

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

2007 SPECIAL 301 Report

SPECIAL MENTION

HONG KONG

IIPA recommends that USTR actively monitor developments in Hong Kong during 2007 with respect to the issues discussed in this Special Mention report.

PIRACY AND ENFORCEMENT ISSUES

Internet Piracy: Internet piracy in Hong Kong causes increasing harm to right holders, primarily due to the explosion in use of the Internet for illegal peer-to-peer (P2P) file sharing on services located both in Hong Kong and abroad. Two cases are bright spots in otherwise murky legal waters. In one, decided in 2005, and upheld on appeal in December 2006, a man who uploaded three motion pictures using BitTorrent was convicted of copyright infringement and sentenced to jail;¹ in the second, in January 2006, the court ordered four Internet service providers to identify 22 people who uploaded music illegally.² The law should be amended to clarify the scope of secondary liability as to Internet service providers (ISPs), and should include a statutory notice and takedown regime which is effective and provides incentives for ISPs to comply, both with respect to pirate content residing on servers (e.g., stored on websites) as well as in the P2P environment.

Optical Disc Piracy: There are currently 90 optical disc production plants with 733 production lines in the Hong Kong Special Administrative Region (HKSAR) (with an annual production capacity of over 2.565 billion units). Over the past 12 months, there have been difficulties in the filing of complaints with the Hong Kong Customs and Excise Department (C&E) for investigations into the involvement of OD plants in the manufacture of pirate product for export. In particular, the Department of Justice's requirement of full documentation from a copyright owner for the filing of a complaint is burdensome, especially for an overseas copyright owner. This requirement should be re-examined.

Other Piracy and Enforcement Concerns: Business end user piracy remains a significant barrier to the development of the computer software industry in Hong Kong. End user piracy accounted for most of the US\$91 million in losses incurred by the software industry in 2006, with a software piracy rate of 54%.³ In September 2006, the Business Software Alliance

¹ Agence France Presse, Hong Kong man jailed three months in landmark Web piracy case, November 7, 2005 (reporting that a Hong Kong court sentenced a man to three months in prison on November 7, 2005 in what is believed to be the first jail sentence for distributing movie files over the BitTorrent network). The Magistrate, Colin Mackintosh, noted, "[t]he message has to be sent out by courts that the distribution of infringing copies, particularly by seeding films onto the Internet, will not be treated leniently." For the appellate ruling, see Washington Internet Daily, Dec. 18, 2006, at 5.

² Min Lee, Hong Kong Court Orders Internet Providers to Reveal 22 People Who Uploaded Music, Associated Press Newswires, January 26, 2006.

³ While Hong Kong's software piracy rate saw no improvement over the past year, some other markets in the region reduced their software piracy rates, including Mainland China, South Korea, and Taiwan. This is a serious and ongoing problem and puts Hong Kong well behind other advanced economies in the Asia Pacific. A study released by
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(BSA), in conjunction with C&E and Hong Kong's Intellectual Property Department (IPD), launched a major anti-piracy initiative, the "Genuine Business Software Campaign," with education, legalization and certification components. This initiative illustrates the HKSAR government's commitment to tackle the problem of software piracy by businesses. Additionally, since the enactment of 2001 amendments to the Copyright Ordinance, C&E has carried out a number of end-user raids against those suspected of using software illegally. However, only a few of these cases have made it to court, and every fully contested case has ended in acquittal. More resources need to be invested in prosecution of these cases, and industry is concerned that, unless modified, Hong Kong's law remains inadequate to address the problem.

As reported in past years, entertainment software publishers continue to face burdensome evidentiary requirements for prosecuting copyright offenses, causing an expenditure of excessive resources in order to bring a copyright infringement case. Under Hong Kong procedure, the copyright holder must provide Section 121 affirmations for every copyright infringement prosecution, which includes providing evidence of copyright ownership as well as attaching true copies of the video game titles that are the subject of the case. Some judges now require that true copies of each of the video games allegedly infringed be appended to the affirmation to be served on each defendant in the case, an especially onerous requirement when there are multiple defendants and when older games are involved. The proposal to designate foreign copyright registries (including the U.S. Copyright Office registry) under Section 121 remains pending. Recognizing U.S. copyright registration certificates and allowing their substitution for copies of the genuine article would greatly reduce the burden on copyright owners and expedite compliance with the affirmation requirements. IIPA hopes that the Hong Kong government will soon adopt the measures necessary to recognize foreign copyright registries for this purpose.

Hong Kong remains a major transshipment point for pirated Nintendo video games originating in China and destined for the United States, Europe and Latin America. In 2006, over 34,000 counterfeit Nintendo products transshipped through Hong Kong were seized in France, Germany, Italy, the Netherlands, the United Kingdom, and the United States. The U.S. Customs and Border Protection Agency interdicted 9 shipments, seizing a total of 27,500 counterfeit Nintendo products. Pirates commonly use false information on the shipment documents, making it difficult to trace the shipment of counterfeits and pirated goods to its source. The Hong Kong Customs authorities should allocate more resources toward monitoring imports and exports of counterfeit products.

The book publishing industry reports that C&E has continued in its responsiveness to its complaints about illegal photocopying during 2006. Although there are sometimes burdensome procedural hurdles with regard to showing copyright ownership of books printed under different trademarks, or "imprints", the authorities are to be commended for their efforts. The industry remains concerned that the enforcement successes of recent years have resulted in a change in mode of operation for the pirate entities. More and more photocopy shops are moving underground or copying at night, making their activities difficult to detect and making it more difficult to raid them. The industry needs the continued cooperation of C&E in changing enforcement tactics to tackle these new iterations of the problem.

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BSA on December 8, 2005 found that a 10-point reduction in Hong Kong's current piracy rate would yield \$650 million to its economy and create 4,600 high-wage technology jobs.

LEGISLATIVE ISSUES

Two legislative reform processes are now underway in Hong Kong: the Copyright (Amendment) Bill, which is currently under consideration by the Legislative Council (LegCo); and the Consultation on Protection of Copyright Works in the Digital Environment, recently launched by the Commerce, Industry and Technology Bureau (CITB).

Copyright (Amendment) Bill

As IIPA reported last year, many of CITB's proposed amendments to the Copyright Ordinance would have been a step backward, weakening copyright protection and reflecting inattention to Hong Kong's international obligations under the TRIPS Agreement and the Berne Convention. Many of these problems remained when the Copyright (Amendment) Bill was formally published in March 2006. As a result, copyright industry organizations both in Hong Kong and on the international level, voiced strong concerns about the Bill. In November, CITB announced plans for a package of amendments to the Bill. While the full text of these amendments is being released piecemeal and many details are unresolved, it is clear that some of industry's concerns have been heeded. At the same time, serious flaws in the legislation remain. IIPA urges that these flaws be corrected, so that the final Bill will comport with international standards and will advance Hong Kong's stated policy of promoting the creative industries. Major problem areas include:

- **Treatment of business end-user liability:** The Bill would make permanent the unwise temporary provisions in the Copyright Ordinance that immunize from criminal liability the possession of pirated text materials for use in a trade or business. Likewise, the proposed amendments fail to make any changes in the new criminal offense for businesses that engage in "regular and frequent" infringing acts of copying or distribution of books or academic journals. This new offense, at least in its present form, falls well short of being an adequate substitute for full criminal liability for business end-users; among other flaws, it is subject to a wide "safe harbor" that will shelter a great deal of commercial scale infringement,⁴ and it provides a defense that exempts otherwise criminal infringement if a court later finds the publisher's licensing terms to be "commercially unreasonable."

⁴ The current proposed safe harbor as to books (including academic journals) provides, among other things, that there is no criminal liability if "the total retail value of the infringing copies made for distribution or distributed within a 180-day period does not exceed \$8,000, assuming that one infringing copy of more than 15% of the number of pages of the book concerned (a qualifying infringing copy) only will count for the purpose of calculating the retail value parameter." The HK\$8000 figure (about US\$1022) suggests an attempt to duplicate the U.S. criminal threshold in 17 USC § 506(a)(1)(B) (US\$1000). But that section applies only when the case involves an infringement that is carried out for a purpose other than commercial advantage or private financial gain. If either of these motivations is present (as will almost always be the case with the activities covered by the Hong Kong safe harbor proposal) the US\$1000 retail value threshold does not apply, and a willful infringement involving even a single copy with a value of less than US\$1000 can attract criminal liability (17 USC § 506(a)(1)(A)).

The Bill also introduces a new, unnecessary and problematic defense to criminal liability for certain classes of professionals and employees. At a time when Hong Kong is making no progress in reducing its rate of business end-user piracy of computer software, it is inadvisable to introduce a broad new defense that is out of step with the laws of other Asia-Pacific jurisdictions and that will make it harder to reduce end-user piracy rates in Hong Kong.

- **Technological protection measures (TPMs):** While the proposed amendments (the text of which has not yet been made public) would fix some of the most serious problems with the Bill as originally presented, a number of fundamental flaws remain, that would prevent Hong Kong from offering the “adequate and effective” legal regime against circumvention of TPMs that is required under the WIPO Internet Treaties. These flaws include, among others —
 - Liability for distribution of circumvention devices is subject to the requirement that distribution is “for the purpose of or in the course of trade or business”; non-commercial distribution would carry civil liability if it has prejudicial effect on the rights holder. The requirements for “commercial purposes” or “prejudicial effect” significantly weaken the effectiveness of this prohibition and should be avoided;
 - Failure to criminalize the act of circumvention of TPMs under any circumstances, even when there is a commercial motive;
 - A broad defense to civil liability for circumvention whenever the defendant shows that the purpose of his violation was to “carry out a non-infringing act.” Such blanket immunity could open up a huge loophole in the anti-circumvention regime;
 - Inadequate definition of “access controls.” All such technologies should be accorded protection;
 - A “further exceptions by notice” system that will give an HKSAR official nearly unbounded power to recognize additional and permanent exceptions to the prohibition on circumvention of access controls, even when such controls have a net beneficial impact on access to copyright materials. Such a system will make it difficult to achieve the stable and predictable legal environment needed for the healthy development of a digital marketplace in such materials, a development to which the evolution of TPMs will make a significant contribution.
 - The original Bill also proposed carve-outs to some prohibitions with regard to TPMs that “control market segmentation” (including but not limited to regional coding technologies) or that control time-shifting of broadcasts, cable programs, or other forms of streaming dissemination. The CITB document issued in November indicated that these carve-outs would be significantly narrowed, but a close examination of the actual text proposed will be critical.
- **Copyright exceptions:** The Bill as introduced proposed broad new exceptions for “fair dealing” in copyright materials for the purposes of education or public

administration, and the changes proposed by CITB in November do not provide much additional guidance or focus. “Fair dealing” would continue to excuse unauthorized uses by schools even of works that are targeted to the educational marketplace (e.g., textbooks), and even if the use falls within a licensing scheme that is readily available.⁵ The availability of the exception to universities would be conditioned on the use of basic access control measures, which is welcomed; but to be a meaningful limitation, use controls (e.g., restrictions on printing, downloading, or forwarding) must also be required. The key concept underpinning the proposed public administration exception – that it is intended to be used only for “urgent business” of governmental bodies – will apparently remain undefined. More work is needed to ensure that these exceptions are confined within bounds that meet international standards that apply to Hong Kong, notably the “three-step test” of the TRIPS Agreement, Art. 13.

- **Parallel imports:** While the legislation originally proposed to reduce the period during which parallel imports would attract criminal liability to 9 months after public release (from 18 months), CITB now calls for a 12-15 month window. However, there still remains no persuasive justification of the need to shorten the period in which legitimate right holders may enjoy their full exclusive rights in Hong Kong.⁶

CITB has stated its intention to seek enactment of the Copyright (Amendment) Bill in the 2006-07 legislative session of the LegCo. IIPA urges the U.S. government to remain vigilant to ensure that problems such as those summarized above are adequately addressed before action is completed on these complex and extensive amendments.

“Digital Environment” Consultation

In December 2006, CITB issued its long-awaited consultation paper on “Copyright Protection in the Digital Environment.” The paper asks questions and proposes options on a wide range of topics, including (1) liability for unauthorized uploading and downloading of copyright works; (2) whether an all-embracing exclusive right of communicating copyright works to the public ought to be introduced into Hong Kong law; (3) the role of online service providers in combating Internet piracy; (4) procedures to facilitate the identification of online infringers so that right holders may pursue them; (5) whether statutory damages for infringement should be provided; and (6) whether to expand Hong Kong’s existing statutory exception for certain temporary copies of works. Responses are due in April 2007, with the expectation that legislative proposals might ultimately follow. IIPA commends the Government for looking at these crucial issues for the future of copyright protection in Hong Kong, but it is regrettable that these issues are being considered on a separate, slower track from the problematic proposed amendments summarized above.

⁵ While CITB has backed off the proposal to repeal Section 45(2), which limits the scope of a separate educational exception when a licensing scheme is in place, it has proposed to spell out that “educational establishments may still rely on the fair dealing provision ... despite that a licensing scheme is available authorizing the copying in question.”

⁶ In a letter sent to industry representatives on June 17, 2005 and in its Preliminary Proposals on Various Copyright-Related Issues offered to the Legislative Council’s Panel on Commerce and Industry for deliberation on June 21, 2005 the CITB stated definitively “On balance, we propose to retain all the existing restrictions on parallel imports of copyright works.” This recommendation was supported by interested parties that testified before the Legislative Council on July 19, 2005. The subsequent reversal in the government’s position was unexpected and difficult to justify.

Other Legislative Issues

Failure to Criminalize Pay TV Theft: Local television industry representatives have complained about the lack of sufficient criminal penalties under the Copyright and Broadcast Ordinances against pay television signal piracy. Present remedies provide no criminal liability against so-called overspill signals accessed through unauthorized decoders. Although trafficking in such decoders is subject to criminal penalties, a criminal prohibition is needed against the possession and use of such devices in homes or businesses.

Copyright Term Extension: Hong Kong should bring its Copyright Ordinance into line with the growing regional and global trend by enacting a 20-year extension of the term of copyright protection.