

**Treatment of Parody**  
Main Topic

Carman KM  
HO/CITB/HKSARG  
05/12/2013 11:19

Subject: S1079\_Candy Lam (IFPI Asian Regional Office)  
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Originator	Reviewers	Review Options	
Carman KM HO/CITB/HKSAR G		Type of review:	One reviewer at a time
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**RE: IFPI - Supplementary Submission on Comments on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong**

to: co\_consultation@cedb.gov.hk

15/11/2013 16:39

Cc:

From:

To: <co\_consultation@cedb.gov.hk>

Cc:

To: Commerce and Economic Development Bureau  
Cc: Intellectual Property Department

Dear Sirs,

Please find **attached** IFPI's written supplementary submission on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong.

Kind regards,  
Candy

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Regional Counsel  
IFPI Asian Regional Office

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IFPI Supplementary Comments on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong -.pdf



## **IFPI Supplementary Comments on the Treatment of Parody under the Copyright Regime Consultation in Hong Kong**

November 2013

### **INTRODUCTION**

IFPI submitted its comments on the consultation regarding the treatment of parody under the Hong Kong copyright regime in October 2013. Since then, we have become aware that certain interest groups have proposed a so-called “User-Generated Content exception” (“the proposed UGC exception”). In light of this, IFPI considers it necessary to submit supplementary comments on the topic of UGC.

As a preliminary point, IFPI would like to record its objection to the proposal to add the topic of UGC to the subject matter of the consultation. The original consultation documents, as well as the discussions leading up to it, laid out the subject matter of this inquiry and stakeholders prepared their responses accordingly. The subject of the current consultation is the treatment of parody; the proposed UGC exception is not related to the treatment of parody at all and is outside of the scope of this consultation. If UGC may be added into the consultation, IFPI would like also to include a number of other copyright reform proposals which in our view are crucial to the development of the creative industries in Hong Kong. Despite this, IFPI is now nevertheless submitting a response on the merits, or lack thereof, of the issue of UGC.

### **BACKGROUND**

Our understanding is that the proposed UGC exception is based on the exception contained in Canada’s Copyright Act<sup>1</sup>. Under Canadian law, it is not an infringement of copyright for an individual to use an existing work in the creation of a new work and for the individual to use the new work or to authorize an intermediary to disseminate it, provided that:-

- (a) the use of, or the authorisation to disseminate, the new work is done solely for non-commercial purposes;
- (b) the source of the existing work is mentioned, if it is reasonable in the circumstances to do so;
- (c) the individual had reasonable grounds to believe that the existing work was not infringing copyright; and
- (d) the use of, or the authorisation to disseminate, the new work does not have a substantial adverse effect, financial or otherwise, on the exploitation or potential exploitation of the existing work or on an existing or potential market for it, including that the new work is not a substitute for the existing one.

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<sup>1</sup> Section 29.21 Canadian Copyright Act R.S.C., 1985, c. C-42

From the information available to us at this time (press coverage and online submissions), it appears that the proposed UGC exception omits at least conditions (b) and (c) above. It is a view shared by many commentators, IFPI included, that the Canadian exception breaches the Three-Step Test laid down under the TRIPS Agreement and to which Hong Kong is bound<sup>2</sup>. Since the proposed UGC exception would be much broader in scope than the Canadian law, it appears inevitable that it will also breach the Three-Step Test.

We note that a certain interest group supporting the proposed UGC exception argues that if the Canadian exception violates the Three-Step Test, then the WTO would have already filed a complaint. This assertion is incorrect as the WTO itself cannot file a complaint. Only another WTO member can file a complaint, and that member must show that it (or its citizens) has been harmed by the Canadian exception. That said, the Canadian exception has only been in place for one year, and its scope of application and other details as to how it works have yet to be determined. Furthermore, we are not aware of any cases concerning the exception having been taken in the domestic Canadian courts. This is significant as rightholders would first have to pursue remedies in domestic courts *before* asking their governments to seek a remedy in the WTO (since they would have to show that the Canadian law has left them without an adequate remedy). In the circumstances, it is much too early to evaluate the real-world effect of the Canadian exception. Therefore the fact that no WTO complaint has yet been filed is not determinative in any way. On the contrary, given that the Canadian exception is still at its very early stage of implementation, it would be surprising if one had been filed by now.

## **EXECUTIVE SUMMARY**

IFPI strongly opposes an exception for UGC which would permit use of a copyright work without the express consent from, or provision of fair compensation to, the relevant right holder(s). Proponents who claim UGC does no harm where it is “non-commercial” ignore the practical reality that this material is, in the vast majority of cases, posted to commercial platforms which then derive revenue from it in some way. Furthermore, even non-commercial dissemination to the public can cause harm to the market of the original work.

The fact is that dissemination of UGC – whether it's directly or indirectly commercial – is unacceptable because it appropriates the creative work of another person without his/her consent and is likely to adversely affect the market for the original work. A UGC exception cuts across fundamental legal protections traditionally afforded content creators for both their copyright and moral rights in respect of both their original works and derivative works created from such original works. Furthermore, a UGC exception benefits the UGC platforms while cutting out right holders. As discussed in our October submission, existing exceptions in combination with the Three-Step Test provide the proper balanced copyright framework – any use beyond that should be covered by the applicable exclusive rights and subject to the requirement to obtain appropriate licenses.

## **USER-GENERATED CONTENT**

When speaking about “user-generated content” or “UGC”, it is important to define exactly what is meant as the term is used to describe very disparate things and one of the problems with discussions in this area is the lack of understanding as to the actual subject matter of the term.

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<sup>2</sup> Article 13 of the TRIPS agreement reads as follows: “Members [that is Members of the WTO] shall confine limitations or exceptions to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.”

The term “User-Generated Content” or “UGC” for example is often used incorrectly to refer to content that is not user generated in any way but rather user-reproduced and user-disseminated and therefore amounts to a clear infringement of copyright.

Generally though, UGC is understood to involve the use of an existing copyright work (or works), in the creation of new or derivative works, where the “user” requires the license of the owner of the original underlying work in order to avoid infringing copyright. This UGC focuses heavily on music and we assume that it is only this UGC that is the subject of the proposed UGC exception.

Another type of material is sometimes confusingly referred to as UGC. This is content created by consumers independently and without incorporating any pre-existing content created by others; such content may include blogs and wholly original texts and music. Of course, for this material, there is no requirement for any particular exception as, assuming it to be original content, such material can avail itself of copyright protection in the same manner as any other work and its creation and dissemination do not require the permission of anyone else.

In the premises, when we refer to UGC in our submission, we are only talking about the first type of content referred to above.

### **GENERAL UGC EXCEPTION WILL FAIL THREE-STEP TEST**

It is imperative that any changes to legislation are considered in light of Hong Kong’s international obligations and in this respect the Three Step Test set out under TRIPS must be an integral factor in the consideration of the introduction of any additional exceptions under Hong Kong’s copyright law. The proposed UGC exception (as we understand it) will fail this test.

First, the exception (as we understand it is proposed) cannot be considered a “special case” as it would, in effect, introduce a blanket permission to reproduce, adapt or create derivative works from copyright works, for instance by taking substantial part of a sound recording and incorporating it into a video with altered lyrics or with new audio-visual material. According to the WTO decision in the Irish Music case, the term “special” connotes, amongst others, “exceptional in quality or degree; unusual; out of the ordinary” or “distinctive in some way”, and it should not lightly be equated with “special purpose”.<sup>3</sup> This first test therefore requires that a limitation or exception should be clearly defined and should be narrow in its scope and reach<sup>4</sup>. It is extremely improbable that the proposed UGC exception would pass the first test.

Second, it is highly likely that the normal exploitation of a work would be adversely affected by the use of it in another work. There will be an almost total loss of control by right holders over how their work is being used as anyone would be permitted to use derivatives of any copyright work, including translations, adaptations, synchronizations and the like. In fact, right holders will even lose the ability to prevent use of their works from damaging their reputation or brand image.

Although one of the conditions under the proposed UGC exception is that the new work should not cause “substantial adverse effect” to the market for the original work, such a condition is highly subjective, hard to define and in any case violates the Three-Step Test since that test only requires

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<sup>3</sup> 6.109, 6.111, 6.112, Report of the Panel on United States – Section 110(5) of the US Copyright Act, WT/DS160/R

<sup>4</sup> Ibid. See also WIPO’s Guide to the Copyright & Related Rights Treaties Administered by WIPO & Glossary of Copyright & Related Terms, WIPO 2013 where in respect of the first step “certain special case” is defined as meaning “that the use covered must be specific – precisely and narrowly determined – and that no broadly-determined cases are acceptable”.

that the use “does not conflict with a normal exploitation of the work”. The threshold of “substantial adverse effect” is considerably higher than the Three-Step Test’s threshold.

Thousands of works are currently subject to licences to platforms such as YouTube, who pay royalties to the rightholders of the copyright works in question, in order to allow them to make these works, including UGC, available to the public. These platforms would not need to obtain a licence or pay royalties for the use of those works in Hong Kong (but not so outside Hong Kong) if the proposed UGC exception is enacted here. Furthermore, even if the commercial platforms do not benefit from the UGC exception, the ability of the user-creators to disseminate their “creations” to the public online, for instance through their own websites, undercuts the value to platforms (such as YouTube) of licences since members of the public may go to the websites created by users – or even to non-commercial websites created by users in order to aggregate UGC – rather than to the licensed platforms. There is therefore no question at all that UGC disseminated on platforms (commercial or otherwise) has the potential to adversely affect the market for the work.

Third, such an exception would clearly prejudice the legitimate interests of the right holders in that they will lose their right to be rewarded for the use of their works.

Examples of what the proposed UGC exception would allow (assuming carried out on a non-commercial basis) is:

- Translation of a work from English to Chinese (thereby undercutting the original copyright owner’s ability to license (and receive royalties from) a translation.
- Making a motion picture based on a novel (depriving the original copyright owner of the ability to decide who will be able to produce the film version and to receive royalties from the proceeds of the film).
- Writing a sequel to another author’s novel – e.g., an unauthorised new Harry Potter novel.

Whilst no doubt proponents of the proposed UGC exception will make much of the fact that the derivative work must be non-commercial, one could well imagine a non-commercial translation, a non-commercial film or a non-commercial novel which nonetheless inevitably reduces the author’s or copyright owner’s revenues from the work. If members of the public can obtain a derivative work for free from a non-commercial source, they are likely to do so rather than pay the price for an authorised commercial version.

## **UGC EXCEPTION WILL CREATE OWNERSHIP ISSUES AND ADVERSELY AFFECT MORAL RIGHTS**

### **Ownership Issues**

Under the current regime, a right holder’s consent or licence is required in order to create and use any derivative works, and the ownership of such derivative works is clearly delineated in the agreement between the parties. Whilst it is conceivable that, with a sufficient degree of skill, judgement and labour expended in the creation of a new work, the latter may become a protectable copyright work itself, the fact remains that if a substantial part of the expression of the first work was copied without consent, the new work will nevertheless constitute an infringing work. That is longstanding, black-letter copyright law.

If the proposed UGC exception is introduced, rightholders will be deprived of the right to take legal action for copyright infringement even if a substantial part of the first work is reproduced. The proposed exception would effectively destroy the right of the copyright owner to make and license derivative works, one of the fundamental rights of copyright owners.

A related issue that would arise would be the ownership of the new “UGC” work. That is, it is unclear whether the right holder of the first work will be an owner or co-owner of the copyright (if any) in the new UGC work as no agreement will be in place to delineate such rights. A further complication will arise if a third party copies, adapts or otherwise exploits the new work, as both the original right holder and the creator of the new work may claim to be entitled to licence fees, and both may sue for infringement. The proposed UGC exception fails to take into account such complicated issues and will therefore lead to much uncertainty.

### **Moral Rights**

The proposed UGC exception would permit the “mash-up” of video clips and music for non-commercial use. We are aware that there are numerous examples of “mash-up” works in Hong Kong which copy or adapt certain musical works, sound recordings or posters in order to attack or smear an artist or a musical work. Such “mash-up” works are offensive and prejudicial to the reputation of the author or artist, and would, in our view, constitute derogatory treatment.

At present, the law protects against such users: Under section 92 of the Copyright Ordinance, the author of a literary, dramatic, musical or artistic work has the right not to have his work subjected to derogatory treatment. A performer of a live aural performance or a performer whose performance is fixed in a sound recording also has the right not to have his performance subjected to derogatory treatment under section 272E of the Copyright Ordinance. A treatment is derogatory if it amounts to distortion, mutilation or other modification that is prejudicial to the honour or reputation of the author or performer.

A UGC exception would remove these protections and this would inevitably have a negative effect on the moral right of integrity of the copyright work or the performance in a recording. The proposed UGC exception fails to address how the authors’ and performers’ right of integrity can be protected. It would also lead to contravention of Hong Kong’s obligations under the relevant international copyright treaties.

### **COMMERCIAL NATURE OF UGC PLATFORMS**

Although the proposed UGC exception requires that the use of the new work is solely for non-commercial purposes, seemingly non-commercial UGC is often posted to commercial platforms which derive revenue from it. For instance, a family video posted on YouTube that incorporates a musical sound recording is in fact using a commercial vehicle (i.e. YouTube) to disseminate that video to the public. While the family in this instance may not be engaging in any commercial activity, YouTube is certainly being compensated as its business model relies on UGC being posted to its website and on the advertising revenues that it receives every time somebody views a video on YouTube. The result is that the proposed UGC exception would create a loophole in the law whereby such platforms will be able to exploit and generate substantial profits from seemingly “non-commercial” UGC, whilst rightholders are cut out and deprived of legitimate income.

### **EXISTING LICENSING ARRANGEMENT IS ADEQUATE AND EFFECTIVE**

For some time now, a number of UGC platforms have been licensed to make UGC available and have paid royalties to the owners of underlying rights. Record companies in particular have been at the forefront of this progression in licensing, having licensed YouTube and other UGC platforms to make available UGC that incorporates (in whole or in part) their sound recordings and videos in consideration of certain remuneration and subject to other commercial terms. Thus, creators of

UGC who use licensed platforms to make their UGC available to the public have been able to take advantage of these licences.

While UGC incorporating a substantial part of pre-existing musical work, sound recording or cinematographic work (even if new elements are added) is obviously infringing copyright, record companies and other rightholders have chosen to license such activity rather than oppose it. This type of licensing arrangement results in a win-win situation for everyone. As such, there is already an effective way to resolve the alleged problem. There is no need for the introduction of a specific UGC exception which would seriously undermine the above commercial activities.

We understand that members of the various interest groups in Hong Kong which are behind the UGC proposal are not, to the extent they are aware of its existence, mollified by the UGC licence scheme described above as they object to the fact that rightholders retain the ability to require that particular items of UGC be taken down.

In respect of this criticism we note that except in cases where there are legal risks for the rightholders or where the rightholders or authors/performers consider the particular UGC to be offensive or otherwise objectionable and do not wish to be associated with it, only a very small percentage of UGC is taken down. For example, record companies have required that video tributes to Adolph Hitler that include popular sound recordings as their soundtracks be taken down. To the extent that those supporting the proposed UGC exception may consider that the existing licensing scheme is being abused by rightholders, then they have the onus of showing that this is the case.

## THE FREEDOM OF SPEECH ARGUMENT

We understand that those proposing the UGC exception are arguing that copyright impedes freedom of expression specifically with respect to the derivative work/adaptation right. We strongly disagree with this assertion and indeed would argue that, on the contrary, copyright, far from impeding free speech, is compatible with free speech principles and, in fact, is the "engine of free expression". As the US Supreme Court has held, by establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas.<sup>5</sup>

Freedom of expression is, of course, a right protected by the Basic Law of Hong Kong<sup>6</sup>. However, the Basic Law also provides that Hong Kong residents shall enjoy other rights safeguarded by the laws of Hong Kong<sup>7</sup>, which obviously include copyright protected under the Copyright Ordinance, and it further enshrines the freedoms and rights contained in the International Covenant on Economic, Social and Cultural Rights which includes the right of an author to the protection of the moral and material interests resulting from his literary or artistic productions.<sup>8</sup> As such, freedom of speech is not an absolute right and it must be balanced against other rights.

In any event, one must understand that freedom of expression is the freedom to utter one's own words. It is not the freedom for one to utter or copy another's words. If someone is to create an

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<sup>5</sup> *Eric Eldred, et al. v. John Ashcroft, Attorney General*, 537 U.S. 186 (2003) pp 28 – 29 approving of the observation made in *Harper & Row v. Nation Enterprises* 471 U.S. 539 (1985).

<sup>6</sup> Article 27, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China.

<sup>7</sup> Article 38, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China.

<sup>8</sup> Article 39, Chapter III: Fundamental Rights and Duties of the Residents - The Basic Law of Hong Kong Special Administrative Region of People's Republic of China implementing article 15 of the International Covenant on Economic, Social and Cultural Rights.



original work and make his or her own expression, they are welcomed to do so and will be protected under the law. However, it is going much too far to say that freedom of expression protects the taking or adaptation of another one's work without consent.

## **CONCLUSION**

On the basis of all of the above, IFPI strongly opposes the introduction of the UGC exception currently proposed by the relevant interest groups in Hong Kong.

The proposed UGC exception will upset the delicate balance between copyright protection and permitted uses which has been calibrated over many years. There is simply no justification to introduce such a drastic change to the copyright regime when the existing law as well as the commercial arrangement between right holders and UGC platforms are working so effectively.

We stand ready to assist the Government with further information on any of the above points.



For further information, please contact:

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