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June 5, 2006

Ms Sharon Chan
Clerk, Bills Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong SAR

Dear Ms. Chan,

**Re: Comments by the American Chamber of Commerce on the Copyright
(Amendment) Bill 2006**

The Chamber would like to submit its views on the Copyright (Amendment) Bill 2006 (“**Copyright Bill**”) published on 16 March 2006. This submission supplements the concerns and views raised in our submission on the public consultation document on review of certain provisions of the Copyright Ordinance.

Similarly, we do not comment on each suggested provision in the Copyright Bill but instead have focused on a number of the core issues raised in the Bill.

Proposed Introduction of General Fair Use Defense

(Section 12 – “Fair dealing for purposes of giving or receiving instructions”).

(Section 14 – Recording by education establishments of broadcasts and cable programmes).

(Section 16 – “Fair dealing for purposes of public administration”).

We welcome the Government’s decision not to bring in a general fair use defense into the copyright regime in Hong Kong. We believe that maintaining the current exhaustive approach of listing all copyright exempted acts within the Copyright Ordinance is the best approach based on Hong Kong’s legislative framework and the nature of the piracy problem in the territory.

However, we have concerns regarding the new fair dealing provisions proposed by the Copyright Bill. In particular, the Chamber opposes the introduction of a general fair use exemption for education and public administration. We believe that such exemptions will create a risk of exacerbating the serious problem of piracy in Hong Kong and confusing the public on the boundaries of the law. Further, we are not aware of any legal cases where either educators or public administrators have been exposed to the risk of “inappropriate” enforcement action, which would support the introduction of a general fair use exemption for these sectors.

(1) ***Education exemption***: We are concerned that proposed introduction of a general fair use exemption for purposes related to education - as currently drafted could be used as an

excuse or may encourage the use of pirated works in situations described below.

There is a need to address the already serious piracy problem in Hong Kong through legislative amendments and public awareness. It is extremely important that public awareness and respect for intellectual property rights involves the education community. Both teachers and pupils alike are important pillars of Hong Kong's knowledge-based economy. Particularly as academic versions and licenses for certain copyright works have been specifically developed by copyright owners for education purposes, we find it difficult to see the justification for an express and blanket exemption where those products and licenses are available. As such, we believe the provisions for the fair use defence should be further refined to avoid being abused as a "safe harbour" for the use of pirated works by the education community.

(2) **Public administration:** We note that the fair use defence for public administration covers a wide range of entities and departments involved in public administration in Hong Kong. The Government should take the lead in fostering respect for intellectual property rights. The proposed provision is extremely wide and given the wide availability of licensed copyright works in the market, it is difficult to envisage why the Government should need to invoke the fair use provision at all.

We believe that if the provision is warranted at all, it should be limited to public administration only under the very rare incidences where licensed works from copyright owners are not available in Hong Kong and the Government requires the works on an urgent basis, e.g. in the interests of national security or public safety, that it could not be expected to obtain the proper licence from the rights owners.

(3) **Repeal of sections 44(2) and 45(2):** We are concerned that the Copyright Bill proposes to abolish protection against the recording and/or copying of broadcasts, cable programs and other published works by removing restrictions (repeal of section 44(2) and 45(2) of the Copyright Ordinance) against the recording and/or copying of such works by educational establishments even where there are relevant licensing schemes in place by rights owners. Clearly, a balance must be struck between protection of rights owners and end-users. We believe that even where there are licensing schemes in place that allow educational establishments access to such broadcasts, cable programmes and other published works such works should still be protected from free recording and/or copying. There is no reason why educational establishments should be treated differently and allowed the extra privilege to ignore such licensing schemes.

In summary, we understand that there may be a need to ensure that copyright laws achieve a correct balance between the rights and interests of copyright owners and consumers. However, it is especially important that the Government does not simply cater to changing needs or interests of consumers by undermining the intellectual property laws in Hong Kong. The Government needs to ensure that technologies and innovation introduced by copyright owners are adequately protected by strong intellectual property laws.

Scope of Criminal Provisions related to End-user Piracy

(Section 22 – Criminal liability for making or dealing with infringing articles etc.).

(Section 24 – "Offence of making for distribution or distributing infringing copies of copyright works in printed form contained in books etc.").

We remain concerned that printed works are excluded from the general provisions for end-

user criminal liability for making or dealing with infringing articles (section 22 of the Copyright Bill). As noted in our previous submissions, we believe it is wrong in principle to provide for a substantially lower level of copyright protection for one form of intellectual property in comparison to another and this would send the wrong message to the community.

We note that the Copyright Bill does provide for the introduction of new provisions establishing criminal liability for making or distributing infringing copies of printed works on a “regular or frequent basis”. We believe this is only a partial solution to the problem and does not adequately address the problem of pirated printed materials faced by the publishing industry. Coupled with this problem is that the proposed criminal provisions are limited in scope as the educational community is exempted and the suggested provisions are overly complex in application as it will depend on numerical limits by which criminalization may or may not occur (see the formula suggested at Annex C of the Copyright Bill). In addition, we believe that the suggested safe harbour perimeters are too broad and therefore allows the systematic and regular copying of copyrighted books and journals possible.

We suggest that the Government includes printed works as part of the general provisions for end-user criminal liability for making or dealing with infringing articles (section 22 of the Copyright Bill).

End-user liability associated with parallel imported copies

(Section 7 – Meaning of “infringing copy”).

(Section 8 – “Imported copy not an “infringing copy” for the purposes of section 35(3)”).

We do not support the proposed removal of civil and criminal liability associated with the business use of parallel imports and reduction of the 18-month period to 9-month during which parallel imports would attract criminal liability.

As outlined in our prior submissions, we believe that the current scope of copyright protection for parallel imports represents an appropriate balance between rights owners and end-users. Accordingly, we strongly urge the Government to maintain the current position as to parallel imports, thereby supporting the efforts of local producers and distributors in the investment in new creative works.

Circumvention of technological measures for copyright protection

(Section 54 to 56 – “Circumvention of effective technological measures”).

In general, we support the introduction of provisions for civil liabilities addressing activities that circumvent technological measures used to protect copyrights and criminal liabilities against commercial dealings in circumvention tools or the provision of circumvention services.

Based on our review of the Copyright Bill, we have a number of concerns as to whether the proposed provisions on technology protection measures will provide adequate and effective legal remedies in practice. These concerns are listed below:

- (1) ***Acts of circumvention*** – the Copyright Bill does create liability for the act of circumvention of an effective technological measure. However, liability is established only if it is shown that the circumventor knew, or had reason to believe, that his act of circumvention would “induce, enable, facilitate or conceal an infringement” of the copyright in the work

pursuant to section 273A(1)(b). This requirement is unnecessary since there are few (if any) legitimate uses of the underlying copyright works that would require circumvention of the technological protection measures that are not already provided in the exemptions in section 273D. We believe that this knowledge requirement makes it unduly difficult to hold a person liable for an act of circumvention and we believe that it is unlikely to provide any effective remedy in practice.

We therefore suggest removing the requirement that the circumventor knew, or had reason to believe, that his act of circumvention would “induce, enable, facilitate or conceal an infringement” in section 273A(1)(b).

(2) ***Dealing in devices/services*** — Similarly, section 273B(1) creates an additional and difficult hurdle for copyright owners to overcome in order to establish liability for the trafficking of circumvention devices, as it must be proven not only that the offender knew or reasonably should have known that the device would be used to circumvent, but also that the circumvention would be done “to induce, enable, facilitate or conceal an infringement” of the copyright in the work.

In practice, we envisage significant difficulties on the part of copyright owners in gathering evidence to show that such circumvention was done “to induce, enable, facilitate or conceal an infringement.” This requirement imposes an onerous and unnecessary barrier to the establishment of liability. We believe that there are few (if any) legitimate uses of circumvention devices that are not already provided in the exemptions in section 273E.

We suggest removing the requirement that the circumventor knew, or had reason to believe, that the circumvention would “induce, enable, facilitate or conceal an infringement” in section 273B (1).

In addition, under section 273B(1)(b), the distribution of a prohibited device is only actionable if done “for the purpose of or in the course of any trade or business”. Clearly, this section is deficient in its coverage as the gratuitous dealing in circumvention devices would not be actionable under this section. The requirement of trade or business is irrelevant. There are significant illegal activities that have significant negative commercial impact on right-holders conducted outside the course of business.

(3) ***Criminal offences*** — The definition of a “relevant device” in section 273C(2) is too limited. The effect of this limitation is that there is only criminal liability for dealing in a circumvention device that is “primarily designed, produced or adapted” for circumvention purposes. Therefore, provided that the device has some limited commercially insignificant purposes or uses other than to circumvent (even if it is marketed or promoted as a circumvention tool), the trafficking of this device would not be a criminal offence.

We believe that this deficiency could be easily overcome by adopting the same definition of relevant device as provided in section 273B(2). Section 273B(2) provides an acceptable definition as it takes into account two further tests in the definition of “relevant device”. This section provides a similar definition of “relevant device” under section 1201 of the Copyright Law in the United States.

Similarly, we advocate adopting the same definition of relevant service for section 273C(2) as provided in section 273B(2).

Secondly, section 273C(1)(e) provides criminal liability for the distribution of circumvention devices only if it takes place “for the purpose of or in the course of any trade or business which consists of dealing in circumvention devices.” The scope of this section is too narrowly defined. An application of this section would mean that a distributor of circumvention devices could escape criminal liability provided he also distributes other items, ie non-pirated works or distributes on a not-for-profit basis. In this situation, it is arguable that the “free” distribution of devices is not for the purpose of trade or business and/or by distributing other items, the trade or business does not consist of dealing in circumvention devices.

We trust this is not the legislative intention and invite appropriate amendments to be made to address the above.

(4) *Exemption for recording devices*

The exemption of all devices that record broadcast content in section 273F(12) from the new anti-circumvention law creates a dangerously broad loophole that is likely to:

- adversely affect the introduction of new, innovative forms of content delivery in Hong Kong,
- negatively influence the willingness of content owners to make their highest-value products available for distribution in Hong Kong,
- foster the development in Hong Kong of a large circumvention industry aimed at goods and services to exploit this loophole.

No other WIPO member has implemented this type of exemption, which flies in the face of WIPO’s recommendation that exemptions should be cautiously conceived and carefully delimited.

We understand the Government’s goal to be protective of the practice of “time-shifting” -- recording by consumers of broadcast programs for viewing at a later time. The Chamber shares this goal, but we note that this practice is not under challenge in Hong Kong or elsewhere in the world, and we believe creation of a large loophole for this purpose is unwarranted and risky. The Chamber understands that the broadcast industry is proposing that time-shifting could be protected by appropriate regulatory action under Hong Kong’s broadcasting regulations, and that this is in line with the regulatory approach taken in the USA. We strongly support such an alternative approach, and urge the government to delete section 273F(12) from the Bill.

Defence for employees against end-user criminal liability

(Section 22 – Criminal liability for making or dealing with infringing articles etc.).

We remain opposed to the proposal to introduce a specific defence for certain classes of employees against liability for business end-user piracy. Given Hong Kong’s challenges with intellectual property protection, the Government, as a matter of policy, should be strengthening copyright protection rather than weakening the existing protection by introducing an employee defence.

As highlighted in our prior submissions, the software piracy rate in the territory is at a level considered very high for an advanced economy and poses a serious obstacle to the development of the IT sector. Despite the Government’s attempts to address business end-

user piracy – the form of piracy which most largely attributes to Hong Kong’s software piracy problem - statistics show that these efforts have had little impact as the rate of pirated software in Hong Kong has remained essentially unchanged over the last four years. Clearly, more needs to be done. Against this background, it is clear that the introduction of rollbacks in copyright protection, such as an employee defence, is totally inappropriate.

We are aware that since legislation was put in place to criminalize end-user piracy, there has not been a single criminal case involving prosecution of a lower-level employee for use of pirated software. Clearly, any concerns about potential employee liability for low ranking staff are unfounded.

We strongly believe that the proposed introduction of a specific defence for employees will send a wrong message to the community regarding the seriousness of IP-related crimes. We reiterate our position that the current defence under the Copyright Ordinance for anyone without knowledge of the infringing nature of copyright work is already a sufficient safeguard and there is no need for the introduction of a defence specifically for employees.

Directors’/Partners’ Criminal Liability

(Section 118(2F) – Liability of director / partner for infringement committed by a body corporate or partnership)

The Chamber recognizes the importance of corporate governance. Directors and partners should therefore maintain a level of responsibility for corporate compliance and should be equally liable if their organizations have done an infringing act, unless there is evidence showing otherwise.

Proof of infringing copies of computer programs in end-user piracy cases

We are disappointed with the Government’s decision to delay the introduction of legislative measures to facilitate proof of the infringing nature of computer programs in business end-user piracy cases. The Chamber does not believe that further enforcement experience is necessary before legislation needed to address this problem area is introduced. Indeed, we have already had 5 years of experience and not a single success with fully contested prosecutions against businesses using illegal software.

We strongly believe the problem of securing criminal prosecution against end-users in piracy cases is in part a reflection of the inherent difficulties in establishing an offence under the current law. Given the software piracy situation in Hong Kong, the Government needs to take steps to make both the investigation and prosecution of business end-user piracy a priority in the short term and to adopt measures to facilitate successful criminal prosecution in this area.

Other matters of concern


We have mentioned in our prior submissions that there are three other matters of concern which still remain unaddressed by the Copyright Bill. First, the issue of cable and satellite TV piracy which remains a significant problem in Hong Kong but has yet to be addressed by the criminal law. Second, the accountability of landlords in circumstances where they either know or ought to have known that their premises are being used for trade in infringing materials. Third, the absence of a statutory damages system.

We would like to invite the Government to take the above into account when proceeding with

the legislative process.

Thank you again for the opportunity to offer the Chamber's views on this important matter.

Very truly yours,

A handwritten signature in black ink that reads "Jack Maisano". The signature is written in a cursive, flowing style.

Jack Maisano
President
American Chamber of Commerce in Hong Kong

cc Hon Sin Chung-kai, JP, Bills Committee Chairman

Miss Yvonne Choi, Permanent Secretary, Commerce & Industry Branch
Commerce, Industry & Technology Bureau