

HONG KONG

INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE (IIPA) 2009 SPECIAL 301 REPORT ON COPYRIGHT PROTECTION AND ENFORCEMENT

Special 301 Recommendation: IIPA recommends that USTR actively monitor developments in Hong Kong during 2009 with respect to the issues discussed in this Special Mention report.

LEGISLATIVE ISSUES

“Digital Environment” Proposals: In April 2008, the Hong Kong government released a paper entitled “Preliminary Proposals for Strengthening Copyright Protection in the Digital Environment.” The paper marked a somewhat disappointing step in a process, launched in December 2006, to adapt Hong Kong’s Copyright Ordinance to the 21st century realities of the digital networked environment. This modernization effort takes on greater importance from the announcement by the Peoples’ Republic of China that the PRC’s accession to the WIPO Internet Treaties applies to the Hong Kong Special Administrative Region (HKSAR), effective October 1, 2008.¹ Because the “Digital Environment” consultation process is still far from completion, IIPA urges the U.S. government to monitor it closely, and to intervene as appropriate, to encourage Hong Kong to take a more ambitious path than is set out in the April 2008 proposals.

Hong Kong’s original consultation paper asked whether legislation should address the role of online service providers (OSPs) in combating Internet piracy, and should offer improved procedures for identifying online infringers so that right holders may pursue them. The HKSAR’s answer to these questions in the April 2008 proposals was “no.” Instead, the government convened a “tripartite forum” at which OSPs, right holders, and users are discussing a possible “Code of Conduct.” While IIPA strongly supports cooperative arrangements between right holders and service providers to combat piracy, without the proper legal and policy context such arrangements are unlikely to be launched, much less to thrive. That context must include clear rules on indirect liability for copyright infringement that provide strong incentives for cooperation. It is disappointing that the HKSAR has chosen an approach that puts the cart of attempted cooperation before the horse of legal incentives.

Additionally, it was disheartening that the initial agenda announced for the Tripartite Forum was less than ambitious. An effective inter-industry agreement, while it may include a “notice and notice” system for passing along to OSP subscribers notifications from right holders about specific instances of infringement occurring through peer-to-peer (p2p) networks, must also go well beyond that. Items for discussion should include, among others, a system to impose meaningful consequences on repeat infringers; preservation of identifying data on such infringing subscribers; its disclosure to right holders for legitimate enforcement purposes; and a notice and take down procedure that effectively addresses infringing material hosted on websites and servers.

Because the initial Tripartite Forum discussions bore little fruit, the government recently revamped its approach. In December 2008, it informed the participants in the Tripartite Forum that consideration of an OSP responsibility framework would first focus on execution of a Memorandum of Understanding (MOU) among a limited number of participants, which would set out the mechanisms (e.g. notice forwarding) to be adopted by OSPs willing to participate in the process on a voluntary basis. In accordance with this MOU, participating OSPs would forward notices of infringement received from rights holders to its subscribers identified as potentially engaged in infringing activity. Parallel to a trial period under the MOU, the Commerce and Economic Development Bureau (CEDB) would craft a Code of Practice, the provisions of which would take into account the results of the trial notices undertaken per the terms of the MOU. The Code of Practice would likely ultimately be given legislative effect, in a package to include some safe harbor provisions for OSPs, linked to compliance with the Code of Practice. Under CEDB’s timetable, it is unlikely that legislation would be in place until the first half of 2010.

¹ See http://www.wipo.int/pressroom/en/articles/2008/article_0046.html.



While it is encouraging that a legislative solution is back on the table, many questions remain. For instance, while CEDB had proposed that only the most “hard hit” copyright interests participate in the MOU and notice trials, all copyright sectors are “hard hit” by Internet piracy, given the prevalence of illicit file sharing services. Furthermore, the recording industry has strongly advocated that the MOU go beyond the first step of notice/notice and notice/takedown systems, by establishing a working group to identify solutions to repeat infringement. In addition, any sender of a counter-notice under the notice-and-takedown procedure should be required to provide identifying information, as under the Digital Millennium Copyright Act in the US. Questions have been raised about provisions in the draft MOU regarding indemnity, about the problem of OSP errors in identifying account addresses engaged in infringing activity, and other issues. Finally, any MOU should require OSPs to preserve information about notices, sufficient to identify subscribers who have received multiple notices, for at least a year. In terms of legislative drafting, industry is concerned that OSPs should not be eligible for safe harbors unless they meet specified criteria regarding (among other issues) notice and takedown, forwarding of right holder notices of infringement to subscribers engaged in infringing activity using p2p channels, and a termination policy for infractions of terms of service or the law. Finally, waiting until mid-2010 for legislation is a frustrating prospect for a consultation process that has already been underway since late 2006. The scope and seriousness of the problem call for a faster response; and since some OSP representatives have reportedly expressed that they are not opposed to a legislative option, this should be proactively pursued in parallel with the crafting of a voluntary cooperative framework. IIPA urges that the progress of the Tripartite Forum be closely monitored.

In the April 2008 Digital Environment proposals, the Hong Kong government also backed away from other key features of an effective copyright regime for the 21st century. It declined to apply criminal sanctions to all forms of unauthorized communication of works (including online) on a commercial scale, or to make statutory damages available, including in situations such as online piracy where calculation of full compensatory damages may be nearly impossible. HKSAR should be encouraged to reconsider these positions. The proposals also asserted that current Hong Kong law already provides criminal sanctions for uploading infringing copies of works to a peer-to-peer (p2p) file-sharing network; however, since no Hong Kong court has explicitly so held, a legislative clarification remains advisable. Hong Kong should also be encouraged to clarify that those who induce others to commit infringements (including in the online environment) should face criminal liability in appropriate circumstances. Furthermore, the proposed new exception for certain temporary copies made by OSPs should be narrowed to apply only to copies made in the course of transactions authorized by the right holder, and should preserve the ability of a right holder to obtain injunctive relief, even against a party to which the exception applies. Of course, positive features that have been carried forward in the April proposals, such as recognizing a broad exclusive right of communication to the public, should be enacted promptly.

The April 2008 proposals not only took several important issues off the law reform agenda, at least for now; they also added a major new issue for consideration: an exception to allow consumer copying for “media shifting” purposes. While no specific legislative proposal has been tabled, this concept should be approached with caution. Hong Kong should not enact such an exception unless it is demonstrably necessary, taking into account both current law and the accelerating marketplace response to consumer demand to engage in media-shifting. In crafting any such exception, Hong Kong must comply with applicable international norms (notably the “3-step test” of TRIPS Art. 13 for limitations and exceptions, now broadly applicable to Hong Kong under the WIPO Internet Treaties); must preserve the integrity of technological measures applied by copyright owners; and must respect freedom of contract. Finally, any exception in this field should be narrowly drafted and specific as to which types and formats of works are or are not affected.

The Digital Environment initiative provides an exceptional opportunity for Hong Kong to craft a world-class copyright law for the 21st century. It would be regrettable if this opportunity were squandered in favor of piecemeal tinkering with the Copyright Ordinance. IIPA urges USTR to monitor developments on the Digital Environment initiative closely.

Copyright (Amendment) Ordinance: More than a year and a half after enactment of the Copyright (Amendment) Ordinance 2007, some loose ends remain that deserve continued attention from the US government. These include:

- **Liability of business infringers of books and journals:** The 2007 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 uncertain until subsidiary legislation to define the scope of a “safe harbor” from liability has been completed.² A much-delayed final version of the safe harbor proposal is expected to be submitted to the Legislative Council in the first half of 2009, 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.

- **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.

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 continues to worsen in Hong Kong. This is primarily due to the explosion in use of the Internet for illegal peer-to-peer (p2p) file sharing on services based both in Hong Kong and abroad. Increased availability of broadband service in Hong Kong is fueling this trend. Enforcement mechanisms have completely failed to keep up with this increased problem. Where content is stored on the server of an Internet Service Provider, providers are often co-operative with a takedown notice; but in the vast majority of cases, p2p technology is used to upload and download, and service providers have done nothing to lift the veil of anonymity from p2p users. In the audio-visual sector, pirate streaming sites based in the PRC are a growing additional problem; Hong Kong users access these through user-generated content (UGC) sites and through links from online discussion forums. The music industry encounters similar problems. IFPI filed a case to Hong Kong Customs complaining about a site whose domain name was registered in China, but which hosted infringing files in Hong Kong. Hong Kong Customs refused to investigate the case because of the involvement of a non-Hong Kong entity

These facts underscore the urgency of a more ambitious approach to copyright law modernization in Hong Kong. The law must provide sufficient incentives for service providers to cooperate with anti-piracy efforts or face serious liability consequences. A more efficient, rapid, and cost-effective mechanism must be put in place to allow disclosure of the

² 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.”

identities of p2p and other infringers to right holders, so that they may pursue timely remedies against them. And Hong Kong's law enforcement authorities, now largely sidelined because of uncertainty about criminal liability for uploading and downloading under Hong Kong law, must get the legal tools they need to fully enter the fray. The disappointing conclusions reflected in the April 2008 proposals are having concrete detrimental impacts today.

Audio-Visual/Optical Disc Piracy: There are currently 66 licensed optical disc production plants with 446 production lines in the HKSAR, with an annual production capacity of nearly 1.6 billion units. All these figures have declined since 2007. Seizures of pirate optical media products continued at a high rate in 2008 (nearly one million DVDs and VCDs, and half a 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 Torpedo" in late September, 120 Hong Kong Customs officers raided 19 retail shops and a warehouse, arrested 16 persons, and seized over 63,000 pirated optical discs. The "Operation Codebreaker" raids in June led to 21 arrests and seizure of HK\$1.2 million (US\$155,000) worth of pirated goods and assets. MPAA also commends authorities for initiating five criminal prosecutions in 2008 against online auction sales of pirated optical discs.

For the audio-visual sector, illegal camcording in Hong Kong cinemas is a growing source of master copies that feed both Internet and hard goods piracy. In 2008, eight titles from MPAA member companies were illegally camcordered in Hong Kong.

Entertainment Software: Game piracy continues to be a significant problem in Hong Kong. Recently, piracy of games on the Wii console platform has become much more prevalent. In 2008, the ESA supported over 150 game piracy cases that were brought by Hong Kong Customs. The cases included PC and/or Wii game disc piracy, Nintendo cartridge counterfeiting and/or console modification. The ESA appreciates Hong Kong Customs' enduring commitment to the reduction of game piracy. The game industry also applauds Hong Kong Customs for swiftly bringing its first set of enforcement actions against individuals and entities trafficking in consoles that have been modified to circumvent technological protections against piracy. These actions were based on Hong Kong's new criminal prohibitions on trafficking in anti-circumvention products and services, which went into effect in April 2008. The next month, with the game industry's support, Customs agents raided seven shops in six shopping arcades throughout Hong Kong, seizing 29 modified consoles and arresting eight people. In September, there were additional enforcement actions against two shops offering modified consoles. Hong Kong Customs will need to continue aggressive enforcement of the anti-circumvention provisions. Hong Kong's status as a global source for circumvention products, which have been seized in many other countries around the world, must be reduced. The ESA and its members will continue to provide to Customs the exporter information it receives with respect to shipments from Hong Kong of circumvention devices and pirated game products seized by foreign customs agents.

While the ESA is pleased with last year's enforcement results, 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.

Business Software: The rampant use of unlicensed software in the workplace by businesses continues to cause the greatest revenue losses to the business applications sector of the software industry. Hong Kong Customs and Excise (C&E) is proactive in developing cases, running its own 24-hour hotline for tips on piracy, and conducted 13 raids in

2008. In one major operation, in March 2008, C&E targeted shops that offer pre-loading of unlicensed software for customers. Twenty-six sets of computers were seized and three men arrested, and the operation received widespread media attention. One of those arrested was ultimately sentenced to 5 months' imprisonment, marking the first time that a so-called "system builder" had been sentenced to jail. (Pirate retailers have in the past received sentences as heavy as 55 months.) Hong Kong authorities also ramped up their ongoing investment in the "Genuine Business Software Campaign," a joint venture with BSA that reached 50,000 companies in 2008 with the message of adoption of secure asset management practices to prevent end-user infringements.

Book Piracy: The book publishing industry reports that C&E has continued in its responsiveness to its complaints about illegal photocopying during 2008. The level of ongoing cooperation is commendable, even in the face of changing modes of operation for copyshops around the city. 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. Recent raids targeted Sai Ying Pun, Siu Sai Wan, Kwai Chung, Sham Shui Po, North Point and Tai Po and yielded multiple seizures and arrests.

Other Enforcement Observations: IIPA applauds Hong Kong authorities for continuing to use innovative legal tools to attack pirate enterprises, notably the Organized and Serious Crime Ordinance (OSCO). Since OSCO became applicable to copyright offenses in 2004, it has been used to mount several successful operations against organized pirate optical disc syndicates. OSCO was first used to order confiscation of the proceeds of piracy in October 2007 in the case of Lau Ka Pui, whose HK\$1.2 million (US\$150,000) of proceeds were identified by Hong Kong's Customs and Excise Department. OSCO's enhanced sentencing and asset seizure provisions are critical tools in the fight against piracy in Hong Kong.