of rights owners vis-à-vis users should be available before a new exception is considered so as not to upset the delicate balance between protection and permitted uses which has been calibrated over many years. In the light of the decision in the UK not to introduce such an exception, and where the press and

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[2] Ditto

[3] This last part regarding sufficient acknowledgment is not included under in the parallel provision of section 241(3).

the public take an equally robust approach to their needs to comment on current events, we do not believe that there is sufficient evidence to justify or necessitate a new exception for commenting on current event.

Where a new work only incorporates the idea or copy an insubstantial part of the underlying works, it will not constitute copyright infringement. Moreover, the existing copyright regime in Hong Kong provides adequate exceptions to allow reasonable use of copyright works for certain purposes, for instance reporting of current events, criticism or review, to name just a few. In fact, we are not aware of any legal action taken against anyone in Hong Kong for dealing with copyright works for the purpose of commenting on current events. There does not seem to be any evidence that a separate exception for commenting on current events, in the form proposed, is justified or necessary, in particular as the Bill now proposes to introduce further exceptions for quotation, parody, satire, caricature and pastiche. We are of the view that the existing regime together with the new exceptions proposed are more than sufficient to accommodate a very wide range of contemplated use of copyright works by third parties that would be exempt from the need for permission for such use. In fact, the proposed exception for quotation (discussed above) allows quotation from a work for the purpose of criticism or review, which would in our view already cover at least in part criticism or review of current events.

Perhaps some specific examples of how the current exceptions work would show why the above proposed exceptions are unnecessary, or too broad. If the users wish to utilize a copyright work for some humorous or parody related purposes, they will be able to rely on the proposed parody exceptions under the Bill. If they wish to use a copyright work to make some serious comments on or criticize a work or some current events, they can do so by relying on the existing exception under section 39 ("Criticism, review and news reporting") of the Copyright Ordinance, or under the proposed quotation exception, as the case may be. In the circumstances, it is unclear what else the proposed section 39(3) / section 241(3) purports to achieve, other than to add a superfluous exception to further encroach on the rights of the copyright owners unnecessarily.

Additionally, the proposed section 39(3) / section 241(3) lacks appropriate safeguards to constrain how the copyright work may be used. Unlike the quotation exception discussed above where there are additional safeguards, such as the work has been released or communicated to the public and the extent of the quotation is no more than is required by the specific purpose for which it is used, the only safeguard here is that it has to be fair dealing of the work (and accompanied by sufficient acknowledgement in the case of section 39(3)). We do not see any reason why the other safeguards should be omitted, particularly when the scope of "commenting on current events" is very broad.

In fact, Dr. Mihály Ficsor, Former Assistant Director General of WIPO, has also pointed out that the "commenting on current events" exception may not be necessary, or its scope should be clarified and narrowed down. He wrote:

> *"The Hong Kong Bill also includes provisions on a quotation exception; this is specifically provided in Article 10(1) of the Berne Convention under strict conditions for certain purposes such as commenting on existing works. In view of this, it is not*

clear what else the separate exception for "commenting on current events" might mean under the Bill. In order to avoid possible conflicts with the international treaties, it would be advisable to clarify and narrow the scope of that exception, preferably along the lines of Article 10bis of the Berne Convention."[4]

We therefore respectfully submit that the scope of "commenting on current event" in the proposed section 39(3) (and the parallel provision for performance or fixation under the proposed section 241(3)) should at least be clarified and narrowed down, as per Dr. Ficsor's suggestion.

PARODY, SATIRE, CARICUTURE AND PASTICHE

The proposed section 39A (and the parallel provision for performance or fixation under the proposed section 241A) of the Bill provides that:-

Fair dealing with a work for the purpose of parody, satire, caricature or pastiche does not infringe any copyright in the work.

We have already provided our detailed comments on this topic in our submission dated October 2013 attached under Annex B herein. In particular, we respectfully refer the Government and the Honourable Legislative Councillors to the section on "Fair dealing exception" on page 5 of that submission, and the list of factors set out thereunder, including in particular the requirement of a parody to directly or indirectly acknowledge the source of the original work and the requirement for the parody to constitute an original work in itself. As set out in our October 2013 submission, we believe that the parody work should at least implicitly acknowledge the underlying work, for if the audience is unable to ascertain the object of mockery or criticism, there would be no parody at all, or the parody is unsuccessful.

SPEEDY PASSING OF THE BILL IS CRUCIAL TO THE DEVELOPMENT OF THE CREATIVE INDUSTRY

Generally speaking, the Bill represents an important step towards aligning the copyright laws of Hong Kong with recent rapid technological advancements, despite the inadequacies that we address in this submission. This section sets out some of the reasons why a swift adoption of the Bill is crucial.

Communication Right

The Bill introduces a technology-neutral communication right to enhance copyright protection in the digital environment. Such a right is crucial to the development of the creative industry.

[4] "Why the Hong Kong Bill on Copyright Amendments is Right on the Issue of UGC", http://www.hk-lawyer.org/en/article.asp?articleid=2284&c=140

Today, pirate websites and other digital platforms providing infringing music are rampant. Online piracy has contributed heavily to the shrinking of our members' business, as is demonstrated by the decline of around 50% in revenue in the Hong Kong recording industry from 2003 to 2013[5]. While the business model of the music industry has been evolving, and often spearheaded the positive changes in the digital environment, notably by offering a wide range of legal music content on various online delivery platforms for downloading and streaming, the copyright law in Hong Kong has failed to keep pace and does not provide adequate protection for online content. As a result, unlawful online services offering music without a licence in breach of the making available right continue to evade liability and any sanctions.

As technology continues to evolve, "distribution" under the current law[6] is no longer adequately covering the more advanced means of communications, despite the fact that such new means of communications result in faster and more widespread circulation of infringing works and should constitute an offence. In order to keep the Hong Kong copyright laws in line with technological developments, a technology-neutral general communication right to protect the electronic communication of a work, including sound recordings, to the public should be introduced without any further delay.

Having said that, we refer to our concerns regarding the proposed sections 28A(5) and (6) as set out on pages 7 and 8 of our July 2011 submission (Annex A) which we would like to reiterate here. While we attribute great importance in the speedy introduction of the communication right, we must point out that section 28A(5) as currently proposed is highly problematic, as it would effectively carve out all acts of re-transmission of content. Such a broad exception would encroach on the making available right of rights holders and would unreasonably prejudice their legitimate interests. If this proposal is enacted into law, Hong Kong would default on its obligations under international agreements, notably the Berne Convention and the WIPO Internet Treaties. We therefore respectfully urge again for the deletion of sections 28A(5) and (6), or their serious revision, to avoid the creation of an unreasonably wide permitted act when its primary objective is to introduce a sorely needed communication right.

ISP liabilities

The Copyright Ordinance in its current form does not sufficiently clarify the obligations and liabilities of online service providers ("OSPs") in respect of infringing activities taking place on their platforms. The Bill proposes a new statutory regime for OSPs, which includes a clarification of their potential secondary liability for user infringement, as well as safe harbours to encourage them to act cooperatively with copyright owners to prevent infringement through their networks. OSP obligations would be underpinned by a code of practice, the compliance with which would create a presumption that an OSP was entitled to a statutory safe harbor. Such clarification of ISP liabilities could provide a certain degree

[5] The total trade value (including physical sale, digital sale and synchronization income) of the Hong Kong recording market is HK$597.8 million and HK$300 million in 2003 and 2013 respectively, according to IFPI's *Recording Industry In Numbers 2013*. The 2014 figures are not published yet.

[6] Section 31 and Section 118 of the Copyright Ordinance.

of protection to both rightholders and OSPs, although we would also suggest that, in order to encourage OSPs to act and to provide certainty in the law, the proposed section 88B be further clarified to expressly state that the OSPs will be liable for authorising another to do any of the acts restricted by the copyright under section 22(2) unless they comply with the conditions specified in section 88B(2).

The provisions introduced under the Bill offer only the most basic protection for right holders. Experience in other jurisdictions shows that a mere notice and takedown mechanism is grossly insufficient to tackle the overwhelming quantity of and near instantaneous reappearance of infringing content being made available in the online environment. Moreover, it cannot address forms of infringement where the infringing content does not reside on the OSP's servers and thus cannot be taken down, such as P2P file-sharing, which needs to be dealt with using different measures, notably a graduated response mechanism. The inadequacies of the safe harbour provisions under Division IIIA of the Bill are explained in our submissions dated July 2011 under Annex A.

Progress in other jurisdictions

The copyright laws in Hong Kong are lagging far behind those of other territories. For instance, a communication right is already introduced in other countries such as the United Kingdom, Australia, Singapore and Malaysia (covering all or certain copyright works, as the case may be). Furthermore, other jurisdictions in the region, including South Korea, Singapore and Malaysia, provide for clear ISP liabilities and require ISPs to take-down or block infringing content. South Korea has adopted an even more holistic approach with the implementation of a graduated response system and website blocking. The recent success of the Korean recorded music industry, growing by 25.6% from US$168 million in 2009 to US$211 million in 2013 is undoubtedly attributable in part due to these far-sighted legislative measures introduced by the South Korean government, which have encouraged investments in the creative industries.

CONCLUSION

IFPI fully supports creativity, including "secondary creations", as long as these fall within the clearly defined legal exceptions, which comply with the Three-Step Test. We believe that the existing exceptions under the Hong Kong copyright regime are already sufficient and do achieve the fine balance between the interests of users and that of rights owners. Some of the proposed additional exceptions under the Bill, such as parody, are in principle acceptable. Nevertheless, we submit the above comments to highlight that some of the proposed provisions require additional re-drafting in order to appropriately balance the interests of copyright owners and users.

The copyright laws in Hong Kong should have been updated long time ago in order to keep pace with the technological developments in this digital age. Although this Bill is not perfect and more will need to be done to bring the copyright laws in Hong Kong in line with the developments in other parts of the world, it is important to take a step forward now and adopt this Bill (with appropriate amendments as suggested above) as quickly as possible.

We appeal to your support for the long overdue copyright amendments and we sincerely hope to see the passing of the Bill in the current legislative year.

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Annex A

representing the recording industry worldwide

IFPI Comments on Hong Kong Copyright (Amendment) Bill 2011

July 2011

The International Federation of the Phonographic Industry (IFPI) thanks the Bills Committee of the Legislative Council for the opportunity to submit comments on the Copyright (Amendment) Bill 2011 ("the Bill"), published in the Gazette on 3 June 2011.

We welcome the government's initiative to update Hong Kong's copyright framework. It is encouraging to see that the stated goals of the bill are to "ensure that the copyright law will endure the test of rapid advances in technology" and to "enable cooperation between copyright owners and OSPs in the fight against online infringement". We are concerned, however, that the bill does not go far enough to achieve these goals. A number of clarifications and changes are needed in order to help establish a modern copyright regime that will support a healthy online environment and bring benefits to Hong Kong's creators, legal online services, and local economy.

In summary, we recommend the following amendments:

I. **The Bill should introduce further rules to address all forms of online piracy, including an obligation for OSPs to implement a graduated response mechanism to curb non-hosted content piracy.**
II. **The safe harbour regime should be amended by –**
    - **Narrowing the scope of services that may qualify for the safe harbour protection.**
    - **Recognising periodic payments as 'financial benefits' to the OSP.**
    - **Requiring OSPs to remove infringing content expeditiously.**
    - **Clarifying that OSPs must (as opposed to 'may') act when they obtain knowledge of the infringement, in order to qualify for the safe harbour.**
III. **The list of factors for determining 'authorisation' liability should be expanded.**
IV. **The exception for temporary reproduction by OSPs should form part of the safe harbour regime, and not be included as an additional stand-alone exception.**
V. **The fact that distribution of pre-release content prejudicially affects rightholders should be reflected in the bill or clarified by the administration.**

VI. **Clarification should be given to s22(5)-(6) to avoid confusions in the interpretation of an act of infringement by communication to the public.**

VII. **The private copying exception should be further clarified by expressly excluding copies made from online transmissions.**

Background

IFPI represents the recording industry worldwide with over 1400 members in 66 countries. Our membership includes the major multinational recording companies and hundreds of independent record companies, large and small, located throughout the world, including in Hong Kong. The members of IFPI are involved in the production and distribution of sound recordings representing music of all kinds, including popular, classical, jazz, and folklore.

The recording industry in Hong Kong has been shrinking in the past 10 years, and is now about one-third of its market size in 2000. The sharp decline in sales is primarily due to the rampant online piracy in Hong Kong. The sale of music through exploitation in digital channels has also been severely hampered and has failed to take off.

Hong Kong's legitimate digital market is severely underperforming and it is difficult to reconcile the fact that while the country sees a rapid growth and substantial development of its Internet and mobile networks[1], the digital market remains at only a fraction of its potential. Physical sales continue to fall, and digital sales do not compensate for this decline. In 2010, sound recording sales dropped 6.4% and growth of digital music sales was slow. The local industry in Hong Kong is facing some of the most difficult market conditions ever and its continued survival is at stake. If this situation continues, and no effective policy to support the recording industry in Hong Kong is introduced, the flourishing Canto-pop market will gradually disappear.

We welcome the government's initiative to update the Copyright Ordinance and introduce further safeguards for the protection of copyright works in the digital age. An updated regime of copyright protection in Hong Kong would positively impact the local creative industry and benefit domestic and foreign creators alike. However, the legislative texts need to be improved if they are to achieve this goal. Our industry's main concerns are detailed below and we urge the honourable members of the Bills Committee of the Legislative Council to address them, before the Copyright (Amendment) Bill is approved.

[1] In February 2011, the number of mobile service subscribers was boosted to 13.71 million, representing penetration rates at about 193%. Among these 13.71 million subscribers, 5.72 million were 3G/3.5G service customers. Data services such as short messaging, mobile Internet services, all sorts of download services, multimedia services, video call services and mobile TV services are very popular among consumers. As at February 2011, local mobile data usage recorded a remarkable surge to **1 949 Terabytes** (i.e. 1 948 760 Gigabytes), or an average of 291.2 Mbytes per 2.5G/3G mobile user. This represents 2.8 times the mobile data usage over the same period in 2010 and 12.1 times over the same period in 2009. Source : OFTA, http://www.ofta.gov.hk/en/datastat/hktelecom-indicators.html

I. ADDITIONAL MEASURES AGAINST ONLINE INFRINGEMENT SHOULD BE INTRODUCED TO ADDRESS ALL FORMS OF PIRACY, INCLUDING P2P

The Bill should introduce rules requiring OSPs to implement effective measures to address forms of infringement where the infringing content does not reside on the ISP's servers (for example, P2P file-sharing). These should include a 'graduated response' mechanism involving warnings with ultimate deterrent sanctions for users who refuse to stop infringing.

One of the stated purposes of the Bill is to facilitate cooperation between copyright owners and OSPs in the fight against online infringement. Although it includes a number of important provisions to encourage such cooperation, the Bill does not go far enough in addressing today's enforcement challenges, and fails to achieve its stated goal. The proposed safe harbour regime will help deal with hosted-content piracy by encouraging OSPs to take down infringing content, but will do little to address other forms of piracy, including P2P infringements, where the content is not hosted by the OSP and cannot be taken down.

P2P piracy is a major problem for the recorded music industry. Many of the tracks downloaded illegally from the Internet are downloaded from P2P networks. Our research has shown that in 2008, over 40 billion music files were illegally distributed among P2P users. This form of infringement cannot be addressed under a 'notice and takedown' provision such as the one proposed under Division IIIA of the Bill, because the content does not reside on the ISP's servers and therefore cannot be taken down. Meaningful measures at the network level, as well as a 'graduated response' procedure for dealing with repeat infringement, could reduce P2P piracy and provide effective deterrence. They could also reduce the need to bring litigation to stop online infringement. Such solutions have already been adopted, or are being considered, in a number of countries. In the last two years, there has been major progress on this issue and the adoption of a legislative 'graduated response' mechanism is becoming a trend among countries that update their laws to address digital piracy.

Graduated response legislation establishes a procedure that includes several warnings sent to the account holder, leading to deterrent sanctions that can include account suspension if the warnings are ignored. In France, a system of graduated response is now being implemented on the basis of a law that was adopted in October 2009. This law created a system of warnings with ultimate sanctions that can include account suspension of up to one year. In the UK, the 2010 Digital Economy Act introduced a graduated sanctions mechanism with obligations on ISPs to notify infringing users who were subject to a rightholder complaint, and to keep records of these reported subscribers. Measures against repeat infringers, including account suspension and limitation of service, may be required to be implemented by the Secretary of State. In South Korea, a graduated

response law passed in April 2009 established an administrative procedure of graduated sanctions against online infringement, operated by the Ministry of Culture. These sanctions include issuance of warnings and closure of accounts held with online services, and sanctions against online services that do not respond to administrative sanction orders. Similar measures are already in place in Taiwan, New Zealand and Chile. In other countries, such as the US, Australia and Singapore, OSPs must adopt and implement a policy of terminating repeat infringers' accounts as a condition on safe harbour protection.

An appropriately crafted 'graduated response' system provides not only a meaningful deterrent to P2P infringement, but also an effective way to stop it while maintaining user privacy and avoiding the need to go to court. The OSP's legal right to suspend or terminate accounts in circumstances of repeat or serious infringements is already specified in their agreements with users, and OSPs should be required to give this obligation real effect.

Other measures to address non-hosted online infringement, such as the implementation of technological measures at network level to prevent the unauthorised distribution of protected content, are also possible. Effective technologies to identify copyright content are available in the market and can be used by OSPs to assist in reducing online infringement.

II. THE SAFE HARBOUR REGIME SHOULD BE AMENDED TO MAKE IT EFFECTIVE

Division IIIA of the Bill creates a safe harbour regime which limits the potential liability of OSPs that meet a list of specified conditions. Although the conditions may be further detailed and expanded in a 'code of practice' issued by the Secretary for Commerce and Economic Development under Section 88I, a number of changes to the existing conditions are necessary.

a. The list of services that may qualify for the safe harbour protection should be narrowed.

The definition of "Online Service" in proposed section 88A includes 6 categories. Two of these categories appear to address the same type of service: subsection (a) refers to services offering *"transmission, routing or... connections"* and subsection (f) refers to services providing *"access to the Internet"*. It seems that both subsection (a) and (f) address 'mere conduit' services, i.e. services that provide users with internet access. To avoid duplication and confusion, we recommend merging these two subsections.

Also, subsection (e) of the definition covers "*application based services... such as social networking"*. To the extent that they are not already covered by the safe harbour for hosting services, there is no reason to exclude this category of service from the general liability regime under Hong Kong's law. No other country offers to social networks operators the benefits of a separate safe harbour protection. Social networks and other sites offering a platform for users to directly connect and share content, to the extent that their activities go beyond solely hosting, should be responsible for preventing abuse of their service for infringing activity.

b. One-off or periodic payments should be recognised as 'financial benefits' to the OSP.

One of the conditions for safe harbour protection is that the OSP does not receive a *"financial benefit directly attributable to the infringement"*. Referring to this condition, new subsection 88B(2)(b) states that *"one-off set up fees or flat periodic payments charged by the service provider"* shall not be considered as "financial benefits".

The requirement that the OSP does not benefit financially from the infringement is a key factor in determining safe harbour applicability. It is therefore important that there is no substantial carve out from the scope of this element. In today's online market, many infringing services (including all major cyberlockers) charge consumers monthly membership fees. It simply does not make sense to exclude these services from potential liability, especially when they not only directly profit from infringement but also offer heavy uploaders financial rewards for increased activity. Flat periodic payments, which are today charged by different illegal offerings, should be recognised as 'financial benefits' even if a payment is only made once. No other country explicitly carves out such payments from the scope of the term 'financial benefits' and we strongly recommend that the proposed subsection 88B(2)(b) is deleted, or further clarified so that the term "financial benefits" is left open for judicial interpretation. If subsection 88B(2)(b) remains unchanged, it will protect a large number of sites that profit from infringement from potential liability.

c. OSPs should be obliged to remove infringing content expeditiously.

While new section 88B provides that OSPs shall not be liable for damages if they meet the safe harbour conditions, new subsection 88D(2) states that the OSP "may" remove infringing material when it becomes aware of it. The word "may" suggests that the OSP does not have to take down infringing content. Also, the provision does not specify the required timing for the removal of the content.

If there is no affirmative obligation on OSPs to remove infringing content, there is no reason to offer them a limitation of their liability for damages. Safe harbour provisions in other countries require hosting services to expeditiously take down content when they become aware that an infringement is occurring. One critical element of any takedown procedure is that infringing content is taken down as quickly as possible by the OSP. This is because of the huge damage to the rightholder while the material remains publicly available for downloading, in particular in the case of pre-release recordings.

An obligation to expeditiously remove content is required for the safe harbours available under US law (Sec. 512(g)(2)(C) of the US Copyright Act), EU law (Article 14(1)(B) of the E-Commerce Directive, and EU Member States' domestic laws implementing this Directive), and other countries. Hong Kong should follow this approach.

III. THE LIST OF FACTORS FOR DETERMINING "AUTHORISATION LIABILITY" SHOULD BE EXPANDED

Four additional elements, which were previously proposed by CEDB but deleted from the current version of the Bill, should be added to the list of factors for determining "authorisation".

We welcome the clarification provided under section 22(1) as to what constitutes "authorisation". The amended provision will bring greater clarity to parties involved in online activities and assist the courts in deciding whether a party has authorised the direct infringement. However, we note that four important factors, which were originally proposed by the administration, were not included in the bill. These factors are:

(a) Whether that person knew or should have known of the infringement;
(b) Whether that person induced or encouraged the infringing act;
(c) Whether the equipment or other material supplied by that person constitutes the means used to infringe;
(d) Whether that person deliberately facilitated infringement.

These four factors have been previously taken into account in judicial decisions in Australia, the US and UK, and were consequently proposed by the administration for inclusion in the new law. We urge that they be re-inserted in the bill, to provide further clarity to the notion of "authorisation" and to assist the courts.

IV. THE EXCEPTION FOR TEMPORARY REPRODUCTION BY OSPS SHOULD ONLY BE INTRODUCED AS PART OF THE SAFE HARBOURS.

The proposed new exception in section 252A (and 65A for copyright works) should be part of the OSP safe harbours in section 88B-I, and should not be a stand-alone exception. It should limit liability for monetary relief, but leave open the possibility to obtain injunctions against OSPs that are involved in temporary reproduction.

In the US, under the EU E-Commerce Directive and in other countries' laws, providers of caching services may benefit from a limitation of their liability for monetary relief only if they meet a list of narrowly crafted conditions. This limitation is part of a safe harbour regime that is aimed at providing incentives for these services to take measures against infringement. The Bill includes, in section 88B the elements adopted under US, EU and other laws' safe harbour for caching services, but also offers an additional, stand-alone exception from any liability under section 252A. It is not part of the safe harbours in Division IIIA, and the relationship between this exception and the safe harbour is unclear. We recommend including section 252A under Division IIIA, and clarifying that an OSP that meets the conditions in this provision may benefit from a limitation of potential liability for damages.

V. NEW CRIMINAL OFFENCE AND NEW FACTORS FOR "PREJUDICIAL EFFECT"

We welcome the suggestion to provide a list of factors to determine a communication or distribution of the work to the public is made to such an extent as to affect prejudicially the copyright owner in a copyright offence under section 118(2AA) and section 118(8C) with the aim to criminalise the distribution of pre-released content. In fact, if someone is posting a link or forwarding such link of the leaked pre-released material online (i.e. the music track that is found being made available or distributed before its official release date), then it will cause tremendous loss to the right owners. The literal interpretation of the new section 118(2AA)(e) and section 118(8C)(e) may not be clearly regarded as the situation of distribution or making available of pre-released content. There is no doubt that distribution of pre-release content prejudicially affects rightholders, and that it would be good to reflect that in the bill or to be clarified by the administration.

VI. RIGHT OF COMMUNICATION TO THE PUBLIC

IFPI supports the introduction of a broad right of communication that is technologically neutral and covers all modes of electronic transmissions. However, there are two issues which need to be clarified in the proposed amendments.

a. Potential issues with the proposed communication right and the exemption of liability for accessing communications

Under new proposed amendments, communication of a work includes broadcasting of such work, but the proposed sections 28A(5)-(6) would exclude liability for people who do not determine the content of the communication when they gain access or receive communications. It appears that the language of the new right was taken from Copyright, Designs and Patents Act 1988 of the UK, while the exclusion follows the wording of Australian law under s22(6) of the Copyright Act 1968. This can create confusion when this provision is applied to a situation involving different aspects of the communication right. For instance, situation may arise where a website operator is providing a streaming function on its site to allow the public to get access to a sound broadcast channel. If the new amendment is adopted, this website operator's action may not constitute a communication, hence, no infringing activity will be found for the re-broadcasting of sound broadcast via the Internet (e.g. simulcasting). If this is not the intention of the administration to allow unauthorised source of sound or TV broadcast to be rebroadcast or simulcast via the internet or mobile platform, then it is suggested that section 28A should be carefully redrafted to avoid creating an unreasonable permitted act in the law.

b. Clarification is needed as to what constitutes communication to the public and the exclusion of liability for accessing communications

An example was given by the administration at the first Bills Committee meeting : a person is not initiating a communication by forwarding or posting a hyperlink to a copyrighted file made available by someone else, as he has no control over the content of that file. This example embeds a fallacy because it assumes that someone has no control over the content when he merely posts a hyperlink to a copyrighted material made available by someone. In fact, many forum users may use different cyber identities or work with other accomplices to post infringing contents on third party 'file hosting' services such as cyberlocker or video locker sites and then post the links to these infringing contents on a social network, forum or blogs to conduct infringing activities.

Actually, it is the legislative intention for section 22(6) of the Copyright Act 1968 of Australia (similar to the proposed section 28A(5)) that a person who merely accesses or browses material online is not considered to be responsible for determining the content of the communication and, therefore, is not the maker of the communication for the purposes of the communication right. An example is given in an explanatory note to the section 22(6) of the Copyright Act 1968 of Australia in which a person does not determine the content of material by merely doing

the technical process necessary to receive a communication, e.g., by clicking on a hyperlink.[2] This interpretation is contrary to the explanation provided by the administration. In order to avoid confusion and ensure that the new section 28(5)-(6) do not provide an unwarranted protection for infringing activity, we recommend clarifying the position given by the administration.

VII. THE PRIVATE COPYING EXCEPTION SHOULD BE FURTHER CLARIFIED BY EXPRESSLY EXCLUDING COPIES MADE FROM ONLINE BROADCASTS.

The proposed private copying exception under section 76A includes a number of important elements. We welcome the restriction of the exception to one copy only, made for private purposes by the lawful owner of an original copy. We recommend, however, clarifying that the exception does not apply when copies are made from online transmissions. Under Australian law, the format shifting exception (section 109A of the 1968 Copyright Act) does not cover copies made "by downloading over the internet a digital recording of a radio broadcast or similar program". The purpose of this language is to exclude from the scope of the exception the making of digital recordings from online transmission such as 'podcasts'.[3] This exclusion helps ensure the commercial value of podcasts and similar online transmissions, and prevents unauthorised stream ripping. We recommend that a similar carve-out from the scope of the format shifting exception be introduced in the Bill.

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[2] Copyright Amendment Bill 2006, Explanatory Memorandum (House of Representatives, Parliament of the Commonwealth of Australia) at p130 (Source: http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=%28Id:legislation/billhome/r2640%29;rec=0).

[3] Copyright Amendment Bill 2006, Explanatory Memorandum (House of Representatives, Parliament of the Commonwealth of Australia), at pg 105.

Annex B

representing the recording industry worldwide

IFPI Comments on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong

October 2013

INTRODUCTION

IFPI represents the recording industry worldwide, with a membership comprising some 1300 record companies in 66 countries and affiliated industry associations in 55 countries. Our membership includes the major multinational recording companies and hundreds of independent record companies, large and small, located throughout the world, including in Hong Kong.

In 2011, the Government of Hong Kong introduced a bill to the Legislative Council to update the Hong Kong Copyright Ordinance (Cap. 528) (the "Bill"). It seeks to introduce, amongst other matters, a technology-neutral communication right to better protect copyright works in the digital environment and provisions for limitations on liability of service providers. Generally speaking, the Bill represents an important step toward aligning the copyright laws of Hong Kong with recent rapid technological advancements. IFPI participated actively in the consultation of the Bill and submitted our comments in July 2011. Unfortunately, due to concerns of some parts of the public regarding parody, satire and exceptions on usage of copyright works, the Bill never reached a Second Reading Debate in 2012 and has been put on hold since then.

We are pleased to note that the Government is now consulting the public on the treatment of parody under the copyright regime (the "Consultation") to determine how to address some of the public's concerns on this issue which will facilitate the re-introduction of an amended Bill that will update the copyright regime in Hong Kong.

The Consultation is proposing three options to deal with parody, namely:-

Option 1: clarifying the existing general provisions for criminal sanction;
Option 2: introducing a specific criminal exemption for parody; and
Option 3: introducing a fair dealing exception for parody.

Further, the Consultation invites views on the following questions:-

(a) whether the application of criminal sanction of copyright infringement should be clarified under the existing copyright regime in view of the current use of parody;

(b) whether a new criminal exemption or copyright exception for parody or other similar purposes should be introduced into the Copyright Ordinance;

(c) if a new criminal exemption or copyright exception for parody is to be introduced, what should be the scope of and the appropriate qualifying conditions or limitations for such a criminal exemption or copyright exception; and

(d) whether moral rights for authors and directors should be maintained notwithstanding any special treatment of parody in the copyright regime.

EXECUTIVE SUMMARY

IFPI's starting position is that the existing copyright regime in Hong Kong already provides adequate exceptions to allow reasonable use of copyright works for certain purposes, including parody. For instance, fair dealing with copyright works for the purposes of education, research, private study, reporting current events, criticism or review is permitted. Parodies that are created for the aforesaid purposes and satisfy the prescribed conditions will fall within the ambit of the permitted acts. Moreover, if the parody works only incorporate the idea or copy an insubstantial part of the underlying works, they will not constitute infringement. There does not seem to be any evidence that a fresh parody exception is justified or necessary. Having said that, if an exception for parody is to be introduced into the law, we believe its scope must be clearly and narrowly defined, the moral and economic rights of the original creator must be fully respected, and it must comply with Articles 13 and 61 of the TRIPS Agreement.

On such basis, IFPI supports Option 1, but opposes Option 2. For Option 3, we do not object to a fair dealing exception for parody (subject to certain qualifying conditions), but we oppose extending such an exception to satire or other works that do not comment on the underlying work. We set out below our detailed comments in response to the Government's questions.

WHETHER APPLICATION OF CRIMINAL SANCTION SHOULD BE CLARIFIED

We are aware that certain parts of the Hong Kong public, in our view, a minority but vocal number of mainly internet users, have expressed concern as to whether the provisions for criminal sanction under the proposed section 118(8B) of the Bill would render the non-commercial dissemination of parody works online criminally liable. Some were even concerned that the existing provisions for criminal sanction under section 118(1)(g) of the Copyright Ordinance may already catch the non-commercial distribution of parody works.

Since we do not believe that the Bill or the existing law targets parody, and in order to alleviate such concerns, we agree that the application of criminal sanction of copyright infringement may be clarified under the existing copyright regime in the light of the current use and treatment of parody.

In cases where the distribution or communication of an infringing copy of the work to the public is not for the purpose of or in the course of any trade or business, it would constitute an offence only if the distribution or communication is to "such an extent as to affect

prejudicially the copyright owner". As such, Option 1 suggests that provisions be added (i.e. Section 118(2AA), Section 118(8B) and (8C)) to clarify what factors the court may take into account in determining whether any distribution or communication is made to that extent. The proposed provision states that the court may take into account all the circumstances of the case and in particular, whether "more than trivial economic prejudice" is caused to the copyright owner as a consequence of the distribution/communication, having regard to, amongst others, the nature of the work including its commercial value (if any), the mode and scale of distribution/communication, and whether the infringing copy amounts to a substitution for the work.

In fact, in 2011 we already supported the Government's original proposed formulation of provisions under section 118(2AA) and section 118(8C) of the Bill to clarify what factors the court may take into account in determining whether any distribution or communication is made to "such an extent as to affect prejudicially the copyright owner". We believe the new formulation proposed in the Consultation may better capture what the court should consider. We believe it is very clear from the proposed provisions that parody works which do not adversely affect the legitimate market of the underlying copyright works would not be criminally liable as they should not cause "more than trivial economic prejudice" to the copyright owner. This should alleviate the concerns of most internet users or parodists who are merely disseminating parody works which are not in substitution of the underlying work and have not prejudiced the market for the underlying work.

On the other hand, if a work is in fact an adaptation of the underlying copyright work which will be competing with or diverting sales or economic benefit from the underlying copyright work, then more than trivial economic prejudice will be caused to the copyright owner and such work should fall within the ambit of criminal liability.

With the scope of criminal liability clarified, we believe that the users or genuine parodists who are not adapting or copying a work for economic benefit or to displace the market of the underlying work will not have to worry about being caught by the criminal provisions. We also welcome the greater certainty in the law that will result from such clarification.

WHETHER A NEW CRIMINAL EXEMPTION OR COPYRIGHT EXCEPTION FOR PARODY SHOULD BE INTRODUCED AND WHAT SHOULD BE THE APPROPRIATE QUALIFYING CONDITIONS

In considering whether to introduce any new exception, the Government needs to carefully consider the objectives and effects of such exception with solid evidence and justification. Strong evidence of a problem should be available before a new exception should be considered as it is extremely easy for the delicate balance between protection and permitted uses which has been calibrated over many years to be upset. IFPI does not believe that the Consultation has presented sufficient evidence to justify or necessitate a new general exception for parody.

On the contrary (as explained in the Executive Summary above and in the Consultation paper), there are already a number of copyright exceptions or permitted acts under the existing legal framework, and parody works that only incorporate an idea or insubstantial

part of the underlying work will not constitute any infringement; hence, an express new exemption is superfluous. We believe there are already sufficient safeguards to protect the creativity of parodists and the reasonable dissemination of their works.

In considering whether to proceed with a criminal exemption or copyright exception for parody, the Government must ensure that it complies with Article 61 of the TRIPS Agreement, which obligates members (including Hong Kong) to provide for criminal procedures and penalties at least in cases of wilful counterfeiting or copyright piracy of a commercial scale. Furthermore, an exception would have to comply with the Three-Step Test established under Article 13 of the TRIPS Agreement and Article 16 of the WPPT ("Three-Step Test"), namely that any exceptions and limitations:-

(i) Shall only apply to certain special cases – this requires that an exception should be clearly defined and narrow in its scope;

(ii) Do not conflict with the normal exploitation of the work; and

(iii) Do not unreasonably prejudice the legitimate interest of the rights holder.

These three conditions apply on a cumulative basis, each being a separate and independent requirement that must be satisfied. Failure to comply with any one of the three conditions results in a failure to comply with the Three-Step Test and the exception should be disallowed.

Criminal Exemption

On this basis, the proposed provision under Option 2 is too general in scope. There is nothing inherent about parody alone that should justify a specific criminal exemption. Article 61 of the TRIPS Agreement requires that there should be criminal procedures and penalties in place at least in cases of copyright piracy of a commercial scale, and this applies to all forms of uses of copyright works, including parody.

As discussed above, the existing law has already provided sufficient safeguards to protect the creativity of parodists and the reasonable dissemination of their works. In any event, the circumstances under which a criminal prosecution for copyright infringement might be brought when the offending work is a parody will be rare, if they will ever occur at all. But if a parody were to supplant the legitimate market for a work, there is no reason why criminal remedies should not be available. Accordingly, we do not see why a specific criminal exemption is necessary in the circumstances.

A criminal exemption for parody will also likely fail the Three-Step Test as it is too wide in scope, not even requiring the dealing of the work to be fair. Such an exemption may open the floodgates for the distribution of purported parody works for various purposes, including commercial purposes, taking advantage of the fact that rights holders are unlikely to take civil actions due to the time and high costs involved in bringing litigations. As a result, the legitimate interest of the rights holder will be unreasonably eroded.

All in all, IFPI opposes a specific criminal exemption for parody under Option 2.

Fair dealing exception

On the other hand, IFPI does not object to a fair dealing exception for parody (subject to certain qualifying conditions), but we oppose extending such an exception to satire or other works that do not comment on the underlying work.

The permitted purpose to be covered by the fair dealing exception should be "parody", meaning that the parody concerned would have to be a parody of the underlying work that it uses, as opposed to using that work as a vehicle to make an unrelated comment or to criticise or make fun of something else. The latter would be more akin to "satire" or "weapon parody", providing an exception for which may mean condoning the copying of an existing work simply to "get attention or to avoid the drudgery in working up something fresh"[1]. As such, "satire" or "weapon parody" is less likely to be conducive to promoting creativity in the society. Thus, as a matter of principle IFPI believes that any fair dealing exception for parody should be narrowly drafted and cover only those parodies that in fact are in some fashion criticising or commenting on the work that is the subject of the parody. If one wants to write a parody of, for instance, "Gone with the Wind", in order to draw attention to what one believes to be its antediluvian point of view or its stilted style, the need to use some of the expression from the original work is understandable. But if one wants to use the same work in a satire attacking a particular political figure or to mock a particular event, the justification for using that particular work as opposed to some work in the public domain or some work for which one can obtain a licence, or even creating an original work, is not apparent.

Furthermore, the notion of "pastiche" should not be included in the exception as it implies using the underlying work to create another work without adequate rights to do so. According to the Oxford English Dictionary, "pastiche" is "an artistic work in a style that imitates that of another work, artist, or period". Such imitation is akin to the common law tort of "passing off", which should not be included in the exception. While one can at least discern an understandable purpose in creating a parody, pastiche implies no requirement that the copyright work be used as a starting point for commentary either on the work itself or on issues of the day. Of course, a pastiche that does nothing more than imitate the style of another work, but without taking substantial original expression from that work, would not be infringing in the first place.

We note that the Government further raised the question whether the exemption should instead cover a more specific formulation such as "commentary on current events, social, economic or political issue", and in the Government's proposed provision the formulation does not require such commentary to be a parody or humorous. However, bearing in mind that the intent of any parody work must be to provoke humour or comic effect, or to critique a work, the said exception formulation for commentary cannot stand on its own. The arguments above against "satire" also apply to this case. In short, while taking

[1] *Campbell v Acuff-Ross Music, Inc.* 510 U.S. 569 114 S. Ct. 1164 at p.580 (1994)

expression from a work in order to make a parody of that work may be justified since it is difficult to parody a work without using some of its expression (although no more than necessary), that justification is absent when the only purpose in using a work is to express comments on current events, social, economic or political issues that have nothing to do with the work that is being used.

If a fair dealing exception for parody is to be introduced then we suggest that such an exception must only apply where the parody work:-

(a) comments on the original underlying work;

(b) has humorous or critical intent;

(c) acknowledges directly or indirectly the source of the original work;

(d) is non-commercial and distribution/communication is not for the purpose of, or in the course of, any trade or business;

(e) has no adverse effect on the market of the original underlying work or causes no more than trivial economic prejudice to the copyright owner;

(f) uses only as much of the underlying works as is necessary[2] to convey the parodic message;

(g) is an original work in itself[3];

(h) is sufficiently distinguishable from the underlying work so there will be no risk of confusion; and

(i) is not a straightforward lift of the underlying work.

The above qualifying conditions are necessary in order to strike a balance between the interests of users and rights holders, as well as to comply with the TRIPS Agreement.

As discussed in detail above, there is no reason why one needs to use any particular work in order to comment on something entirely separate from that work. The Three-Step Test requires that any exception must only apply to certain special cases, whereas we believe "satire" should normally not be exempted[4] as it is a much broader concept involving use of

[2] In the UK cases *Schweppes Ltd. And Others v Wellingtons Ltd* and *Williamson Music Ltd v Pearson Partnership Ltd*, the court held that where a substantial part of the plaintiff's work is reproduced without license, copyright is infringed despite it is a parody. Parody exceptions in many countries include a requirement that no more of the original work be taken than is necessary. For example, in Germany the Courts have held that as a threshold for consideration to come within the free use exception that work must not have borrowed any more from the original work that is necessary and in France the Courts have held there is a requirement that the parody "not exploit the fame of the original". Also see Norway where section 22, Norwegian Copyright Act 1961 states: *"An issued work may be quoted, in accordance with proper usage and to the extent necessary to achieve the desired purpose" and Finland where s*ection 22 of its Copyright Act 2010 states: *"A work made public may be quoted, in accordance with proper usage to the extent necessary for the purpose."* Luxembourg law similarly states in Art. 10 (6) of the Law of April 18, 2001 on Copyright, Neighbouring Rights and Databases as amended by Law of April 18, 2004 that "Once a work has been lawfully published, its author may not prohibit (…) caricature, parody and pastiche, which are intended to 'make fun' of the parodied work on condition that fair practice is observed and in particular that they only use strictly necessary elements and do not debase the parodied work.'"

[3] For example, in Germany permitted parodies must reflect a transformative inner distance between the original and the parody.

[4] Even under the liberal US law of fair use, courts tends to consider "satire" as a separate category and are less inclined to consider it a fair use. See *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 580-81 (1994) ("Parody needs to mimic an original

an underlying work as a vehicle to make an unrelated comment to critique society or something else. Therefore, any fair dealing exception to be introduced must be limited to those commenting on the underlying work itself. In other words, only fair dealing for the purpose of "parody" should be permitted, but not satire, pastiche or (to the extent that it goes beyond parody) caricature.

As Article 61 of the TRIPS Agreement provides that criminal procedures and penalties must be provided for in cases of copyright piracy on a commercial scale, and the Three-Step Test requires that any exception must not conflict with the normal exploitation of the work, if the parody is for commercial purposes, the distribution/communication of the parody work is for the purpose of or in the course of any trade or business, or adversely affects the market of the underlying work, it must not be exempted.

In order not to conflict with the normal exploitation of the work and not to unreasonably prejudice the legitimate interests of the rights holder, as is required under the Three-Step Test, the parody work should not excessively copy the underlying work, but should only use so much as is necessary to achieve its purpose. Moreover, it should not be a mere lift or adaptation of the underlying work, as otherwise it would infringe on the rights holder's adaptation right. If the parody work is too similar to the underlying work, there will be a risk of confusion such that may give rise to an action in passing off. The work may also impact negatively on sales of the original work and/or deprive the rights holder of licensing income.

In fact, if the purpose of introducing a fair dealing exception for parody is to nourish and protect the creativity of parodists, then it is crucial that sufficient safeguards should be put in place – such as the conditions set out above. These conditions would not hinder creativity as their purpose is precisely to ensure that the parody work is an original, creative work rather than a product of blindly copying from existing works.

Definition

IFPI believes that it would be ideal for the Government to provide a statutory definition for parody in order to create legal certainty and provide useful guidance to the court as well as the copyright owners and users. In particular, the definition should make it clear that parody refers to commenting on the underlying work itself (and not making an unrelated comment on something else), being an imitation of the style or expression of the underlying work with deliberate exaggeration for comic effect. It is in the interests of both the rights holders and users to know what parody means under Hong Kong law, so they may have more certainty as to what is or is not permitted before they resort to costly and lengthy litigation, and to arrange for proper licences if required.

WHETHER MORAL RIGHTS SHOULD BE MAINTAINED

We believe that moral rights for authors, directors as well as performers should be maintained notwithstanding any special treatment of parody in the copyright regime. As discussed above, the right of integrity must be maintained as it offers the most fundamental

to make its point, and so has some claim to use the creation of its victim's (or collective victims') imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.").

respect to creators and performers. In fact, such right encourages creativity and innovation as creators and performers may publish their works without fear that their works or performances will be abused or mutilated after they are made available to the public.

For the right of attribution, however, we understand that it may not always be appropriate to require that the author or performer be expressly identified in a parody work. That said, we believe that the parody work should at least implicitly acknowledge the underlying work, for if the audience is unable to ascertain the object of mockery or criticism, there would be no parody at all, or the parody is unsuccessful. As such, sufficient acknowledgement of the underlying work should be given, but it can be implicit in the case of parody, i.e. a connection can be formed in the mind of the audience. Alternatively, a qualification may be given so that sufficient acknowledgement should be given "if it is reasonable in the circumstances to do so".

As such, any exception for parody must be subject to the author's and performers' moral rights.

CONCLUSION

Based on the above submissions, we support Option 1 in the Government's proposal. Option 2 is not acceptable to us. We do not object to Option 3 provided that it is limited to "parody" only and appropriate safeguards and qualifying conditions are put in place as suggested above.

We stand ready to assist the Government with further information on any of the above points.

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Annex C

representing the recording industry worldwide

IFPI Supplementary Comments on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong

November 2013

INTRODUCTION

IFPI submitted its comments on the consultation regarding the treatment of parody under the Hong Kong copyright regime in October 2013. Since then, we have become aware that certain interest groups have proposed a so-called "User-Generated Content exception" ("the proposed UGC exception"). In light of this, IFPI considers it necessary to submit supplementary comments on the topic of UGC.

As a preliminary point, IFPI would like to record its objection to the proposal to add the topic of UGC to the subject matter of the consultation. The original consultation documents, as well as the discussions leading up to it, laid out the subject matter of this inquiry and stakeholders prepared their responses accordingly. The subject of the current consultation is the treatment of parody; the proposed UGC exception is not related to the treatment of parody at all and is outside of the scope of this consultation. If UGC may be added into the consultation, IFPI would like also to include a number of other copyright reform proposals which in our view are crucial to the development of the creative industries in Hong Kong. Despite this, IFPI is now nevertheless submitting a response on the merits, or lack thereof, of the issue of UGC.

BACKGROUND

Our understanding is that the proposed UGC exception is based on the exception contained in Canada's Copyright Act[1]. Under Canadian law, it is not an infringement of copyright for an individual to use an existing work in the creation of a new work and for the individual to use the new work or to authorize an intermediary to disseminate it, provided that:-

(a) the use of, or the authorisation to disseminate, the new work is done solely for non-commercial purposes;

(b) the source of the existing work is mentioned, if it is reasonable in the circumstances to do so;

(c) the individual had reasonable grounds to believe that the existing work was not infringing copyright; and

(d) the use of, or the authorisation to disseminate, the new work does not have a substantial adverse effect, financial or otherwise, on the exploitation or potential exploitation of the existing work or on an existing or potential market for it, including that the new work is not a substitute for the existing one.

[1] Section 29.21 Canadian Copyright Act R.S.C., 1985, c. C-42

From the information available to us at this time (press coverage and online submissions), it appears that the proposed UGC exception omits at least conditions (b) and (c) above. It is a view shared by many commentators, IFPI included, that the Canadian exception breaches the Three-Step Test laid down under the TRIPS Agreement and to which Hong Kong is bound[2]. Since the proposed UGC exception would be much broader in scope than the Canadian law, it appears inevitable that it will also breach the Three-Step Test.

We note that a certain interest group supporting the proposed UGC exception argues that if the Canadian exception violates the Three-Step Test, then the WTO would have already filed a complaint. This assertion is incorrect as the WTO itself cannot file a complaint. Only another WTO member can file a complaint, and that member must show that it (or its citizens) has been harmed by the Canadian exception. That said, the Canadian exception has only been in place for one year, and its scope of application and other details as to how it works have yet to be determined. Furthermore, we are not aware of any cases concerning the exception having been taken in the domestic Canadian courts. This is significant as rightholders would first have to pursue remedies in domestic courts *before* asking their governments to seek a remedy in the WTO (since they would have to show that the Canadian law has left them without an adequate remedy). In the circumstances, it is much too early to evaluate the real-world effect of the Canadian exception. Therefore the fact that no WTO complaint has yet been filed is not determinative in any way. On the contrary, given that the Canadian exception is still at its very early stage of implementation, it would be surprising if one had been filed by now.

EXECUTIVE SUMMARY

IFPI strongly opposes an exception for UGC which would permit use of a copyright work without the express consent from, or provision of fair compensation to, the relevant right holder(s). Proponents who claim UGC does no harm where it is "non-commercial" ignore the practical reality that this material is, in the vast majority of cases, posted to commercial platforms which then derive revenue from it in some way. Furthermore, even non-commercial dissemination to the public can cause harm to the market of the original work.

The fact is that dissemination of UGC – whether it's directly or indirectly commercial – is unacceptable because it appropriates the creative work of another person without his/her consent and is likely to adversely affect the market for the original work. A UGC exception cuts across fundamental legal protections traditionally afforded content creators for both their copyright and moral rights in respect of both their original works and derivative works created from such original works. Furthermore, a UGC exception benefits the UGC platforms while cutting out right holders. As discussed in our October submission, existing exceptions in combination with the Three-Step Test provide the proper balanced copyright framework – any use beyond that should be covered by the applicable exclusive rights and subject to the requirement to obtain appropriate licenses.

USER-GENERATED CONTENT

When speaking about "user-generated content" or "UGC", it is important to define exactly what is meant as the term is used to describe very disparate things and one of the problems with discussions in this area is the lack of understanding as to the actual subject matter of the term.

[2] Article 13 of the TRIPS agreement reads as follows: "Members [that is Members of the WTO] shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder."

The term "User-Generated Content" or "UGC" for example is often used incorrectly to refer to content that is not user generated in any way but rather user-reproduced and user-disseminated and therefore amounts to a clear infringement of copyright.

Generally though, UGC is understood to involve the use of an existing copyright work (or works), in the creation of new or derivative works, where the "user" requires the license of the owner of the original underlying work in order to avoid infringing copyright. This UGC focuses heavily on music and we assume that it is only this UGC that is the subject of the proposed UGC exception.

Another type of material is sometimes confusingly referred to as UGC. This is content created by consumers independently and without incorporating any pre-existing content created by others; such content may include blogs and wholly original texts and music. Of course, for this material, there is no requirement for any particular exception as, assuming it to be original content, such material can avail itself of copyright protection in the same manner as any other work and its creation and dissemination do not require the permission of anyone else.

In the premises, when we refer to UGC in our submission, we are only talking about the first type of content referred to above.

GENERAL UGC EXCEPTION WILL FAIL THREE-STEP TEST

It is imperative that any changes to legislation are considered in light of Hong Kong's international obligations and in this respect the Three Step Test set out under TRIPS must be an integral factor in the consideration of the introduction of any additional exceptions under Hong Kong's copyright law. The proposed UGC exception (as we understand it) will fail this test.

First, the exception (as we understand it is proposed) cannot be considered a "special case" as it would, in effect, introduce a blanket permission to reproduce, adapt or create derivative works from copyright works, for instance by taking substantial part of a sound recording and incorporating it into a video with altered lyrics or with new audio-visual material. According to the WTO decision in the Irish Music case, the term "special" connotes, amongst others, "exceptional in quality or degree; unusual; out of the ordinary" or "distinctive in some way", and it should not lightly be equated with "special purpose".[3] This first test therefore requires that a limitation or exception should be clearly defined and should be narrow in its scope and reach[4]. It is extremely improbable that the proposed UGC exception would pass the first test.

Second, it is highly likely that the normal exploitation of a work would be adversely affected by the use of it in another work. There will be an almost total loss of control by right holders over how their work is being used as anyone would be permitted to use derivatives of any copyright work, including translations, adaptations, synchronizations and the like. In fact, right holders will even lose the ability to prevent use of their works from damaging their reputation or brand image.

Although one of the conditions under the proposed UGC exception is that the new work should not cause "substantial adverse effect" to the market for the original work, such a condition is highly subjective, hard to define and in any case violates the Three-Step Test since that test only requires

[3] 6.109, 6.111, 6.112, Report of the Panel on United States – Section 110(5) of the US Copyright Act, WT/DS160/R

[4] Ibid. See also WIPO's Guide to the Copyright & Related Rights Treaties Administered by WIPO & Glossary of Copyright & Related Terms, WIPO 2013 where in respect of the first step "certain special case" is defined as meaning "that the use covered must be specific – precisely and narrowly determined – and that no broadly-determined cases are acceptable".

that the use "does not conflict with a normal exploitation of the work". The threshold of "substantial adverse effect" is considerably higher than the Three-Step Test's threshold.

Thousands of works are currently subject to licences to platforms such as YouTube, who pay royalties to the rightholders of the copyright works in question, in order to allow them to make these works, including UGC, available to the public. These platforms would not need to obtain a licence or pay royalties for the use of those works in Hong Kong (but not so outside Hong Kong) if the proposed UGC exception is enacted here. Furthermore, even if the commercial platforms do not benefit from the UGC exception, the ability of the user-creators to disseminate their "creations" to the public online, for instance through their own websites, undercuts the value to platforms (such as YouTube) of licences since members of the public may go to the websites created by users – or even to non-commercial websites created by users in order to aggregate UGC – rather than to the licensed platforms. There is therefore no question at all that UGC disseminated on platforms (commercial or otherwise) has the potential to adversely affect the market for the work.

Third, such an exception would clearly prejudice the legitimate interests of the right holders in that they will lose their right to be rewarded for the use of their works.

Examples of what the proposed UGC exception would allow (assuming carried out on a non-commercial basis) is:

- Translation of a work from English to Chinese (thereby undercutting the original copyright owner's ability to license (and receive royalties from) a translation.
- Making a motion picture based on a novel (depriving the original copyright owner of the ability to decide who will be able to produce the film version and to receive royalties from the proceeds of the film).
- Writing a sequel to another author's novel – e.g., an unauthorised new Harry Potter novel.

Whilst no doubt proponents of the proposed UGC exception will make much of the fact that the derivative work must be non-commercial, one could well imagine a non-commercial translation, a non-commercial film or a non-commercial novel which nonetheless inevitably reduces the author's or copyright owner's revenues from the work. If members of the public can obtain a derivative work for free from a non-commercial source, they are likely to do so rather than pay the price for an authorised commercial version.

UGC EXCEPTION WILL CREATE OWNERSHIP ISSUES AND ADVERSELY AFFECT MORAL RIGHTS

Ownership Issues

Under the current regime, a right holder's consent or licence is required in order to create and use any derivative works, and the ownership of such derivative works is clearly delineated in the agreement between the parties. Whilst it is conceivable that, with a sufficient degree of skill, judgement and labour expended in the creation of a new work, the latter may become a protectable copyright work itself, the fact remains that if a substantial part of the expression of the first work was copied without consent, the new work will nevertheless constitute an infringing work. That is longstanding, black-letter copyright law.

If the proposed UGC exception is introduced, rightholders will be deprived of the right to take legal action for copyright infringement even if a substantial part of the first work is reproduced. The proposed exception would effectively destroy the right of the copyright owner to make and license derivative works, one of the fundamental rights of copyright owners.

A related issue that would arise would be the ownership of the new "UGC" work. That is, it is unclear whether the right holder of the first work will be an owner or co-owner of the copyright (if any) in the new UGC work as no agreement will be in place to delineate such rights. A further complication will arise if a third party copies, adapts or otherwise exploits the new work, as both the original right holder and the creator of the new work may claim to be entitled to licence fees, and both may sue for infringement. The proposed UGC exception fails to take into account such complicated issues and will therefore lead to much uncertainty.

Moral Rights

The proposed UGC exception would permit the "mash-up" of video clips and music for non-commercial use. We are aware that there are numerous examples of "mash-up" works in Hong Kong which copy or adapt certain musical works, sound recordings or posters in order to attack or smear an artist or a musical work. Such "mash-up" works are offensive and prejudicial to the reputation of the author or artist, and would, in our view, constitute derogatory treatment.

At present, the law protects against such users: Under section 92 of the Copyright Ordinance, the author of a literary, dramatic, musical or artistic work has the right not to have his work subjected to derogatory treatment. A performer of a live aural performance or a performer whose performance is fixed in a sound recording also has the right not to have his performance subjected to derogatory treatment under section 272E of the Copyright Ordinance. A treatment is derogatory if it amounts to distortion, mutilation or other modification that is prejudicial to the honour or reputation of the author or performer.

A UGC exception would remove these protections and this would inevitably have a negative effect on the moral right of integrity of the copyright work or the performance in a recording. The proposed UGC exception fails to address how the authors' and performers' right of integrity can be protected. It would also lead to contravention of Hong Kong's obligations under the relevant international copyright treaties.

COMMERCIAL NATURE OF UGC PLATFORMS

Although the proposed UGC exception requires that the use of the new work is solely for non-commercial purposes, seemingly non-commercial UGC is often posted to commercial platforms which derive revenue from it. For instance, a family video posted on YouTube that incorporates a musical sound recording is in fact using a commercial vehicle (i.e. YouTube) to disseminate that video to the public. While the family in this instance may not be engaging in any commercial activity, YouTube is certainly being compensated as its business model relies on UGC being posted to its website and on the advertising revenues that it receives every time somebody views a video on YouTube. The result is that the proposed UGC exception would create a loophole in the law whereby such platforms will be able exploit and generate substantial profits from seemingly "non-commercial" UGC, whilst rightholders are cut out and deprived of legitimate income.

EXISTING LICENSING ARRANGEMENT IS ADEQUATE AND EFFECTIVE

For some time now, a number of UGC platforms have been licensed to make UGC available and have paid royalties to the owners of underlying rights. Record companies in particular have been at the forefront of this progression in licensing, having licensed YouTube and other UGC platforms to make available UGC that incorporates (in whole or in part) their sound recordings and videos in consideration of certain remuneration and subject to other commercial terms. Thus, creators of

UGC who use licensed platforms to make their UGC available to the public have been able to take advantage of these licences.

While UGC incorporating a substantial part of pre-existing musical work, sound recording or cinematographic work (even if new elements are added) is obviously infringing copyright, record companies and other rightholders have chosen to license such activity rather than oppose it. This type of licensing arrangement results in a win-win situation for everyone. As such, there is already an effective way to resolve the alleged problem. There is no need for the introduction of a specific UGC exception which would seriously undermine the above commercial activities.

We understand that members of the various interest groups in Hong Kong which are behind the UGC proposal are not, to the extent they are aware of its existence, mollified by the UGC licence scheme described above as they object to the fact that rightholders retain the ability to require that particular items of UGC be taken down.

In respect of this criticism we note that except in cases where there are legal risks for the rightholders or where the rightholders or authors/performers consider the particular UGC to be offensive or otherwise objectionable and do not wish to be associated with it, only a very small percentage of UGC is taken down. For example, record companies have required that video tributes to Adolph Hitler that include popular sound recordings as their soundtracks be taken down. To the extent that those supporting the proposed UGC exception may consider that the existing licensing scheme is being abused by rightholders, then they have the onus of showing that this is the case.

THE FREEDOM OF SPEECH ARGUMENT

We understand that those proposing the UGC exception are arguing that copyright impedes freedom of expression specifically with respect to the derivative work/adaptation right. We strongly disagree with this assertion and indeed would argue that, on the contrary, copyright, far from impeding free speech, is compatible with free speech principles and, in fact, is the "engine of free expression". As the US Supreme Court has held, by establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas.[5]

Freedom of expression is, of course, a right protected by the Basic Law of Hong Kong[6]. However, the Basic Law also provides that Hong Kong residents shall enjoy other rights safeguarded by the laws of Hong Kong[7], which obviously include copyright protected under the Copyright Ordinance, and it further enshrines the freedoms and rights contained in the International Covenant on Economic, Social and Cultural Rights which includes the right of an author to the protection of the moral and material interests resulting from his literary or artistic productions.[8] As such, freedom of speech is not an absolute right and it must be balanced against other rights.

In any event, one must understand that freedom of expression is the freedom to utter one's own words. It is not the freedom for one to utter or copy another's words. If someone is to create an

[5] *Eric Eldred, et al. v. John Ashcroft, Attorney General*, 537 U.S. 186 (2003) pp 28 – 29 approving of the observation made in *Harper & Row v. Nation Enterprises* 471 U.S. 539 (1985).

[6] Article 27, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China.

[7] Article 38, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China.

[8] Article 39, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China implementing article 15 of the International Covenant on Economic, Social and Cultural Rights.

original work and make his or her own expression, they are welcomed to do so and will be protected under the law. However, it is going much too far to say that freedom of expression protects the taking or adaptation of another one's work without consent.

CONCLUSION

On the basis of all of the above, IFPI strongly opposes the introduction of the UGC exception currently proposed by the relevant interest groups in Hong Kong.

The proposed UGC exception will upset the delicate balance between copyright protection and permitted uses which has been calibrated over many years. There is simply no justification to introduce such a drastic change to the copyright regime when the existing law as well as the commercial arrangement between right holders and UGC platforms are working so effectively.

We stand ready to assist the Government with further information on any of the above points.

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