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Dear Mr Wong

**COPYRIGHT (AMENDMENT) BILL 2011  
– CODE OF PRACTICE FOR SERVICE PROVIDERS FOR THE PURPOSES OF  
THE PROPOSED SECTION 88 OF THE COPYRIGHT ORDINANCE**

**Internet Service Provider (“ISP”) / Online Service Provider (“OSP”) –  
Clarification by Legislation of Online Transmission Liability Issues**

The Hong Kong General of Commerce is pleased to submit its views on the Draft Code of Practice for Internet/Online Service Providers as outlined under. Our response is made up of three parts - the first is an introduction setting the scene of the basic amendments proposed by the Copyright (Amendment) Bill, the second part is the framework of the Bill and the third part is the measures in the Code of Practice specifically for copyright protection in the digital environment.

**1. Introduction**

- 1.1 Breaches of copyright on the internet have historically been widest and deepest in the fields of film, recorded music, songs and, to a lesser extent, written works.
- 1.2 Copyright proprietors, who for these purposes normally delegate their right of enforcement to performing rights societies, have long exhibited a preference to take the easy route of attack and sue the ISPs who carry the copyright infringing transmission. This has generated worldwide a vast number of legal developments in different jurisdictions, which are not always synchronized, and have accordingly introduced considerable variations and uncertainty in the face of what is in fact a common enemy.
- 1.3 Actually, it has been very difficult in common law jurisdictions for copyright owners to identify the internet transmitting infringers of online copyright acts.
- 1.4 Common law courts have developed the English doctrine of *Norwich Pharmacal* orders by which in evidence-gathering proceedings against an ISP, an order sought by the Plaintiff will force an ISP to reveal the identity of the ISP subscribers, whose acts are the essential and undoubted copyright infringement.

- 1.5 Three requirements must be satisfied before *Norwich Pharmacal* orders are granted:
- There must be cogent and compelling evidence to demonstrate serious tortious or wrongful activities have taken place;
  - It must be clearly demonstrated that the order will or will very likely reap substantial and worthwhile benefits for the plaintiff; and
  - The discovery sought must not be unduly wide.
- 1.6 However, these considerations are not taken into account in Canada where the Court perceives that competing interests have to be balanced. The Canadian Superior Court of Justice has held in March 2011 that where both the freedom of expression and right to privacy are at issue in proceedings requiring disclosure of identities of anonymous internet users, the court has to consider the following factors:<sup>1</sup>
- Whether there was a reasonable expectation of anonymity;
  - Whether the plaintiff established a prima facie case of wrongdoing by the poster;
  - Whether the plaintiff tried to identify the poster and was unable to do so;
  - Whether the public interest favouring disclosure outweigh the legitimate interests of freedom of expression and right to privacy;
  - The fact that the third party against whom discovery is sought is in some way connected to or involved in the misconduct;
  - The fact that the third party must be the only practical source of information available to the applicant; and
  - The fact that the third party must be reasonably compensated for expenses and legal costs arising out of compliance with the discovery order.
- 1.7 At the end, the Court came down on the side of privacy and decided not to order the disclosure of the identities in question.
- 1.8 However, the Canadian legislature has published a bill which in fact goes a long way to address this problem in the same way as the Bill in Hong Kong. (See 4 below)
- 2. Hong Kong case law on ISP liability for the copyright infringing transmission of their subscribers**
- 2.1 To date, no ISPs in Hong Kong have been held liable for copyright infringing transmission of their subscribers.
- 2.2 On the contrary, in one Hong Kong IP case, where the plaintiffs (music producers) sought *Norwich Pharmacal* orders against the defendants (ISPs) for the information of their subscribers alleged to be copyright infringers, the court remarked on the innocence of ISPs being necessarily caught up in the copyright infringements in question, thereby involving them as parties essentially innocent of the primary wrong to expend considerable sums on legal fees, executive time and etc.<sup>2</sup>

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<sup>1</sup> *Phyllis Morris v Richard Johnson et al*, 2011 ONSC 3996 (Ontario Superior Court of Justice)

<sup>2</sup> *Cinepoly Record Co Ltd & Others v Hong Kong Broadband Network Ltd & Others* [2006] 1 HKLRD 255

### **3. “Three strikes” solution**

- 3.1 A number of legislatures worldwide have noted the difficulties for ISPs and have developed what are sometimes called “three strike” solutions involving notification to the ISPs by the copyright holder of the infringing traffic. The third strike notification establishes liability for the ISP in the event of its failure to take down the infringing materials.
- 3.2 Hong Kong has duly noted these overseas measures and has been rightly concerned to clarify the liabilities of the ISPs and to establish clearly how a copyright owner can take action to require the ISPs to reveal the identities of their copyright infringing subscribers, and how an ISP can be required to take down copyright infringing materials. In other words, *Norwich Pharmacal* works in Hong Kong and in the light of what appears to be an unfortunate lacuna in the Bill will in certain circumstances continue to be the only remedy available to the copyright owner unless an appropriate amendment is made to the Bill. (See 9.3 below)

### **4. Framework of the Bill**

- 4.1 The potential liability of internet service providers (“ISP”) in Hong Kong is governed by the Copyright Ordinance (Cap.528) (“the Ordinance”). In light of rapid technological advances in this digital age, the Government began public consultation in December 2006 and subsequently released the *Proposals for Strengthening Copyright Protection in the Digital Environment* in November 2009. The resulting Copyright (Amendment) Bill 2011 (in this paper, “the Bill”) was tabled at the Legislative Council in June 2011. It aims at facilitating the co-operation between copyright owners and ISPs in combating online infringement.
- 4.2 The first and extremely sensible proposal in the Bill is to render the act of transmitting copyright materials to be technology-neutral. This has been a problem in a number of cases in Hong Kong where considerable debate and confusion have existed on whether or not a particular internet activity was “distributing” for the purpose of the Copyright Ordinance.
- 4.3 Sections 22, 25, 26 and 28 are either amended or repealed, and are substituted by section 28A which clearly sets out the definition of what is or is not “communication” of a copyright work. This is a very helpful and progressive attempt to clarify the previous confusion and uncertainty.
- 4.4 The Bill also introduces new sections 88A to 88I to the Ordinance. They provide for a statutory regime to limit the liability of ISPs by removing in certain given circumstances their liability for damages or any other pecuniary remedies in copyright infringement that has occurred on their online platforms. ISPs referred to under the Bill include public forum operators, social network operators and auction site operators.
- 4.5 Section 88A defines what “online services” are. Though not exhaustive, the list has included well-known activities, such as hosting and caching.
- 4.6 Sections 88B to 88D set out the framework of how to identify and to limit the copyright liability of ISPs. In short, ISPs have to take reasonable steps to limit or stop infringement as soon as they have received a notice of alleged infringement, or have acquired actual or constructive knowledge of infringement. They have to appoint a designated agent to receive notice of alleged infringement and publicize this appointment on their websites.
- 4.7 Furthermore, the ISP must not have received or be receiving financial benefit attributable to the infringement and must not interfere with standard technical measures which a copyright owner may adopt to identify or protect his copyright work.
- 4.8 For the purposes of whether or not reasonable steps have been taken by the ISP to limit or stop the infringement, the Bill provides that if the service provider complies with all the provisions in the Code of Practice for Service Providers, which is the subject of the present consultation (see below), the ISP is to be treated as having taken those reasonable steps.

- 4.9 In this way, the Code of Practice is brought into the legislation, although the Bill itself provides that any published Code of Practice is not subsidiary legislation. Any such Code of Practice may accordingly be amended by the Secretary for Commerce and Economic Development (“the Secretary”) and the unwieldy and lengthy process of the legislative amendments are thereby avoided. Under the Bill, there is no explicit consultation process for the issue of a Code of Practice. As a safeguard to ensure that the concerns of interested persons are considered, consideration should be given to amending the Bill so that the Secretary is required to undertake such consultation as is reasonable in all the circumstances of the case with persons who may be affected by the operation of the Code of Practice before issuing any such Code of Practice or modification thereof.
- 4.10 Under section 88C, the notice of alleged infringement must be in writing, signed or authenticated by the owner of copyright alleged to be infringed, and provided to the designated agent of the ISPs, electronically or otherwise. It has its own detailed content and delivery formalities which have to be complied with. They include name and address of complainant, the substantial identification of the copyright work alleged to have been infringed and information sufficient to enable ISPs to locate the infringing materials.
- 4.11 Then section 88D provides that on receipt of a notice of alleged infringement, the ISP has to send a copy of such notice directly to the subscriber(s) concerned. In response, the subscriber(s) may, however, give a counter notice to the designated agent disputing or denying infringement and request reinstatement of materials or cease disabling access to the materials. There is also requirement as to the formalities and content of the counter notice.
- 4.12 If ISPs remove materials or disable access pursuant to notice of alleged infringement or on actual or constructive knowledge of the fact of infringement, then whether or not the materials are ultimately determined to be infringing, the ISPs are exempted from liability for any claims under section 88G(1) and (3), provided that ISPs acted in good faith, and:
- Where materials reside on the ISP’s platform at the direction of its subscriber, the ISP took reasonable steps to notify the subscriber of the removal or disabling, sent a copy of notice of alleged infringement (or provided information reasonably sufficient to enable subscriber to identify the material or activity); and
  - Where the subscriber has given a counter notice, ISP has promptly sent a copy to the complainant and taken reasonable steps to reinstate materials or cease disabling of access within a reasonable time after receiving the counter notice.
- 4.13 Section 88G(5) provides a further exemption for ISPs which have reinstated materials or ceased disabling of access pursuant to a counter notice, insofar as ISPs have taken reasonable steps to send a copy of the counter notice to the complainant.
- 4.14 Additionally, a number of provisions under the Copyright Ordinance, which are the permitted acts in relation to copyright works, are clarified by the new section 37(6). It defines “dealt with” by reference to acts in nature of trade or business. This brings about certainty, and is most welcome.
- 4.15 Nothing in the bill requires an ISP to actively monitor their platforms or services, or gain access to or remove or disable access to materials suspected to be copyright infringing on their own initiatives, provided that they satisfy the above conditions.

- 4.16 Further, the Bill adds a new section 22(2A) which provides that in determining whether a person has authorised another to do any of the infringing acts, the court may take into account all circumstances and in particular:
- The extent of that person's power to control or prevent the infringement;
  - The nature of the relationship between the two persons;
  - Whether that person has taken any reasonable steps to limit or stop the infringement.
- 4.17 Accordingly, so long as an ISP does not censor or otherwise exercise control over the materials posted on or transmitted via its servers and strictly adheres to the take-down policy in compliance with the new sections 88A to 88I, it will not be held liable for copyright infringement on its websites. This is a definitively welcome position replacing much previous uncertainty.
- 4.18 So much for the elements of the Bill which seek to set up a technology-neutral and fully available restriction upon distribution of copyright materials in the digital environment. This measure arising out of a general consultation by the Government with the copyright proprietors and the public is an admirable way forward to simplify and reduce the cost of enforcement of online copyright.
- 4.19 However, of itself, the section 88 amendments deliberately leave open the detailed implementation of practice, the observance of which will provide a safe harbour and level playing field for ISPs, but departure from which may leave themselves at risk of being taken as authorizing copyright infringement.

## **5. Copyright Protection in the Digital Environment: Code of Practice for Service Providers – Consultation Paper**

- 5.1 Under section 88B, the Secretary may publish in the Gazette a Code of Practice providing practical guidance to service providers. It is further provided that the Secretary may revise whole or any part of the published Code of Practice and that any reference to the Code of Practice is to be construed as a reference to the Code of Practice as revised from time to time.
- 5.2 It is clearly stated in the Code of Practice that compliance with the provisions is voluntary. However, given the exemption from liability afforded to an ISP who complies with all the provisions in the Code of Practice, the ISP may be encouraged to so comply.
- 5.3 By way of repetition of the thrust of the Bill and its amending effect upon the Copyright Ordinance, Section III of the Code of Practice sets out the underlying objectives which are basically to enhance copyright protection in the digital environment, to promote development of advanced technology for creating and disseminating digital contents, to better facilitate in practice the combating of online piracy and to foster a culture of respect for intellectual property rights in the community which is currently much diluted by the online infringement currently so prevalent.

## **6. Notice system: form and delivery**

- 6.1 The Code of Practice opens up substantial details on these topics. A 2-part annex lays out Form A which is the Notice of Alleged Infringement to be furnished by the copyright holder and Form B which is the Counter Notice to be issued by the subscriber.
- 6.2 The Form A notice clearly requires the alleged infringement to be particularized and claimed as an infringement identifying also how the copyright holder alleges the ISP to have facilitated the alleged infringement.

- 6.3 For the avoidance of doubt. The Code provides that prima facie compliance with the Form A notice absolves the ISP from any requirement to verify its authenticity and content. This may be seen as protective of the ISPs' ability to take immediate action on what might otherwise be regarded as merely hearsay. The only sanction in the Bill is the imposition of penalty for the offence of knowingly or recklessly making materially false statement in the infringement notice or counter notice, although this sanction does not necessarily address damage done by innocently mistaken content, but civil liability is preserved.
- 6.4 The content of Forms A and B is concise and practical, and the furnishing of the required details is considerably assisted by guidance notes.
- 6.5 It is to be noted as a beneficial aspect of the Code in setting the detailed requirements to be followed to implement the take down requirement of the ISP under the Bill that it is immaterial that the copyright infringer is or is not in Hong Kong. This accordingly brings within the operation of Hong Kong law the takedown of infringing online materials transmitted into Hong Kong from overseas which is something not provided for in the current law.
- 6.6 The complaint process may be open to abuse by foreign complainants. Under the Bill and draft Code of Practice, any person can submit a complaint. This includes persons outside Hong Kong. If the complaint notice meets the formal requirements of Form A and the complainant declares the information in the notice to be true and that he understands he commits an offence and is liable to pay compensation for any false statement, then the ISP is entitled to act upon the notice including performing takedown of the alleged infringement on its platform. In the case of an overseas complainant, that person is for all intents and purposes outside the reach of Hong Kong law and thus not practicably amenable to the sanctions of Hong Kong law against a false complaint. In order to overcome this potential hazard of false complaints, consideration should be given to amending the Bill so that the complainant must either have a presence or representation in Hong Kong and/or provide an appropriate security bond to meet any potential compensation claims.

## **7. Substantive process**

- 7.1 Provision is made on receipt of infringement notice for service providers to acknowledge receipt. Automatic response is sufficient.
- 7.2 The ISP is required to send a written notice to the complainant if in any way the particulars given in Form A fall short of its full requirements.
- 7.3 When the Form A content has been fully provided, the ISP must send a written notice to the subscriber, annexing the infringement notice and notifying the legal consequence of the copyright infringement complained of.

## **8. Application to ISP storage functions**

- 8.1 Provision is made for ISP to remove material or disable access to it or access to activity which in either case is established as infringing but only after the complainant has communicated the notice of infringement.
- 8.2 The steps to be taken leading to takedown of the infringing materials are clearly set out with related time frame in the Code.
- 8.3 The Code warns ISPs to be well-advised to adopt appropriate and reasonably practicable measures to ensure that non-infringing materials or activities on their platform remain intact and are not affected by the required takedown or disabling actions against the alleged infringing materials.
- 8.4 The content of the required notification to the offending subscriber is clearly set out and if the ISP has followed the necessary steps, it will be treated as having complied with the Code and brought itself within the liability exemption under the Bill – See 4.12 above.

## **9. Counter notice**

- 9.1 Although the provisions regarding simple alleged infringement and notice and takedown system followed their own notice formalities, the counter notice provisions in the Code are common to both and must contain the particulars required by Form B to be sent to the designated agent by electronic or other means.
- 9.2 Provided that the counter notice fully complies with Form B, the ISP shall send a written notice to the complainant **including the counter notice** and a statement that unless the complainant must within a specified period of working days inform the ISP in writing that the copyright owner has commenced proceedings in Hong Kong, the ISP will reinstate the alleged infringing materials or cease disabling access to it or to the alleged infringing activity.
- 9.3 Only if a counter notice is served by the subscriber will the copyright owner complainant know the identity and contact by receiving the copy of the counter notice as required by the Code. Therefore, if a counter notice is not served, the copyright owner complainant will not have any information about the infringing subscriber or be able to ascertain details of the infringing activity. This may have the unsatisfactory consequence of the copyright owner complainant being unable easily to seek to recover any legitimate redress such as damages for loss of the profit made by the infringer in the course of infringement.

## **10. ISP takedown on own initiative**

- 10.1 Where the service provider becomes aware of the infringing material or activity it must remove it or disable access to it as soon as practicable.
- 10.2 The Code warns ISPs to be well-advised to adopt appropriate and reasonably practicable measures to ensure that non-infringing materials or activities on their platform remain intact and are not affected by the required takedown or disabling actions against the alleged infringing materials.
- 10.3 On such removal or disablement, the ISP must send a written notice to the subscriber, setting out:
- A statement that allegedly infringing material or activity stored at the direction of the subscriber has been identified and the ISP has removed it or disabled access to it;
  - Information reasonably sufficient to enable the subscriber to identify such material or activity;
  - A statement that the subscriber may dispute or deny alleged infringement and/or removal or disabling access by sending a counter notice in Form B to the ISP within a specified number of working days;
  - Information about legal consequence of infringement complained of, and a reminder that the subscriber may seek independent legal advice.
- 10.4 The content of the required notification to the offending subscriber is clearly set out and if the ISP has followed the necessary steps, it will be treated as having complied with the Code and brought itself within the liability exemption under the Bill – See 4.12 above.
- 10.5 A subscriber disagreeing with the alleged infringement or the removal/disabling shall send under its signature a counter notice which fully complies with Form B. The counter notice is to be sent to the service provider's designated agent by electronic or other means. The Code provides that on receipt of the counter notice the service provider should acknowledge receipt.

- 10.6 Unless the copyright owner has informed the ISP that it has commenced proceedings in Hong Kong to restrain the subscriber, the ISP shall within a specified period of working days take reasonable steps to reinstate or cease disabling access to the material or activity.
- 10.7 What the Bill or the Code does not make provision for is the situation analogous to 9.3 above. A counter notice is not relevant and there is accordingly no way to oblige the ISP to seek out a copyright proprietor who will accordingly not be able to recover any legitimate redress such as damages for loss of profit made by the infringer in the course of infringement. This is an unfortunate lacuna in the practical aspect of the wrong being done by the infringer but for which it is difficult to see an effective legal remedy.

## **11. Disabling access through linking facility created by the ISP to infringing material or activity**

- 11.1 Provision is made for a complainant copyright owner to notify the ISP of alleged infringement in respect of a belief that linked or referenced material or activity which is detrimentally infringing to the complainant is being made available by the ISP through its platform.
- 11.2 The notice by the copyright owner is required to contain the full particulars of Form A and to be signed and sent to the ISP's designated agent. On receipt of the notice, the Code requires the ISP to acknowledge receipt and if the notice fully complies with Form A, the ISP within the time frame to be specified in the Code must disable the linked access to the alleged infringing material or activity and remove or disable access to any material or activity stored by the ISP on its own service platform. Provided that the notice *prima facie* complies with Form A, the ISP is not required to verify its authenticity and content.

## **12. CONCLUDING OBSERVATIONS**

### **Negative**

- 12.1 Neither the Bill nor the Code expressly require that a designated agent may be a member of staff of the ISP, or alternatively, must be a third party neutral outsider. This should be made explicit.
- 12.2 No provision in the Bill or the Code either requires the designated agent to transmit the received notice of whatever kind to the ISP or deems receipt by the designated agent to be receipt by the ISP. This should be provided for.
- 12.3 Given that the ISP as a non-legally qualified entity is obliged in the written notice to the subscriber following takedown or disablement of access or after receipt of an infringement notice to communicate matters of general but legally significant import to the copyright infringing subscriber, it should be noted that there is a risk of incompetent and possibly damaging furnishing the required information and it should be considered to be useful to generate a model compliance form for an annexure to the Code.
- 12.4 It should be noted that in various ways the workload of an ISP is not reduced but is rather increased by certain provisions of the Bill and the Code. Among these is an implied but real obligation on the ISP to check the Form A and Form B notices in order to establish that they comply with those annexed to the Code. Staffing and cost issues will arise.
- 12.5 The introduction of a notice and takedown procedure in the manner contemplated by the Bill may not have practical effect. In a typical set up, an ISP may provide a customer with rack space in a data centre for installation and operation of the customer's server facilities, and provide the customer with Internet addresses and connectivity. That customer in turn may operate a business or concern providing online services to its end customers or end users. In those circumstances, the ISP is remote from the management and operation of the customer's online platform and end customers, and the ISP may not be in a position to discern which parts of the customer's platform are hosting the alleged infringing content and which parts are not subject to the alleged infringement. If that is the case, the ISP may not be in position to take



down content without affecting non-infringing content. The complainant's request for takedown may in practice be impossible for the ISP to carry out. It may be more appropriate for the complainant to issue the takedown request directly to the ISP's customer who is operating the platform with the alleged infringing content.

- 12.6 It is disappointing to note that the Code of Practice contains no requirements for OSPs to implement a policy to deal with repeat end-user infringers. Particularly, the Notice and Notice System as currently proposed will not be effective in the absence of a mechanism to deal with repeat end-user infringers, as users may simply ignore notices passed on to them by OSPs. We suggest that for OSPs to take advantage of the safe harbor, they should have a legally binding policy or agreement in place with their end-user subscribers, providing OSPs the rights to terminate or suspend accounts of end-user subscribers who repeatedly post infringing materials. Subscriber should be given an opportunity to appeal against any decision by OSPs before the service is terminated or suspended.
- 12.7 Instead of specifying the timeframe for OSPs to respond to Notices of Alleged Infringement as currently proposed (i.e. 1-3 working day(s) after receiving the Notices for pre-release/newly released work; 7-10 working days for other work), the Administration may consider modeling on the U.S. Digital Millennium Copyright Act and request OSPs to respond to Notices "expeditiously". This can avoid imposing onerous obligations on OSPs and ossifying any developing best practices.
- 12.8 We suggest clarifying in the Code of Practice that Section 88B(2)(a)(iii) of the Copyright (Amendment) Bill 2011, which requires OSPs to take steps to limit or stop the infringement when they "became aware of facts or circumstances that would lead inevitably to the conclusion that the infringement has occurred" (commonly referred to as "red-flag knowledge"), does not in effect impose an obligation upon OSPs to monitor or filter Internet traffic. We also suggest clarifying in the Code of Practice that OSPs are not required to filter or monitor Internet traffic to qualify for the safe harbor protection.

### **Positive**

- 12.9 It is to be noticed that the Code clarifies that a complainant does not have to be a copyright owner of the infringing material but can be the maker of a complaint by way of the infringement notice in Form A as agent or in any other competent capacity which can in certain circumstances be for the additional benefit of the copyright owner.
- 12.10 As stated in 6.5 above, the Code brings into the operation of the Hong Kong law a takedown obligation of infringing online materials transmitted into Hong Kong from overseas – a gap in the present law.

Yours sincerely

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