



Deacons IP Bulletin

legal update

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Deacons has been recognized by Asian-MENA Counsel as an "In-House Community Firm of the Year" in Hong Kong for Intellectual Property for 2011. The award is based on the votes and testimonials of a survey sent to 15,000 in-house counsel and other buyers of legal services across Asia.

Deacons also received the InterContinental Finance Magazine Award for the "Leading Intellectual Property & Trademarks Law Firm of the Year, Hong Kong, 2011". The awards are presented to firms that have had the greatest impact on the industry within their region, based on an independent poll of magazine readership, industry peers and the publication's own in-house panel.

Hong Kong Introduces New Law to Protect Copyright in the Digital Age



According to recent comments by the IFPI, 95% of the online music downloads today are unlicensed. Around £5 billion is generated annually by these illegal activities (at the expense of the music industry and the right owners). With the international community struggling to update copyright laws to address the challenges of the digital environment, Hong Kong has introduced amendments to the Copyright Ordinance, intended to enhance protection for copyright works in the digital age.

Summary of key proposals

The Copyright (Amendment) Bill 2011 introduces:

- A technology-neutral exclusive right for copyright owners to communicate their works through any mode of electronic transmission.
- A statutory "safe harbour" to limit the potential liability of Online Service Providers ("OSPs") for copyright infringement occurring on their service platforms.

- An exception to allow media shifting of sound recordings for private and domestic use. This is relatively uncontroversial but the exemption is quite limited as it applies to *sound recordings* only. The copy must be made from the original by the lawful owner of the original copy and must only be for private and domestic use by the owner or a member of the household in which the owner lives. Only one copy can be made and stored in each device lawfully owned by the owner and the owner must retain ownership of both the original recording and the copy.
- Additional factors to assist the Court in considering the award of additional damages in online infringement cases.

What does “communicating” mean?

An issue that has arisen in many cases involving online distribution of infringing copyright works is whether “distribution” requires actual dissemination, or whether passive conduct by simply making available, or offering to distribute, is sufficient to violate a copyright owner’s rights. The UK and the US courts have been divided on this issue. In Hong Kong, the distinction is particularly important since, under the existing law, “making available” is only a civil offence whilst “distribution” may also be criminal.

The new law introduces an exclusive right for copyright owners to *communicate* their works to the public through any mode of electronic transmission. “Communication” is defined to include broadcasting a work, including it in a cable programme service and *making available* a work to the public. There will also be a new criminal offence for those who make *unauthorised communications* of copyright works to the public:

- in the course of any trade or business that consists of communicating works to the public for profit or reward; or
- non-commercial communication to such an extent as to affect prejudicially the copyright owner.

Active dissemination of digital copies of infringing works will clearly be caught either by the existing distribution offences or the new communication offences. However, the new definition of “communication” results in a departure from the previous law in that, simply “making available” unauthorised copyright works via electronic means (including via the Internet), becomes a *criminal offence*.

Unauthorised file sharing of works such as music, movie and games should be covered by the offence. This is even if the activity is done on a non-commercial basis, provided that the copyright owner is “prejudiced”. The position of copyright owners is strengthened as they will no longer have to rely on the “distribution” provisions only and it will not be necessary to show that the infringing work was actively transferred by the defendant, or that anyone actually downloaded the work. In theory, all parties involved in P2P file sharing of infringing works, may be liable.

It would seem that simply posting links to infringing material on the internet may escape criminal liability. The bill provides that a person is not regarded as “communicating” a work to the public if he does not determine the content of the communication. The administration has indicated that this means forwarding or sharing a link, *per se*, does not constitute communication. However, will this interpretation of the law really be sustainable where someone knowingly and intentionally posts links to an infringing movie on the internet?

Prejudice

The bill goes on to set out some non-exhaustive factors to help determine what constitutes “*prejudicial extent*”:

- The purpose of the distribution;
- The nature of the work, including its commercial value;
- The amount and substantiality of the portion copied (in relation to the work as a whole);
- The mode of distribution; and
- The economic prejudice caused to the owner of the copyright as a consequence of its distribution, including the effect of the distribution on the potential market or value of the work.

The factors have been distilled from Hong Kong, UK and Australian case law. It seems likely that the courts will find criminal liability where a work has commercial value and the mode of distribution will facilitate widespread circulation of a work, even where the distribution is not in the course of trade or business which affects the revenue stream of the owner. The administration has made clear that the policy intent is to combat large scale piracy but this is not evident on the face of the legislation. Arguably, even very small scale, non-commercial, infringement can still be regarded as “prejudicial”.

“Safe Harbour” for OSPs

The bill limits the liability of OSPs for copyright infringement occurring on their service platform, subject to compliance with certain prescribed conditions. The conditions include requiring the OSP to have taken reasonable steps to limit or stop the infringement as soon as practicable after it:

- receives a notice of the alleged infringement;
- became aware that the infringement has occurred; or
- became aware of facts or circumstances that would lead inevitably to the conclusion that the infringement has occurred;
- The OSP must also have not received any financial benefit directly attributable to the infringement.

The “safe harbour” is underpinned by a non-statutory Code of Practice, which sets out practical guidelines and procedures for OSPs to follow. An OSP will be regarded as having taken “reasonable steps” if it complies with the Code of Practice. After much discussion, a draft Code was published for comments in August 2011. The Code provides for the “Notice and Notice” and the “Notice and Takedown” systems practised in many other jurisdictions and sets out detailed steps to be followed by the service provider. The requirements are different depending on whether the OSP is a network, storage, or search engine provider. Some of the deadlines for performing certain procedures are quite tight, depending on the copyright work in question.

The burden on OSPs has definitely been increased although, in return, the bill provides more certainty regarding OSP liability. Whilst the bill makes clear that OSPs are not obliged to police activities, once an OSP is aware of an infringement, they need to take active steps to prevent the infringement. What facts or circumstances will *lead inevitably* to the conclusion that infringement has occurred, is something that will no doubt be argued in individual cases, but this clearly means that OSPs cannot afford to turn a blind eye to blatant illegal activity occurring on their service platform.

Authorising infringement

A party who is not a primary infringer can still be liable under the copyright law on the basis that it “authorised” the infringement. There is no Hong Kong case law on this issue but UK cases have traditionally required the

defendant to have some degree of control over the acts of the infringer and to show that the party had actively authorised, or facilitated, the infringing acts, or had deliberately collaborated with, the infringer.

The bill seeks to clarify what constitutes “authorisation” of copyright infringement and provides that the court may take into account all the circumstances of the case, in particular:

- The extent of that person’s power (if any) to control or prevent infringement;
- The nature of the relationship (if any) between the parties; and
- Whether that person has taken any reasonable steps to limit or stop infringement.

Going forward, there is more likely to be a finding of liability where a person is in a position of control over the infringer, or has received a financial benefit. This will include online retailers, or auction websites, which is in keeping with the international trend.

However, the bill does not address the issue of *knowledge*, which can be very important where authorisation is alleged. To the extent that there are specific provisions for OSPs to be found liable where they have been fixed with knowledge of infringing activity, it remains to be seen whether the authorisation provisions will be interpreted in a manner consistent with this approach.

Conclusion

The bill is currently before the Bills Committee. It appears to have escaped the controversy that has dogged other countries such as the UK, where the Digital Economy Act 2010 has been the subject of a judicial review, as well as being accused of breaching human rights. The main problem is the provision for disconnecting persistent downloaders of copyright infringing material. Hong Kong has chosen not to go down this route, for now. However, there is evident concern from stakeholders regarding the terms of the Code of Practice, the meaning of “prejudice” and the implications of the change in the law on freedom of expression. These issues are currently being debated and further changes to the law could be made.

Should Hong Kong have an Original Grant Patent? Government Proposes Amendment to the Patent Law



The Hong Kong Government has issued a consultation paper seeking views on the Hong Kong patent system. The current patent system (re-registration of patents granted in Designated Patent Offices - Europe, Mainland China and the United Kingdom - together with unexamined short-term patent applications) has been generally accepted as user-friendly and cost-effective. However, the Government is concerned that the system meets the changing needs of Hong Kong's economy and its vision of developing Hong Kong into a regional innovation and technology hub.

The consultation paper asks for feedback on the following questions:

- Standard patents - Should Hong Kong have its own “original grant” (OGP) patent system? It is envisaged that, if introduced, a standard patent could be obtained directly from a Hong Kong application.
- Irrespective of whether Hong Kong has OGP, should the current “re-registration” system be maintained? If so, should the existing re-registration system be expanded to recognise patents granted by jurisdictions other than Europe, Mainland China and the United Kingdom?
- Short-term patents - Should the short-term patent system be retained as a supplement to the standard patent system? If the short-term patent system is maintained, how can the existing process be enhanced?
- Regulation of patent agency services - Should the provision of patent agency services in Hong Kong be regulated? If so, what is an appropriate form of regulation?

OGP

There are divergent views as to the merits of an OGP system for Hong Kong. Many applicants pursuing patent protection in Hong Kong are also likely to seek patent protection in other jurisdictions including major trading partners such as Europe and Mainland China.

Under the existing re-registration system, granted patents pursued in Hong Kong have a strong presumptive validity,

in view of the relatively thorough and established examination conducted by the Designated Patent Offices.

As the grant of a Hong Kong patent right is based upon progression of corresponding applications, the additional time and cost involved in re-registering the patent in Hong Kong is relatively minimal. In fact, there is a significant saving compared to the cost that would be incurred if separate substantive examination were to be conducted in Hong Kong.

Critics of the re-registration system argue that the requirement of first obtaining a patent from a designated patent office is expensive and/or inconvenient for Hong Kong applicants, particularly for applicants who have limited resources, or who only wish to have a Hong Kong patent.

Similar concerns have been raised in relation the recent amendments to US Patents Act. In the Hong Kong context, the relatively limited usage of the short-term patent system raises the question of how many such applicants there are and whether there is sufficient critical mass to warrant a complete change in the existing system.

Another criticism of the existing re-registration system is that, since the substantive examination is done overseas, arguably this does not encourage the development of the patent agency business in Hong Kong or the local expertise necessary for the drafting and prosecution of patent applications. There is concern that this, in turn, leads to fewer work opportunities for local graduates with scientific and technical backgrounds.

If an OGP system is introduced, it could be introduced in conjunction with the current “re-registration” system. This would allow applicants the choice to apply directly in Hong Kong or through “re-registration”, depending on market and operational needs. However, operating a parallel system will increase administrative and substantive workloads and will obviously entail extra cost. Inevitably, this will be passed on to users of the system.

If Hong Kong is to conduct independent substantive examination, this would require a large team of experienced examiners and comprehensive technical databases with up to date developments in the full range of scientific and technological fields. However, given the relative size of the market, it is unlikely that Hong Kong could provide a fully-fledged in-house examination capacity. Therefore, it is likely that substantive examination would need to be outsourced.

The Chinese Patent Office has been raised as a possible choice for outsourcing. However, historically, Hong Kong's patent law and experience is most similar in approach to established United Kingdom and Commonwealth precedents; whereas the Chinese legal and patent system is very different. Whilst using SIPO as an office for substantive examination may have its advantages if a Chinese language patent is involved, it does create some difficulty in determining how the validity of a patent in dispute will be assessed in Hong Kong.

Short-term patents

In Hong Kong, short-term patents cover the same range of inventions that may be protected by standard patents and may be obtained after filing a search report from an international searching authority. Importantly, there is no substantive examination of short-term patents prior to grant, which opens the short-term patent to potential abuse.

Supporters of the system feel that it offers a fast and inexpensive way of protecting simple inventions with a limited commercial life span. Many welcome the fact that Hong Kong covers a relatively wider range of inventions as compared with "petty patent" systems in other jurisdictions.

Critics of the system argue that as short-term patents are not substantively examined, patents that may actually be invalid and unenforceable, may remain on the register and deter others from using the technology covered by the patents.

To address this issue, the possibility of including substantive examination has been raised. This could be a pre-condition to the commencement of infringement proceedings. The draw back of requiring such pre-commencement substantive examination is increased costs and longer processing time, which reduces the attractiveness of the short-term patent system.

Other possible suggestions mentioned in the consultation paper are:

- Extending the maximum term of protection. However, this may prolong the period that a potentially invalid patent may remain on the register;
- Increasing the maximum number of allowed independent claims. Currently, each application for a short-term patent is limited to one independent claim. However, the system is meant to protect relatively simple inventions and allowing a large number of claims may exacerbate potential abuse of the system.
- Lowering the patentability criteria to enlarge the pool of inventions that may benefit from protection under the system. This would be aimed at giving small and medium sized enterprises added incentive to invest in research and development. Again, if there is a concern that there may be abuse of the system, then this may aggravate the situation.
- To discontinue the short-term patent system altogether. However, this could act as a disincentive to the development of products with a short commercial life span.

Regulation of patent agency services

Advice on the patentability of inventions and the drafting of patent claims and specifications requires specialised technical skills and knowledge. Many patent agents in active practice in Hong Kong are qualified in other jurisdictions such as the Australia, Europe, Mainland China, the United Kingdom or the United States. Currently, any person may practice as a patent agent in Hong Kong, which arguably gives free choice in hiring agents and promotes competition.

Critics say that with an unregulated profession, any person, whether they have the relevant technical or legal skills or not, can do patent work and there is less assurance of the quality of the services. There are suggestions that a regulatory regime will help to build a local patent profession and create job opportunities for local graduates.

The Hong Kong Government has asked for views on whether a regulatory regime should be dependent on whether an OGP system is introduced in Hong Kong. If a regime is to be introduced, should the provision of patent services be limited to people meeting certain qualifications or requirements only? Or should any person still be allowed to provide patent services and the restriction would only be as to the particular title used? For example, in the United Kingdom, anyone can advise on patent applications, but the use of terms such as "patent agent" or "patent attorney", are restricted.

It is clear that there are differences in opinion within the Hong Kong patent profession and trying to reconcile so many competing interests will not be an easy task. The consultation period ends on **31 December 2011**.

Chris Britton, the Head of Deacons' IP Department, has been appointed by The Secretary for Commerce and Economic Development (SCED) to the Advisory Committee on Review of the Patent System in Hong Kong. The Committee will advise the SCED on:

- how the Administration should position Hong Kong's patent system, having regard to the issues outlined in the consultation paper and the responses received; and
- how best to implement changes to the system.

More Transparency in the Handling of Personal Data - Proposed Implementation of a Data User Return Scheme

The Privacy Commissioner has issued a consultation paper on the implementation of a data user return scheme. The Personal Data Privacy Ordinance already provides that the Commissioner may specify a class of data users and require them to submit data user returns to him. However, the relevant provisions have never been invoked, until now.

The scheme will require data users to submit an annual return setting out the personal data they control and the purposes of collection or processing of such data. It is hoped that the scheme will lead to greater accountability and transparency of data protection practices as well as enhancing data privacy protection standards.

The Commissioner will keep a register of data users, which will contain all the information submitted annually. The register will be open to the public for inspection. Data subjects will be able to access the information on how their personal data is being handled and can compare the practices of different data users. Data users may voluntarily provide additional information to show their commitment to the protection of the personal data of their customers.

It will be an offence for any data user to knowingly supply false or misleading information. The penalty will be a fine at level 3 (currently at HK\$10,000) and imprisonment of up to six months. It will also be an offence not to submit a return or to submit it late.

The scheme will initially cover:

- the public sector;
- the banking, telecoms and insurance industries; and
- organisations with a large database of members, e.g. customer loyalty schemes.

These sectors have been selected because of the large amount of sensitive personal data under their control and the relatively high number of complaints in these areas.

Also, it is common practice in these sectors to transfer personal data to third parties for marketing or other purposes.

The Privacy Commissioner intends to finalise the framework of the scheme by the end of 2011 and the scheme will commence operation in the fourth quarter of 2012. The first data user returns may have to be submitted by the second half of 2013.

Some FAQ's on the new gTLDs (generic top-level domains)

What is a gTLD?

A "generic top level domain" or "gTLD" refers to the suffix at the end of an internet address, for example, the .com, .net, .org or .edu strings that most people are familiar with. Currently there are 22 gTLDs but ICANN (Internet Corporation for Assigned Names and Numbers) has now approved a new gTLD programme that could result in hundreds of new gTLDs.

Can you give me some examples of new gTLDs?

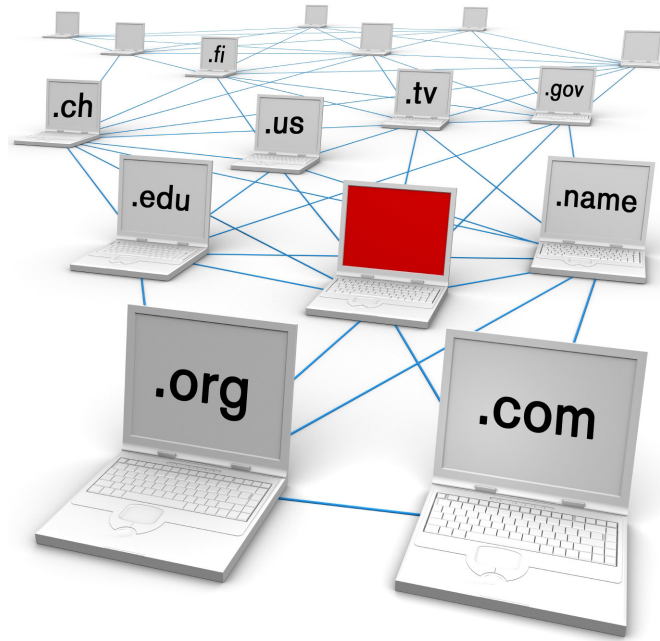
A new gTLD can be any string of three or more letters or, in scripts that do not use the Latin alphabet (such as Chinese, Arabic or other scripts), two or more characters. Numbers and punctuation are not permitted.

Possible categories of new gTLDs could include:

- Generic such as .legal, .fashion, .chocolates or .bank
- Brands such as .gucci, .rolex or .apple
- Geographic such as .london
- Associations or communities such as .christian

Why introduce a new gTLD program?

The program was developed to increase competition and choice into the internet addressing system. Under the new program, internet address names will be able to end in almost any word, in any language. In theory, this will offer organisations around the world the opportunity to market their brand, products, community, or cause in new and innovative ways.



- large multinationals;
- companies with large numbers of sub-brands or continually evolving new products which would normally entail new domain names (such as a movie studios or record companies);
- organisations that are interested in owning and controlling whole categories;
- existing registries; or
- entities that are already leasing internet “real estate” (such as eBay).

Is applying for a new gTLD the same as buying a normal domain name?

No. Applying for a new gTLD is much more complex. An entity applying for a new gTLD is essentially applying to become a domain name registry operator. This involves a number of significant responsibilities as the applicant will, in fact, be creating and operating a registry business. An applicant will be assessed on its financial, technical and operational capability to maintain a gTLD.

A successful applicant will become an internet registry under a 10 year renewable contract. A gTLD operator will control the gTLD, including determining which second-level domain names (names to the left of the dot) are registered and by whom.

Will it be expensive?

Yes. The initial evaluation fee is estimated at US\$185,000. Applicants will be required to pay a US\$5,000 deposit fee per requested application slot. It is estimated that the initial cost of establishing a new gTLD could be as much as US\$300,000, plus ongoing annual operating costs (including ICANN fees) of US\$125,000 or more. Additional fees for application evaluation and objections may apply.

A gTLD applicant must submit a letter of credit, or make a deposit into a cash escrow account, in an amount equal to the estimated costs for operating the gTLD registry for three years.

So what businesses would benefit from a gTLD strategy?

The following are likely to benefit the most:

Who might not benefit?

Companies with an established and recognized .com brand may not feel the need for a branded gTLD as there may be no benefit in terms of market positioning or branding.

Brands with a moderate internet presence may not need a unique domain and it would not be worth incurring the significant cost of establishing and maintaining a gTLD.

On the other hand, some established businesses with many products and a large and diversified portfolios of brands which are the primary source of identification for the public, may find it difficult (and expensive) to purchase the gTLD for all its products or brands. In some cases, the master brand may not have broad consumer recognition.

So why apply for a gTLD?

Enhancing brand value

Owning a gTLD can be prestigious and could raise awareness and facilitate promotion of a specific brand. The new gTLDs will give organisations more control over their corporate image on the internet. As well as enhancing brand equity by having product names and/or sub-brands associated with the master brand, businesses may be able to rationalise their online presence, by using their chosen gTLD domain name.

Enhanced security and control and extending brand trust

As the gTLD operator, a company would be able to set the requirements for second-level domain name registrants. A .brand gTLD may be able to control counterfeiting by helping to assure internet users that they are dealing with a

legitimate company and an authentic web site. Also, by only issuing second-level domain names to valued partners and resellers, companies may be able to extend the prestige associated with their brands and strengthen the trust between their partners and consumers. This may also help to create new marketing opportunities.

Making money

If implemented successfully, a new gTLD may also be able to generate significant revenues for organisations through managing the registration and renewal of domain names.

What protection will there be for trade mark owners?

In addition to the existing Uniform Dispute Resolution Procedure (UDRP), ICANN will be introducing a number of further mechanisms for the protection of trade mark owners.

“Sunrise period”

All new gTLD registry operators will be required to offer a pre-launch sunrise period of at least 30 days before the registry opens for registration to the public, to allow trade mark owners to apply for their trade marks as a second level domain name registration.

Trademark clearinghouse

A Trademark Clearinghouse will be established where trade mark owners can record their rights. The Trademark Clearinghouse will be a centralised database containing a list of word marks registered in different countries with authenticated documents evidencing an owner's trade mark rights. New gTLD registry operators will liaise with the Clearinghouse to obtain the required trade mark information for the Sunrise and Trade Mark Claims Service.

The Trade Mark Claims Service will operate to notify a trade mark owner if a trade mark in the Clearinghouse is registered as a domain name. It is understood that a notice will only be triggered where the registration is an “identical match” so that not all registrations containing a particular

mark will result in a notice to the trade mark owner. Therefore, the Trademark Clearinghouse will not be a substitute for an independent watching service. In any case, a service provider for the Trademark Clearinghouse has not yet been selected and it is unclear when it will be operational.

Uniform Rapid Suspension

A new type of proceeding, the Uniform Rapid Suspension proceeding (URS), will operate in tandem with and, as an alternative to, the UDRP. However, the remedy will be the suspension of the domain name for the duration of its registration period, rather than its transfer or cancellation, as under the UDRP. The procedure is similar to the UDRP but is intended to be much faster. However, the URS requires “clear and convincing evidence” so the burden of proof is higher than that required under the UDRP.

Filing a URS complaint may be appropriate where infringement is clear and the trade mark owner wants an expedited suspension of the domain name.

Post-Delegation Dispute Resolution Procedure

There will also be a Post-Delegation Dispute Resolution Procedure (PDDRP) to provide a remedy for trade mark owners against registry operators who engage in a pattern of bad faith exploitation of domain names. Convincing evidence of activities that take unfair advantage of the distinctive character or reputation of the owner's trade mark could result in suspension of a registrar's business or even termination of the registry agreement. However, it will be necessary to show affirmative conduct and bad faith on the part of registry operator.

When does the application process for the new gTLDs start?

The program will be launched on **12 January 2012** and the application window will close on **12 April 2012**. The date for the second round of applications has not yet been announced.

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Whilst every effort has been made to ensure the accuracy of this publication, it is for general guidance only and should not be treated as a substitute for specific advice. If you would like advice on any of the issues raised, please speak to any of the contacts listed.

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