

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

2008 SPECIAL 301

SPECIAL MENTION

HONG KONG

IIPA recommends that USTR actively monitor developments in Hong Kong during 2008 with respect to the issues discussed in this Special Mention report.

LEGISLATIVE ISSUES

Copyright (Amendment) Ordinance

On July 5, 2007, the Copyright (Amendment) Ordinance 2007 was enacted. Although a number of the concerns raised by IIPA about this legislation were successfully addressed in the legislative process, some of its provisions remain problematic, and others remain the subject of ongoing negotiations or proceedings. In particular:

- **Liability of business infringers of books and journals:** The new amendment makes 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. The new criminal offense for businesses that engage in “regular and frequent” infringing acts of copying or distribution of books or academic journals has not yet come into force, and its usefulness is completely uncertain until subsidiary legislation to define the scope of a “safe harbor” from liability has been completed. Earlier drafts of the safe harbor proposal would have sheltered a great deal of commercial scale infringement. We understand that a final version of the safe harbor proposal is expected to be submitted to the Legislative Council in February, and we encourage the Commerce and Economic Development Bureau (CEDB) to continue working with rights holders to find safe harbor terms that will not undermine the effectiveness of the criminal provision. In any case, the new offense remains flawed since it provides a defense that exempts otherwise criminal infringement if a court later finds the publisher’s licensing terms to be “commercially unreasonable.”
- **Technological protection measures (TPMs):** While many of the serious problems in the original amendment bill were corrected before enactment, there is still doubt that the legislation fully protects all access controls used in connection with the exercise of copyright in a work, and also about the scope of some of the exceptions recognized in the statute to the prohibitions on circumvention of TPMs. Additionally, IIPA remains concerned about Section 273H, the “further exceptions by notice” provision, which on its face gives the Secretary for Commerce and Economic Development broad power to recognize additional and permanent exceptions, including to the prohibition on trafficking in circumvention products and services. IIPA was pleased to see that, in the first exercise of Section 273H power, the Secretary took a more focused approach and proposed to confine additional exceptions to the prohibition on the act of circumvention itself. We urge USTR to monitor closely the pending Section 273H proceedings, to ensure that the Secretary carries through on his stated plan to recognize only exceptions that are “narrow in scope and focused on the problems identified,” and that the precise text of all exceptions that he proposes to recognize are made available for public comment. It is also important that any exceptions recognized be time limited to three or four years, to take into account the rapid pace of change both in technology and in market practices.

- **Copyright exceptions:** The amendment includes broad new exceptions for “fair dealing” in copyright materials for the purposes of education or public administration. “Fair dealing” would excuse some 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. The key concept underpinning the new public administration exception – that it is intended to be used only for “urgent business” of governmental bodies – remains undefined. Implementation of these provisions must be carefully watched 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:** The amendment shortened from 18 to 15 months the period after public release during which unauthorized parallel imports would attract criminal liability. However, as enacted the Ordinance also includes provisions on presumptions and affidavit evidence that should facilitate criminal enforcement against parallel imports. Because the Hong Kong administration has declared its intention to ultimately “fully liberalize the use of parallel imports of copyright works” (i.e., to eliminate the copyright owner’s control over importation), continued vigilance is called for. Any further changes should require a persuasive justification of the need to weaken the importation right, or to shorten the period in which legitimate rights holders may enjoy that exclusive right in Hong Kong.¹

“Digital Environment” Consultation

In December 2006, the Commerce, Industry and Technology Bureau (CITB)² issued its long-awaited consultation paper on “Copyright Protection in the Digital Environment.” The paper asked questions and proposed 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. Some 600 responses were received by the April 2007 deadline.

IIPA has been advised that CEDB will submit a preliminary legislative proposal in March 2008. Reportedly, this will propose adding to the Copyright Ordinance a broad exclusive right to communicate copyright works to the public. While this would be welcomed, other tentative conclusions reportedly reached by CEDB are more problematic. For instance, although additional legal tools are needed to ensure that online piracy can be effectively deterred, we understand that CEDB is inclined not to recommend any changes in liability for uploading and downloading. Similarly, CEDB reportedly does not plan to propose any new, more efficient means for rights owners to learn the identity of Internet service provider (ISP) subscribers who are using their access to commit infringements; nor do they support the institution of a pre-set statutory damages regime to provide greater deterrence and to facilitate settlement of copyright claims. Finally, CEDB reportedly will not seek to clarify the scope of secondary liability as to ISPs, and may not propose any changes that increase the incentives for ISPs to cooperate in anti-piracy

¹ The HKSAR’s current position represents a complete about-face from three years ago, when CITB stated definitively “on balance, we propose to retain all the existing restrictions on parallel imports of copyright works.” See CITB 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 subsequent reversal in the government’s position was unexpected and difficult to justify.

² During 2007, the name of this HKSAR agency was changed to the Commerce and Economic Development Bureau (CEDB).

activities with right holders, both with respect to pirate content residing on servers (e.g., stored on websites) as well as in the P2P environment.

While it is commendable that Hong Kong's government is looking at these crucial issues for the future of copyright protection, it would be regrettable if this opportunity to enact a world-class law on these topics in Hong Kong were squandered in favor of piecemeal tinkering with the Copyright Ordinance. IIPA urges USTR to monitor developments on the digital environment initiative closely.

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.

PIRACY AND ENFORCEMENT ISSUES

Internet Piracy: Internet piracy in Hong Kong causes increasing harm to rights 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. Increased availability of broadband service in Hong Kong is fueling this trend. Pirate audio-visual material can be found via more than 100 online fora or newsgroups operating in Hong Kong.

On May 18, 2007 the Hong Kong Court of Final Appeal upheld the conviction of Chan Nai-ming on criminal copyright charges for the attempted distribution of illegal copies of three Motion Picture Association (MPA) member company titles via BitTorrent, a P2P network forum. Chan, who had been free on bail awaiting his appeal to Hong Kong's highest court, was taken into custody after the court's ruling to begin serving three months in prison. The case was the world's first in which criminal charges were filed against a user of BitTorrent technology.

In addition, the Internet is being used as a mechanism to promote hard goods piracy. For example, book and journal publishers report an increase in 2007 of online promotion and sales of academic materials by photocopy shops.

Optical Disc Piracy: There are currently 81 licensed optical disc production plants with 684 production lines in the Hong Kong Special Administrative Region (HKSAR), with an annual production capacity of nearly 2.4 billion units. Seizures of pirate optical media products continued at a very high rate in 2007 (some 5 million DVDs and VCDs, and nearly 1.3 million DVD-Rs and CD-Rs, had been seized by the end of November). The majority of these were smuggled in from the PRC, mostly from Shenzhen, rather than produced within the HKSAR. Some pirate product originating on the mainland is transshipped through Hong Kong to other destinations. High profile enforcement efforts against optical disc piracy continue. For instance, in "Operation Octopus" in mid-October, over 100 law enforcement officers carried out raids throughout the territory, seizing more than 64,000 discs of U.S., Hong Kong, and Japanese movie titles. Another operation seized a lab with 97 DVD-R burners operating at full capacity.

Entertainment Software: As reported in past years, entertainment software publishers continue to face burdensome evidentiary requirements for prosecuting copyright offenses, which cause 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 various regions. A joint enforcement action by Hong Kong Customs and Excise (C&E) officials with the Entertainment Software Association (ESA) resulted in the seizure of about 1,800 counterfeit optical discs and other products (such as cartridges and memory cards for Nintendo systems). One of the actions resulted in the arrest of 18 individuals and the matter remains pending before the courts.

Book Piracy: The book publishing industry reports that C&E has continued in its responsiveness to its complaints about illegal photocopying during 2007. Procedural hurdles experienced in previous years seem to have largely been addressed in the past year, and the level of ongoing cooperation is commendable. The industry remains concerned about underground photocopy operations and needs the continued cooperation of C&E in finding and tackling these hard-to-detect targets.

Other Enforcement Observations: IIPA applauds Hong Kong authorities for using innovative legal tools to attack pirate enterprises. The Organized and Serious Crime Ordinance (OSCO), which became applicable to copyright offenses in 2004, has been used since then to mount 6 successful operations against organized pirate optical disc syndicates, leading to 54 arrests, seizure of over half a million pirate discs and nearly 300 DVD burners, and freezing of some HK\$83 million (US\$10.7 million) in assets. The first court order for confiscation of the proceeds of piracy was issued in October 2007 against Lau Ka Pui, who had been convicted of criminal infringement relating to 30,000 pirate computer games on optical disc, and whose HK\$1.2 million (US\$150,000) of proceeds were identified by Hong Kong's Customs and Excise Department. Lau's 16 month jail sentence will be more than doubled if she does not surrender the identified assets.