

# **Asian Patent Attorneys Association**

## ANTI-COUNTERFEITING COMMITTEE REPORT

19 November 2009

*Yu & Partners, in association with Rouse Legal*

### **Part 1 – Hong Kong Group Report**

#### **1. Public awareness of IP protection**

The Intellectual Property Department of the Hong Kong Government released the results of its late 2008 survey into the public's attitude towards IP protection. Of the 1003 respondents, 96.3% agreed IP protection was necessary in Hong Kong, with 8.6% admitting that they buy pirate or counterfeit goods (an improvement on the previous figure of 15% from the last survey in 2005).

Reasons for infringement were: "Pirate/counterfeit goods being cheaper/genuine goods being too expensive" (69%); "Greediness/improper public mentality/lack of self-discipline" (26%); and "Unethical businessmen reaping excessive profits" (20%).

#### **2. Criminal cases – statistics**

Hong Kong Customs is charged with bringing cases against counterfeiters and pirates in Hong Kong, under the Copyright Ordinance or Trade Descriptions Ordinance.

In the latest period for which statistics are available (January – March 2009), they report that in total 2,151 cases were brought against 468 individuals, in respect of seized goods totalling HK\$81.3m. For the same period in 2008, 2,289 cases were brought against 407 individuals, totalling 74.9m. This represents a decline of 7% in the number of cases, whereas the number of defendants involved in each case decreased on average from 5 in 2008 to 4 this year.

#### **3. Key anti-counterfeiting and anti-piracy activities by HK Customs in 2009**

##### 3.1 Pharmacy raids

In March, Customs together with the Department of Health raided six pharmacies selling drugs illegally under either the Pharmacy and Poisons Ordinance or the Trade Descriptions Ordinance. Six arrests were made, and the value of goods seized totalled around HK\$180,000.

##### 3.2 Operation "Netstorm"

This was a campaign run from December 2008 to February 2009, aimed at curbing the sale of pirate and counterfeit products over the internet, through auction websites. In total, actions were taken against 12 defendants, resulting in the seizure of various fashion items, DVDs, video games and electronic goods to the value of HK\$190,000.

##### 3.3 BitTorrent distribution

Customs now operates a "Lineament Monitoring System" developed by the University of Hong Kong. The system collects data on BitTorrent 'seeders' (i.e. the uploaders) of infringing files sourced via local discussion forums. In April, one such seeder was

identified and targetted based on his uploading of two infringing films. Computing equipment valued at HK\$10,000 was seized.

### 3.4 Auction website

In June, Customs acted on a complaint about sales of counterfeit goods on an internet auction site, arresting two and seizing 3,300 counterfeit items valued at HK\$310,000 in a raid on the infringers' home in Yau Ma Tei.

### 3.5 Online games

In a possible world first, Hong Kong Customs in June raided a home in Tung Chung, out of which an online games service was being provided. Users were encouraged to download a pirated copy of the online game and, instead of playing via the official servers, connect to one of seven illegal servers in Tung Chung. The servers and other equipment, totalling HK\$77,000 worth, were seized and the operator of the infringing game arrested.

### 3.6 Topsite case

Commercial copyright piracy is often facilitated via the use of "Topsites", secretive invitation-only internet servers with high bandwidth connections and large amounts of data storage. Downloads are allowed in return for uploads; downloaded files will often then be reproduced on disc and sold to the general public. In June, a home in Chai Wan was raided in connection with the operation of a Topsite, and three computers seized. The premises of a user of the Topsite, suspected of onward distribution of pirated material, were also raided in Kowloon Bay.

The Topsite in question is thought to have had around 200 active members worldwide, and been operating for over two years. This is believed to be the first Topsite case brought in Asia.

## **4. Copyright Amendments**

In addition to standard civil copyright infringement, s.119B(1) of the Copyright Ordinance was introduced in 2007 to assist in dealing with piracy of books, newspapers, magazines and periodicals. However, it is still to be brought into force.

As discussed in the last AAPA anti-counterfeiting report, s.119B(1) criminalizes businesses and individuals acting in the course of employment who, without the authorization of the copyright owner, do the following acts on a regular or frequent basis resulting in financial loss to the owner:

- Make infringing copies of copyrighted works for distribution for the purpose of, or in the course of, a trade or business; or
- Distribute infringing copies of copyrighted works for the purpose of, or in the course of, a trade or business.

Directors or partners of a business can also be held personally liable.

What's new is that the Copyright (Amendment) Bill 2009 has been introduced, which provides a 'safe harbour' from criminal liability. The safe harbour extends to:

- For books and academic journals: Where the making or distribution involves no more than HK\$6,000 of copies in value within any 180 day period;
- For magazines and periodicals: Where the making or distribution involves no more than 500 A4 sized copied pages within any 14 day period.

The legislation contains detailed provisions on how to calculate the value and number of pages involved per copied work. Curiously, it further exempts distribution through wired or wireless networks with restricted access (such as paid websites or company intranets), except by email or fax.

Amendments to the Copyright Ordinance are also being proposed in relation to the digital delivery of copyright works. These amendments are still at proposal stage, but include such matters as criminalising unauthorized delivery by streaming, and creating an ISP liability and takedown regime.

## **5. Trade Descriptions Amendments**

The Trade Descriptions (Amendment) Ordinance came into force on 2 March 2009, introducing two new criminal offences for false or misleading trade descriptions in relation to goods.

The first offence is contained in s.13C(1), which provides that anyone engaged in commerce who "makes a false representation ... that a particular seller (whether or not the seller is the person who makes the representation) who sells any goods in the course of any trade or business is connected with or endorsed by any individual or body commits an offence."

The second offence is contained in s.13C(2). This sub-section relates to representations consisting of the use of a name that is identical or similar to the name of a reputable person or entity. The seller is required to take steps to prevent any misleading impression that the seller is connected with, or endorsed by, the reputable person or entity.

Because these are criminal offences, the burden of proof will be high. Penalties for violations include a fine of up to HK\$500,000 and a five year prison term. Action can only be taken only by Hong Kong Customs, although brand owners are entitled to make complaints to them about specific suspected violations.

It had been suggested that the amendments, in effect, create a criminal 'passing-off offence'. Although not yet tested in the courts, the reality is likely to be much more limited. The amendments were designed to address specific instances of false or misleading trade descriptions. To be actionable, a misrepresentation must be made in relation to the seller's status, rather than the goods themselves. In certain cases the former may be implied by the latter, but simply selling goods bearing a trade mark or packaged so as to look like the goods of a brand owner is not in itself likely to be enough – something else will be required.

Given the purpose of the legislation, it is likely that Customs will take action only where there is potential for serious harm to consumers.

## **6. Shadow Companies Developments**

The Hong Kong Government recently issued a set of legislative proposals dealing with the problem of shadow companies, slated to be introduced into a new bill amending the Companies Ordinance. If all goes well, they are expected to become law in the second half 2010.

Infringers in China and elsewhere regularly take advantage of the ease of registering companies in Hong Kong in order create companies with names similar to famous brands. These shadow companies can then issue official-looking documents, such as trade mark licences, to infringers, complicating enforcement against them.

The problem can be dealt with one of three ways:

1. By asking the companies registrar to change the company's name because it is 'too like' that of another company - but this only works in the first 12 months after registration;
2. By requesting the registrar to strike off the company for being defunct - but the applicant has a very high burden of proof to show that the company is not carrying on any business, worldwide; or
3. By suing the shadow company for trade mark infringement or passing off.

Because dealing with the registrar is often difficult, due to its strict interpretation of its powers, court action is often preferred. In most cases the absent directors will not contest proceedings, so default judgment can be obtained relatively quickly. But at present, company names can only be changed by shareholders' resolution and naturally the shareholders are also absent and do not act. Carefully drafted court orders can get around this, but obtaining them is time consuming and costly for plaintiffs.

The proposed amendments to the Companies Ordinance attempt to improve the situation, by empowering the registrar, on receipt of an appropriate court order, to direct that a company change its name. Where the company fails to do so, the registrar will itself be able to change the infringing company name to the company's registration number (i.e. '1234567 Limited').

The proposal will form part of a new draft bill, expected in Q4 2009. This bill was scheduled to become law in 2011/12, but is now expected for mid-2010. The date was brought forward once the Government recognised the seriousness of the shadow company problem: respondents to a Government consultation urged change, as did the Japanese and US Governments, who were concerned that Hong Kong's shadow companies are facilitating infringement in China and frustrating enforcement efforts.

The amendment to deal with the shadow company problem is a sensible one and in line with similar laws adopted in other common law countries such as Singapore, Canada and Australia. However, the Government stopped short of giving the companies registrar full power to adjudicate cases itself, a model recently introduced in the United Kingdom. They also refused to include provisions allowing arbitration of disputes along the lines of the UDRP system, which would be cheaper than litigating cases. But the Government will be keeping the situation under review.