

LEGISLATIVE COUNCIL BRIEF
REVIEW OF CERTAIN PROVISIONS OF
THE COPYRIGHT ORDINANCE

INTRODUCTION

At the meeting of the Executive Council on 12 March 2002, the Council ADVISED and the Chief Executive ORDERED that the following proposals should be adopted-

- (a) to make permanent the arrangement in the Copyright (Suspension of Amendments) Ordinance 2001 so that end-user criminal liability is confined to only four categories of copyright works and to provide a defence against such criminal liability for employees who use pirated copies of works supplied by their employers (**paragraphs 5-8** below);
- (b) to review the current criminal provisions in the Copyright Ordinance (the Ordinance) and enforcement procedure with a view to combating illicit reproduction of books by copy shops for commercial purposes more effectively (**paragraph 9** below);
- (c) to adopt a non-statutory approach in clarifying the meaning of the expression "reasonable extent" in the permitted acts for educational purposes and to extend the scope of these permitted acts as well as the fair dealing exemptions (**paragraphs 11-15** below);
- (d) to introduce a statutory exemption for the making of specialised formats of printed works for persons with a "print disability" and to remove the restriction on the making of sub-titled television broadcasts or cable programmes for disabled persons (**paragraphs 16-17** below);
- (e) to consider exempting guest rooms of hotels and under

certain conditions public transport from paying copyright royalties to owners of underlying works when playing free radio or television broadcasts and to extend the scope of the exemption for such playing in public places (**paragraphs 19-20** below) ;

- (f) to maintain the existing restrictions on parallel importation of copyright works other than computer software, but remove the criminal and civil liability for importation and possession of such goods by end users (**paragraphs 22-23** below);
- (g) to introduce civil remedy against fraudulent reception of subscription television programmes; and to introduce both civil remedy and criminal sanction against the possession of unauthorized decoders for commercial purposes (**paragraph 26** below);
- (h) to maintain the existing voluntary registration scheme of copyright licensing bodies and encourage these bodies to develop voluntary codes of practice including a complaint handling mechanism(**paragraph 29** below); and
- (i) to expand the membership of the Copyright Tribunal (**paragraph 31** below).

BACKGROUND AND ARGUMENT

General Background

2. In April 2001, we implemented new legislation that introduced criminal liability for end-users in possession of copyright infringing articles in business. The original aim was to deter rampant piracy in computer software and audio-visual products. But the new law applied also to photocopying of printed works as well as downloading of information from the Internet. This had the effect of hampering the dissemination of information in enterprises and teaching in schools. The public generally felt that the scope of the new criminal law was too wide. In June 2001, with the approval of the Legislative Council (LegCo), we suspended the new law except as it applied to computer programs, movies,

television dramas, and musical recordings. The suspension will expire on 31 July 2002 (extendable with the approval of LegCo). We undertook to formulate a long-term solution after wide public consultation.

3. Subsequently, we issued a consultation document for a two-month consultation period ending on 31 December 2001. This document covers the key issue of end-user criminal liability as well as some other issues raised during the public debate last April. We have received a total of 254 submissions from nearly all major interested parties and some members of the public. We have also consulted the LegCo Panel on Commerce and Industry and held formal and informal discussions with various stakeholder groups to gauge their views.

4. Having regard to the results of the consultation, we have formulated our proposals on the way forward, as set out in the paragraphs below. The relevant provisions of the Ordinance mentioned are at the Annex.

The Proposals

(A) Criminal Provisions related to End-user Piracy in Business

5. With the enactment of the Copyright (Suspension of Amendments) Ordinance 2001 in last June, end-user criminal liability exists only for four categories of work, namely, computer programs, movies, television dramas and musical recordings. This is widely accepted by the community and no implementation problems have arisen so far. We believe that it has struck the right balance between the protection of intellectual property rights and the practical needs of teaching and for information dissemination. We **propose** that the arrangement be made permanent.

6. Under the current law, employees who knowingly use, say, pirated computer software in their work may be liable to criminal sanction. There has been concern that criminal sanction is too harsh for them, who are in a weak position to bargain with employers for fear of losing their job. To address this concern, we **propose** to provide a defence against criminal liability for employees who use pirated copies of works which have been supplied by their employers and to make this retrospective to 1 April 2001. However, criminal sanction against employees who knowingly deal in (e.g. trade or sell) pirated copies of works will remain. We will need to draft the law carefully to ensure that the proposed defence will not become a loophole.

7. To limit further the scope of the end-user criminal liability, we **propose** to remove the phrase “in connection with” from the expression “for the purpose of, in the course of, or in connection with, any trade or business” where this appears in the Ordinance. This will include deleting the phrase from the relevant civil provisions in the Ordinance as well.

8. We have considered whether to remove criminal liability for the possession of pirated copies of works belonging to the four categories in paragraph 5 above for non-commercial purposes, such as the use of pirated computer software in a welfare agency or a non-profit-making school. In the past, end-user piracy in such types of organization had been quite rampant. We are concerned that relaxing the criminal law might lead to the revival of such practices. On balance, we **propose** that no change be made.

9. The book publishing industry has expressed serious concern about illicit reproduction of books by copy shops for commercial purposes. We will review the current criminal provisions in the Ordinance as well as enforcement procedure so that we could combat such illegal activities more effectively.

(B) Permitted Acts for Educational Purposes

10. Notwithstanding the removal of end-user criminal liability for photocopying printed works and downloading information from the Internet, civil liability continues to exist. There is a need to clarify the scope of certain statutory permitted acts (i.e. exemptions from civil liability) for educational purposes. This will provide greater certainty to teachers in photocopying and downloading works for classroom use.

11. To provide greater flexibility and more comprehensive guidance, we **propose** to adopt a non-statutory approach in clarifying the meaning of the expression “reasonable extent” in sections 41 and 45 of the Ordinance. In addition, we **propose** to delete the word “passage” in section 45.

12. The Director of Intellectual Property will convene working groups involving interested parties for the development of non-statutory guidelines for -

- (a) photocopying printed works¹; and

¹ The publishing industry has already proposed some guidelines that may be used as a basis for

- (b) reproducing works in digital format, such as multimedia works, and uploading works to and downloading from the Internet.

13. We **propose** to extend the existing permitted acts in sections 41 and 45 of the Ordinance related to copying of works to allow for uploading an insubstantial part of a work to the school Intranet for limited access within the school. Like other permitted acts, the act must fulfill the condition that it does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the copyright owner. For example, uploading an entire textbook to the school Intranet will not be permitted.

14. We further **propose** to remove the existing restriction that the permitted acts under sections 44 and 45 of the Ordinance will not be permitted if there are relevant licensing schemes granting authorizations for the works concerned.

15. We have reviewed the fair dealing provisions in the Ordinance vis-à-vis the provisions on fair use in the copyright law of the United States ("US")². Instead of confining fair dealing exemptions to private study and research, criticism, review and news reporting, we **propose** to extend the scope of our fair dealing exemptions along the line of the open-ended approach adopted by the US. This will allow, say, certain special acts for teaching or personal use³ which fall outside the ambit of the exemptions in the current law, to be treated as fair dealing. We will provide that any such act must not conflict with a normal exploitation of the work by the copyright owner, or unreasonably prejudice his legitimate interests.

(C) Permitted Acts for Visually Impaired Persons

16. Given overwhelming public support, we **propose** to introduce a statutory exemption for the making of specialised formats of printed works by non-profit-making bodies exclusively for persons with a "print disability". Print disability means a disability that inhibits a person from

discussion with the educational sector.

² The US Copyright Act provides that the fair use of a copyrighted work for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright.

³ For example, it will be fair dealing for a person to make one photocopy of a newspaper article which records an interview given by that person to the newspaper; or for a teacher to adapt a small part of a drama for teaching purpose.

reading printed copyright works in its original format because of visual impairment, or inability to hold or manipulate books or focus or move one's eyes.

17. We further **propose** to remove the existing restriction in section 83 of the Ordinance that the permitted act of making sub-titled television broadcasts or cable programmes for people with a physical or mental disability will not be permitted if there are relevant licensing schemes granting authorizations.

(D) Permitted Acts related to Free Public Showing or Playing of Broadcasts or Cable Programmes

18. Hotels, restaurants, shopping malls and retailers argue that they should be exempted from paying copyright royalties to owners of underlying works (such as music and lyrics) when playing free radio or television broadcasts in their venue. However, we cannot go for an across-the-board exemption, as this will be in breach of our international obligations. A similar exemption in the US legislation has been ruled by the World Trade Organization to be violating the Agreement on Trade-Related Aspects of Intellectual Property Rights (the "TRIPS Agreement").

19. Having regard to overseas practices and the TRIPS Agreement, we believe that there may be a case to provide exemptions for the following places -

- (a) guest rooms of hotels; and
- (b) public transport provided that the broadcast is played predominantly for the driver to have access to public information. For example, radio music in taxis will be exempted, but music in television broadcasts on buses, trains and vessels will not.

20. We also **propose** to extend the existing exemption in section 81 of the Ordinance to cover all public places where broadcasts or cable programmes are shown or played except where goods or services are supplied at prices which are substantially attributable to the facilities afforded for seeing or hearing the broadcasts or programmes.

(E) Parallel Importation of Copyright Works other than Computer Software

21. The local film and music industries strongly oppose relaxing the current restrictions on parallel importation. They claim that any relaxation would substantially affect their business and discourage new investment in the industries.

22. The issue of parallel importation had been thoroughly and heatedly debated before the enactment of the Ordinance in 1997. Given the strong opposition of the local film and music industries, we believe that now is not a good time to become embroiled once again in a heated controversy over this issue. After all, the matter was not a major bone of contention in last year's public debate. We **propose** that the status quo be maintained.

23. However, we **propose** to remove the criminal and civil liability for importation and possession of parallel-imported goods by end users. For example, the parallel importation of a reference book by a law firm for use in its legal practice will no longer attract criminal or civil liability.

(F) Fraudulent Reception of Subscription Television Programmes

24. Having assessed the current situation and submissions received during the consultation, we consider that legislative measures should be enhanced to deter fraudulent reception of subscription television programmes in Hong Kong. We do not condone such acts.

25. Fraudulent reception of subscription television programmes is a problem existing in many jurisdictions, even after end-user criminal liability has been imposed. In drawing up the proposal, we note the reservations about imposing end-user criminal liability raised in some submissions. The considerations are whether the severity of the wrongdoing warrants criminal sanction and the possible invasion of privacy by enforcement agents. We also believe that digitization should make fraudulent reception increasingly difficult as service providers can adopt measures to render unauthorized decoders useless (e.g. by programming at the server end). It is likely that fraudulent reception will be significantly reduced when the subscription service has been digitized. Whether fraudulent reception remains a widespread problem after full digitization can only be assessed at that time. We will keep the situation under close review.

26. We **propose** to introduce civil remedy against fraudulent reception of subscription television programmes. We will also encourage operators to digitize their services as soon as practicable. If it proves that fraudulent reception of subscription television programmes is still prevalent after digitization, the Government will take prompt action to introduce criminal sanction against end users. We consider that this gradual approach involving efforts from both operators and the Government will be more acceptable to the public. We however **propose** to introduce both civil remedy and criminal sanction against the possession of unauthorized decoders for commercial purposes (e.g. using the decoders for fraudulent reception of subscription television programmes for public display at pubs) as there is general public support based on the submissions received.

(G) Licensing Bodies

27. A licensing body is a society (or other types of organization) which has as one of its main objects, the negotiation or granting of licences to copyright users in relation to works of more than one author.

28. The concerns of the public on these bodies are mainly on the following issues-

- (a) as licensing bodies are monopolistic in nature, Government should regulate them by requiring them to register and to publish their scales of licence fee;
- (b) while the Copyright Tribunal is charged with adjudicating disputes on licence fees between copyright owners and users, the huge legal costs involved have deterred copyright users from bringing disputes forward. Some copyright users have suggested that the Tribunal be replaced with an arbitration system under which the parties to a dispute may each appoint an arbitrator of their own choice; and
- (c) some copyright users perceive that Copyright Tribunal members are biased towards copyright owners.

29. Regarding paragraph 28(a) above, compulsory registration of licensing bodies has considerable technical and resource implications while the benefits will be relatively small. We **propose** that such an arrangement should not be introduced for the time being. Instead, we will

encourage all major licensing bodies to be registered under the existing voluntary scheme, as well as to develop voluntary codes of practice including a complaint handling mechanism. We will review in a year's time if any compulsory arrangement needs to be introduced.

30. Regarding paragraph 28(b) above, we consider that the Copyright Tribunal should not be replaced by an arbitration system, as the high legal cost cannot be avoided even under such a system. We will further explore options to address the issue of high legal cost associated with the proceedings of the Copyright Tribunal.

31. Regarding paragraph 28(c) above, while we do not agree with the perception that the Copyright Tribunal is biased towards copyright owners, we **propose** to expand the membership of the Tribunal so that it represents an even wider cross-section of the community.

Implementation Timetable

32. As it will take time to prepare the necessary legislative amendments to take forward the proposals above, and in view of the expiry of the Copyright (Suspension of Amendments) Ordinance 2001 on 31 July 2002, we intend to concentrate first on issues related to end-user criminal liability with a view to introducing a bill to the LegCo before July. If examination of this bill cannot be completed before the suspension expires, we will propose to the LegCo to extend the suspension for six months, until end January 2003.

33. As regards amending legislation in relation to the other issues, we intend to bring them forward in the 2002-03 legislative session. For issues related to fraudulent reception of subscription television programmes, Information Technology and Broadcasting Bureau plans to introduce the amendment legislation in 2003.

PUBLIC CONSULTATION

34. We have drawn up the proposals after extensive public consultation.

35. The LegCo Panel on Commerce and Industry were generally content with the proposals.

BASIC LAW IMPLICATIONS

36. The Department of Justice advises that there are no in principle objections to the proposals in the light of those provisions of the Basic Law carrying no human rights implications.

HUMAN RIGHTS IMPLICATIONS

37. The Department of Justice advises that there are no in principle objections to the proposals in the light of human rights provisions of the Basic Law.

FINANCIAL AND STAFFING IMPLICATIONS

38. The proposals do not have any significant financial or staffing implications for Government. Any additional workload will be met by existing resources.

ECONOMIC IMPLICATIONS

39. The proposal to maintain end-user criminal liability for computer programs, movies, television dramas and musical recordings will affirm our determination to combat rampant piracy of such products. This will be conducive to the growth of the local computer software industry. It will also contribute to the development of Hong Kong as a leading information technology city in Asia.

40. By making the suspension arrangement permanent, it will remove the deterrent effect posed by the criminal sanction in relation to unauthorized copying of printed works including books and newspaper or magazine articles. As a result, the publishers concerned may not be able to obtain licence fees from users and may lose potential revenue. The precise loss is difficult to quantify.

41. As regards the proposal to exempt payment of copyright royalties to owners of underlying works for the playing of free radio or television broadcasts in certain venues, the impact on the loss of revenue to the owners should be minimal.

42. As a result of maintaining the current restrictions on parallel importation of copyright works (other than computer software), consumers will not be able to enjoy a wider choice of products and a reduction in prices. The exact consumer welfare loss is difficult to quantify.

43. It is difficult to estimate realistically the economic loss arising from fraudulent reception of subscription television programmes. The loss is being mitigated in the course of digitization which will render the existing unauthorized decoders useless. Our approach to the problem should help reduce the economic loss gradually.

44. To comply with the new legislation in last April, some business enterprises had incurred costs in replacing their pirated software with the legitimate ones. Since then, the business community has no problem in complying with the new legislation. In our consultation exercise, the various chambers of commerce supported the proposal of confining the end-user criminal liability to only four categories of works without indicating any difficulty on compliance. The package of proposals therefore should not entail any additional compliance burden on business.

PUBLICITY

45. A briefing for the media on the proposals was conducted on 30 January 2002.

46. A press release will be issued. A spokesman will be available to answer media and public enquiries.

ENQUIRIES

47. Enquiries on this brief should be referred to Mr. Philip Chan, Principal Assistant Secretary for Commerce and Industry, on telephone number 2918 7480.

Commerce and Industry Bureau
15 March 2002

Chapter: 528 Title: COPYRIGHT ORDINANCE Gazette Number:
Section: 41 Heading: Things done for purposes of instruction or examination Version Date: 30/06/1997

Education

- (1) Copyright in a literary, dramatic, musical or artistic work is not infringed by its being copied, to a reasonable extent, in the course of instruction or of preparation for instruction, if the copying-
 - (a) is done by a person giving or receiving instruction; and
 - (b) is not by means of a reprographic process.
 - (2) Copyright in a sound recording, film, broadcast or cable programme is not infringed by its being copied by making a film or film sound-track in the course of instruction, or of preparation for instruction, in the making of films or film sound-tracks, if the copying is done by a person giving or receiving instruction.
 - (3) Copyright is not infringed by anything done for the purposes of an examination by way of setting the questions, communicating the questions to the candidates or answering the questions.
 - (4) Subsection (3) does not extend to the making of a reprographic copy of a musical work for use by an examination candidate in performing the work.
 - (5) Where a copy which would otherwise be an infringing copy is made in accordance with this section but is subsequently dealt with, the copy is treated as an infringing copy for the purpose of that dealing and if that dealing infringes copyright, for all subsequent purposes.
- For this purpose "dealt with" (進行交易) means sold or let for hire or offered or exposed for sale or hire.

[cf. 1988 c. 48 s. 32 U.K.]

Chapter: 528 Title: COPYRIGHT ORDINANCE Gazette Number:
Section: 44 Heading: Recording by educational establishments of broadcasts and cable programmes Version Date: 30/06/1997

- (1) A recording of a broadcast or cable programme, or a copy of such a recording may be made by or on behalf of an educational establishment for the educational purposes of that establishment without thereby infringing the copyright in the broadcast or cable programme, or in any work included in it, if-
- (a) an acknowledgement of authorship or other creative effort contained in the work recorded is incorporated in the recording made by the establishment; and
 - (b) it is not made for gain.
- (2) Recording or copying is not authorized by this section if, or to the extent that, licences under licensing schemes are available authorizing the recording or copying in question and the person making the recording or copies knew or ought to have been aware of that fact.
- (3) Where a recording or copy which would otherwise be an infringing copy is made in accordance with this section but is subsequently dealt with, the copy is treated as an infringing copy for the purposes of that dealing and if that dealing infringes copyright, for all subsequent purposes.
- For this purpose "dealt with" (進行交易) means sold or let for hire or offered or exposed for sale or hire.
[cf. 1988 c. 48 s. 35 U.K.]

Chapter: 528 Title: COPYRIGHT ORDINANCE Gazette Number:
Section: 45 Heading: Reprographic copying made Version Date: 30/06/1997
by educational establishments
of passages from published
works

(1) Reprographic copies of artistic works or of passages from published literary, dramatic or musical works may, to a reasonable extent, be made by or on behalf of an educational establishment for the purposes of instruction without infringing any copyright in the work, or in the typographical arrangement.

(2) Copying is not authorized by this section if, or to the extent that, licences under licensing schemes are available authorizing the copying in question and the person making the copies knew or ought to have been aware of that fact.

(3) Where a copy which would otherwise be an infringing copy is made in accordance with this section but is subsequently dealt with, it is treated as an infringing copy for the purposes of that dealing, and if that dealing infringes copyright, for all subsequent purposes.

For this purpose "dealt with" (進行交易) means sold or let for hire or offered or exposed for sale or hire.

[cf. 1988 c. 48 s. 36 U.K.]

Chapter: 528 Title: COPYRIGHT ORDINANCE Gazette Number:
Section: 81 Heading: Free public showing or playing of broadcast or cable programme Version Date: 30/06/1997

- (1) The showing or playing in public of a broadcast or cable programme (other than an encrypted broadcast or cable programme) to an audience who have not paid for admission to the place where the broadcast or programme is to be seen or heard does not infringe any copyright in-
 - (a) the broadcast or cable programme; or
 - (b) any sound recording or film included in it.
- (2) The audience are treated as having paid for admission to a place-
 - (a) if they have paid for admission to a place of which that place forms part; or
 - (b) if goods or services are supplied at that place (or a place of which it forms part)-
 - (i) at prices which are substantially attributable to the facilities afforded for seeing or hearing the broadcast or programme; or
 - (ii) at prices exceeding those usually charged there and which are partly attributable to those facilities.
- (3) The following are not regarded as having paid for admission to a place-
 - (a) persons admitted as residents or inmates of the place which is operated by a charitable organization and the facilities therein are not provided for profit;
 - (b) persons admitted as members of a club or society whose main objects are charitable or are otherwise concerned with the advancement of religion, education or social welfare and where the payment is only for membership of the club or society and the provision of facilities for seeing or hearing broadcasts or programmes is only incidental to the main purposes of the club or society.
- (4) Where the making of the broadcast or inclusion of the programme in a cable programme service was an infringement of the copyright in a sound recording or film, the fact that it was heard or seen in public by the reception of the broadcast or programme is to be taken into account in assessing the damages for that infringement.

[cf. 1988 c. 48 s. 72 U.K.]

Chapter: 528 Title: COPYRIGHT ORDINANCE Gazette Number: L.N. 173 of
2000
Section: 83 Heading: Provision of sub-titled copies of broadcast or cable
programme Version Date: 01/07/2000

(1) A body designated under subsection (3) may, for the purpose of providing people who are deaf or hard of hearing, or physically or mentally handicapped in other ways, with copies which are sub-titled or otherwise modified for their special needs, make copies of television broadcasts or cable programmes and issue and make available copies to the public, without infringing any copyright in the broadcasts or cable programmes or works included in them.

(2) This section does not apply if, or to the extent that, licences under licensing schemes are available authorizing the act in question and the person so acting knew or ought to have been aware of that fact.

(3) The Secretary for Commerce and Industry may, by notice in the Gazette, designate bodies for the purposes of this section, and the Secretary shall not designate a body unless he is satisfied that it is not established or conducted for profit. (Amended L.N. 173 of 2000)

[cf. 1988 c. 48 s. 74 U.K.]