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## Category III Films and VCDs: The Failure of Deterrence in the Copyright Ordinance of Hong Kong

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# Category III Films and VCDs: The Failure of Deterrence in the Copyright Ordinance of Hong Kong

## ABSTRACT

*In 1997, the government of Hong Kong enacted the Copyright Ordinance. The goal of the Ordinance was to establish a strong deterrent against the illegal manufacture and sale of copyright infringing materials, especially pirated video and digital compact discs. Courts have interpreted the Ordinance to allow the Customs and Excise Department sweeping powers of search and seizure. As a result, the government has seized many thousands of copyright infringing video compact discs and courts have enforced lengthy custodial sentences against guilty parties.*

*Despite these efforts, though, film piracy continues to grow throughout Hong Kong and transnational film interests have begun to call for even more stiff penalties and greater deterrence. The failure of the current deterrent in the Ordinance, however, suggests that continuing with that approach to combat piracy will most likely fail. As a result, this Note examines the many cultural and legal issues surrounding the supply and demand for copyright infringing discs and argues that Hong Kong must take a different approach, not relying on deterrence, to resolve this growing problem.*

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## INTRODUCTION

In 1997, as the Chinese government assumed control over the British city-state of Hong Kong, Jackie Chan reigned as the undisputed box office champion of Hong Kong domestic and transnational film.<sup>1</sup> While Jackie Chan was producing, starring in, and directing big budget action thrillers, smaller budget category III films continued to claim a larger percentage of the Hong Kong cinema market by producing films, for example, where a man is kidnaped in his own home, beaten, and maimed by an assailant posing as a relative.<sup>2</sup> Such was the multifarious state of the Hong Kong film industry in 1997 when the Hong Kong Special Administrative Region (HKSAR) Legislative Counsel enacted the Copyright Ordinance.<sup>3</sup> Although category III films did not have a direct bearing on the decision to enact the Copyright Ordinance,<sup>4</sup> the rising demand for these quasi-pornographic films substantially contributed to a decline in cinema attendance and led to the growth in the underground Video Compact Disc (VCD) market that the Copyright Ordinance intended to dismantle through the creation of harsh penalties for unauthorized VCD manufacturing and distribution.<sup>5</sup>

The Legislative Counsel enacted the Copyright Ordinance in response to pressure brought to bear by the local and transnational movie industries. The steady decline in revenues throughout the first half of the 1990s, combined with the Triad infiltration of the Hong Kong film industry, resulted in studio and cinema executives demanding that the government protect their intellectual property and, consequently, their profits. The Legislature responded by passing an ordinance intended to deter illegal VCD manufacturing and distribution by creating more stiff penalties, both fines and incarceration, that dwarfed

1. See generally Steve Fore, *Jackie Chan and the Cultural Dynamics of Global Entertainment*, in *TRANSNATIONAL CHINESE CINEMAS* 239, 239-58 (Sheldon Hsiao-peng Lu, ed., 1997). Jackie Chan was the top box office draw in Hong Kong and his films, such as *Rumble in the Bronx* and *Rush Hour*, had begun to penetrate the U.S. market and generate substantial revenues.

2. See *INTRUDER* (1997).

3. H.K. Ord. No. 92 (1997).

4. In fact, in all likelihood the emerging VCD market for category III films had nothing to do with the passage of the ordinance. Pressure from the domestic and transnational film industries, concerned with the protection of their copyrights, prompted the enactment of the law.

5. See, e.g., Rhonda Lam Wan and Elaine Pak Li, *Copyright Crackdown Pledge; Anti-Piracy Battle to get More Troops*, S. CHINA MORNING POST, Mar. 19, 1999, at 4 (stating that Hong Kong customs requested that the government hire 48 new staffers to assist in the growing anti-piracy battle with VCD manufacturers).

the previous British law in every respect.<sup>6</sup> What the industries and the Legislature failed to realize, however, was that the absence of a law with a strong deterrent did not produce the illegal VCD market. Rather, the declining quality of the Hong Kong cinema, combined with the salacious appeal of category III films, coalesced to create an underground market that has grown, rather than shrunk, since the enactment of the Ordinance. Despite the evidence of a conclusive study, the deterrent envisioned by the Legislature has failed to prove effective.<sup>7</sup>

This Note focuses on the diverse factors that have produced the illegal VCD market in Hong Kong, its impact on intellectual property law in the HKSAR, and why the interconnectedness of law and culture has resulted in an underground market that refuses to yield to an ever-stronger legal deterrent. Furthermore, this Note offers alternative solutions to address this growing problem. Part I presents a detailed history and analysis of the Hong Kong transnational film market and the new intellectual property laws designed to protect it, showing that the Legislature yielded to political and economic pressures, both domestic and international, in enacting the Copyright Ordinance. Part II examines the cases appearing before Hong Kong courts that specifically addressed the Copyright Ordinance and VCDs. It will show that since 1999, a trend toward guilty verdicts with more stiff penalties for individuals convicted under this statute has emerged in a continuing effort to deter future violations. Then, Part II acknowledges the recently apparent, though illusory, effort to lessen the harsh penalties under the Copyright Ordinance. Finally, Part III of this Note argues that the Copyright Ordinance and the decisions of the courts have not created an effective deterrent to the underground VCD market. Instead, these intellectual property laws have resulted in superfluous police powers for the Customs Department and have interfered substantially with the video and digital reproduction business of the region. As a result, Part III contends that the deterrent effect of the Copyright Ordinance has, in all appearance, failed and that a conclusive study should be conducted either to deny or to confirm this assumption. Furthermore, Part III suggests that the more effective method to address the growing illegal VCD problem would be to eliminate or reduce the pervasive influence of category III films on the Hong Kong market and culture.

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6. See *infra* Part I.B.

7. See *infra* Part III.

## I. BACKGROUND

A. *Hong Kong's Film Culture*

To understand the impetus behind the passage of the Copyright Ordinance, it is first necessary to understand the market that the Ordinance, in part, attempts to regulate. Although Hong Kong for many years has remained a market for diverse domestic and foreign films, over the past 14 years Hong Kong has seen a rise in category III films.<sup>8</sup> In 1998 and 1999, 47 percent of all films released in Hong Kong, including those released straight to video, garnered a category III rating.<sup>9</sup> In 2000, 22 percent of all films shown in theaters received a category III rating.<sup>10</sup> Furthermore, the theater managers do little to distinguish between category III films and category I or II films. Instead, cinemas show category III films in the same theaters that present family films and the rental chain Blockbuster places films like *Sex and Zen III* on their shelves next to Jackie Chan action movies.<sup>11</sup> Despite the age restrictions on who may view a category III film,<sup>12</sup> the appeal of these movies is growing unabated.<sup>13</sup> The growth of the underground VCD market has hindered the effectiveness of age restrictions for category III. A 1999 study conducted by the HKSAR government revealed that 66

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8. The Internet Movie Database lists 281 films that have received a category III rating in Hong Kong and this list represents only the films that have been translated into an English title. See <http://us.imdb.com>. Although the Hong Kong film rating classification system is similar to the U.S. MPAA ratings, category III films are without comparison. Category III is the highest restriction in Hong Kong and the close equivalent of the MPAA NC-17 rating. Category III films, however, are notorious for showing scenes of violence and sex that, while not qualifying as illegal pornography under Hong Kong law, can best be characterized as "pornoviolence."

9. Darrell W. Davis & Yeh Yueh-yu, *Warning! Category III: The Other Hong Kong Cinema*, 54 *FILM Q.* 4, 12 (2001).

10. Film Classification in Hong Kong, at <http://www.info.gov.hk/info/filmcnsr.htm>. Category III films are recognized by their distinctive triangle marking with a roman numeral III contained within.

11. See Davis, *supra* note 9, at 13. Category III films are played at mainstream cinemas, including those theaters owned by United Artists, Golden Harvest, and AMC.

12. Category I films are rated suitable for all ages. Category IIA and IIB films carry warnings, similar to the MPAA PG and PG-13 warnings, that some material may not be suitable for viewers of varying ages, but those ratings are only advisory. Only category III films enforce an age requirement for viewing. See Film Classification in Hong Kong, *supra* note 10.

13. See Davis, *supra* note 9, at 13.

percent of the teenagers surveyed had watched a category III film either at their home or at a friend's home.<sup>14</sup>

The pervasive availability of these films results from aggressive marketing to a widening base of category III customers and reliance on a "forbidden fruit" appeal. Producers create and market category III films to all tastes and genres. Distributors even use the age restriction associated with category III status as a marketing tool.<sup>15</sup> A category III rating means "the film will probably contain explicit, but not hardcore sex, gruesome violence, indecent language, or all three."<sup>16</sup> While it is not the goal of this Note to examine what segments of the Hong Kong population prefer certain types of category III films, their growing popularity proves that a market exists. Additionally, the producers of category III films have expanded their sales by creating films that appeal to subgroups within the category III market: quasi-pornographic,<sup>17</sup> genre films,<sup>18</sup> and pornoviolence.<sup>19</sup> Although some

14. Hong Kong Legislative Council Panel on Information Technology and Broadcasting, 1998 Public Opinion Survey on the Film Classification System (Feb. 8, 1999), at <http://www.legco.gov.hk> [hereinafter Legco Survey].

15. Davis, *supra* note 9, at 14.

16. *Id.*

17. Quasi-pornographic category III films center on scopophilia and sexual gratification. Thus, the nude female form and female sexual organs invariably are included in the films. To distinguish itself from hardcore pornography, these films are loosely based on classical literature and Confucian values. *See id.* These attempts to distinguish, however, are often feeble. *See, e.g.*, SEX AND ZEN (1991); PRETTY WOMAN (1991); EROTIC GHOST STORY (1991); THE RAPE (1994); SEX AND ZEN III (1998) (depicting a scholar who meets a kung-fu master with four wives. The master saves the scholar from being raped by bandits and then teaches him sexual positions such as "Frog Climbing Stone" and "Tiger Walking Downhill" as contained in the "Thirteen Tricks Recorded in the Virgin Book.").

18. Virtually any classic genre of film can and has received category III treatment. There is a crime and gangster genre. *See, e.g.*, CASINO (1998); ORGANIZED CRIME AND TRIAD BUREAU (1994); 9413 (1998); WOMEN ON THE RUN (1993); YOUNG AND DANGEROUS (1997) (rated category III for foul language); TRIADS: THE INSIDE STORY (1989) (starring Chow Yun-fat before he had attained his current status); ISLAND OF FIRE (1991) (starring, ironically, Jackie Chan). There is a horror genre. *See, e.g.*, BLOODY BEAST (1994); GHOST KILLER (1992). There is a detective sub-genre. *See, e.g.*, NAKED KILLER (1992); CAGEMAN (1992) (receiving the category III rating for foul language); TWENTY-SOMETHING (1994); THE ACCIDENT (1998); VIVA EROTICA (1996); TEMPTATION OF A MONK (1993); HAPPY TOGETHER (1997). Even some children's films have received this rating. *See, e.g.*, THE FRUIT IS SWELLING (1997); THE FRUIT IS SWELLING II (1997); THE FRUIT IS SWELLING III (1997); PINK LADY (1992) (combining adolescent anime and teen fashions with a violent lesbian love triangle among Catholic school girls). There is also a genre of category III films marketed toward women. *See, e.g.*, WOMEN ON THE RUN (1993) (involving a female heroine who wants to escape her pimp and eventually kills him).

19. These unique films are not quite pornography and carry none of the genre conventions of mainstream films. They include gruesome tales of police cases. *See, e.g.*, SENTENCED TO HANG (1989) (recounting the story of the last criminals to be hung in Hong Kong); THE BRAEMAR HILLS MURDERS (1992); DAUGHTER OF DARKNESS (1994); DAUGHTER OF DARKNESS II (1994); DAUGHTER OF DARKNESS III (1994); A DAY WITHOUT

large-budget mainstream films do receive category III ratings in Hong Kong,<sup>20</sup> most category III films appeal to a subculture or underground market. Although producers target category III films at a specific, mostly heterosexual male demographic,<sup>21</sup> the influence of these films—especially the decision to play them at mainstream theaters—has had a substantial impact on the overall film market and average consumers as a whole.

In 1999, a film industry survey conducted in Hong Kong revealed that the average consumer attributed the rise in intellectual piracy to the declining quality of films released in the region.<sup>22</sup> A Democratic Alliance for the Betterment of Hong Kong poll found that 77.6 percent of respondents considered films released in Hong Kong to be of poor quality.<sup>23</sup> Forty-four percent of respondents also indicated that they would buy pirated VCDs and an overwhelming 74 percent indicated that

POLICEMEN (1995) (involving scenes of graphic violence and rape); THE SWEET SMELL OF DEATH (1993); LEGAL INNOCENCE (1993) (involving a serial killer who keeps body parts of his victims in his refrigerator, boils his girlfriend's puppy in a pot of soup, and then feeds it to her); THE UNTOLD STORY (1993) (telling the tale of a serial killer who uses chopsticks to violate an employee and then cannibalizes her body); THE UNTOLD STORY II (1993) (involving a woman who is a serial killer); THE UNTOLD STORY III (1993); DR. LAMB (1992) (includes scenes of mutilation); THE TUEN MUN RAPIST (1994); THE TUEN MUN RAPIST II (1994); THE TUEN MUN RAPIST III (1994); HORRIBLE HIGH HEELS (1995) (describing a psychotic tanner who flays his victims in order to make fashionable shoes); EBOLA SYNDROME (1996) (telling the story of a man who rapes a woman in Africa, contracts ebola, and then spreads the virus around China by raping other women); LOVE TO KILL (1993) (involving a son watching his father kill his mother with an axe); NAKED KILLER (1992) (telling the story of a female assassin who takes pleasure in mutilating her male victims); TAXI HUNTER (1993) (telling the story of a killer who exacts his revenge on the cabby community that killed his pregnant wife); TWIST (1995) (telling the story of police officers who, in an effort to evade human rights laws, extract confessions from their suspects by torturing them, including penetrating a female suspect with an ice filled condom); RED TO KILL (1994); REMAINS OF A WOMAN (1993); O.C.T.B. CASEBTHE FLOATING BODY (1995). They also include period pieces that impart minuscule historical knowledge. *See, e.g.*, ANCIENT CHINESE WHOREHOUSE (1994); THE CHINESE TORTURE CHAMBER (1994); THE CHINESE TORTURE CHAMBER II (1994). Unlike claims that pornography objectifies women, these films are literally about objectification. Often, these films depict the stages and processes undertaken to transform a human body, usually female, into something else. Murder is not the climax of the story. These films relish the disposal of murdered bodies and include methods such as cannibalism, methodical dismemberment, and the reduction of the female body into cubes of flesh which the male protagonist can then submerge in acid.

20. The U.S. films WILD THINGS (1997), ANOTHER DAY IN PARADISE (Chinese Bookie Pictures 1998), HAPPINESS (1998), and EYES WIDE SHUT (1998) all received category III ratings because of their content.

21. *See supra* note 17.

22. Elaine Pak Li, *Lacklustre Films Made Public Turn to Fakes*, S. CHINA MORNING POST, Mar. 19, 1999, at 4.

23. *See id.* The respondents indicated that the poor quality of Hong Kong film is what turns consumers on to the black market.

consumers should not face criminal liability for purchasing such discs.<sup>24</sup> When Hong Kong consumers have made their voices heard, they have not blamed piracy for declining cinema attendance, but the poor quality of films shown and the uncomfortable surroundings of the theaters themselves.<sup>25</sup> This dissatisfaction has contributed to the rising demand for pirated, less expensive VCDs, and this problem has not gone unnoticed by the HKSAR government.

### B. *The Legal Response*

Hong Kong has long carried the regrettable reputation as an underground market for counterfeit goods. Piracy of intellectual property has become a booming business in Southeast Asia.<sup>26</sup> In 1984, a group of tourists complained to the Hong Kong Tourists Association that they were unable to purchase the counterfeit goods they sought during their trip.<sup>27</sup> Although those tourists may have sought any number of different counterfeit products, one of the most prevalent items available on the black market, as previously indicated, is copyright infringing VCDs.<sup>28</sup> In fact, illegal VCDs of mainstream and category III movies are some of the most ubiquitous products available in Hong Kong.<sup>29</sup> The HKSAR government, however, has not stood idly by as this lamentable situation developed. After all, Hong Kong prides itself as “the

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24. *Id.* The current Copyright Ordinance attempts to deter piracy by cracking down on the manufacturers and the distributors. While this Note poses alternative solutions to the very real problem the Ordinance addresses, this poll indicates that attempts to shift the deterrence effort onto the consumer (rather than the manufacturer) would fail. The current state of the Hong Kong economy and the lack of consumer choice in entertainment suggests that shifting the deterrent onto the consumer would prove as ineffective as current deterrence efforts. Thus, this Note does not suggest any kind of deterrence theory as a solution to the piracy problem.

25. See Will Lai, *Cinema Slump-Pirates not Solely to Blame*, S. CHINA MORNING POST, Mar. 19, 1999, at 24. In a letter to the editor, a consumer vents his frustration with the smoky, uncomfortable conditions in Hong Kong theaters, including those operated by mainstream film distributors such as United Artists.

26. Press Release, Software Alliance, BSC Survey Shows Software Piracy in Asia Rose to 51% in 2000, with Half of all Asia Pacific Businesses Still Using Illegal Software, at <http://www.bsa.org/hongkong/press/newsreleases/300501.phtml> (stating that Hong Kong's piracy rate increased to 57% in 2000).

27. BANKOLE SODIPO, PIRACY AND COUNTERFEITING GATT TRIPS AND DEVELOPING COUNTRIES 149 (1997).

28. See generally Davis, *supra* note 9, at 23. The author indicates that there are many reasons for the rising popularity of illegal VCDs, including: the lack of quality entertainment alternatives on television, the wide selection of VCDs, the low price of black market VCDs, the privacy home VCD viewing offers as opposed to the local cinema, and the availability of category III films in this format.

29. *Id.*; see also Li, *supra* note 22, at 4.



embodiment of an open society whose economic well-being is based on free markets and high legal standards.”<sup>30</sup>

On June 27, 1997, the Hong Kong Legislative Counsel passed the Copyright Ordinance.<sup>31</sup> The enactment of this legislation coincided with the handover of Hong Kong to mainland China and was, in part, enacted because China pledged, in a Joint Declaration with Great Britain, to maintain for at least 50 years the free economy and laws previously established by the British government.<sup>32</sup> Thus, the current Copyright Ordinance is similar<sup>33</sup> to the previous British Film Censorship Ordinance insofar as both laws regulate the film industry in Hong Kong, but one can distinguish the new Ordinance<sup>34</sup> by the harsher penalties it

30. Madeleine Albright, *High Stakes in Hong Kong: America Will Protect its own Interests and Support the Region's People Long After July 1*, NEWSWEEK, June 23, 1997, at 54.

31. See H.K. Ord. No. 92 (1997).

32. See Trevor Stevens, *Recent Trademark Developments: Asian/Pacific and Australia*, in TRADEMARK AND COPYRIGHT ENFORCEMENT IN SOUTHEAST ASIA, AND AUSTRALIA 1994 329, 342 (PLI/Pat., Copyrights, Trademarks, and Literacy Prop. Course Handbook Series No. 393, 1994). This Joint Declaration established the “one country, two systems” principle that China assured Britain would guide its relations with Hong Kong.

33. See generally Davis, *supra* note 9, at 20-22. For years the British operated a system of “colonial censorship” in bad faith. Although the British government had no authority to censor or restrict Hong Kong films, it initiated such a practice beginning in 1953 in an effort to censor films that might appear offensive to the Chinese mainland. Between 1973 and 1987, the British banned 20 films because “they were thought to be damaging to relations with China.” Similarly, censorship persists under the current Ordinance, but it has taken the post-colonial form “under what may be called an ‘alternative Chineseness.’” Ironically, one could argue that the British preoccupation with China has manifested itself within category III films. Because the British did not want to disturb the Mainland government, they used censorship laws to prevent any direct criticism of China. Thus, category III films began to include subtle and implicit attacks on the mainland, usually by making the antagonists of the films come from China. See, e.g., INTRUDER, *supra* note 2.

34. See H.K. Ord. No. 92 (1997). The relevant Section 118 of the Ordinance establishes:

118. Criminal liability for making or dealing with infringing articles, etc.

(1) A person commits an offense if he, without the license of the copyright owner—

- (a) makes for sale or hire;
- (b) imports into Hong Kong otherwise than for his private and domestic use;
- (c) exports from Hong Kong otherwise than for his private and domestic use;
- (d) possesses for the purpose of trade or business with a view to committing any act infringing the copyright;
- (e) for the purpose of trade or business—

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- (i) sells or lets for hire;
  - (ii) offers or exposes for sale or hire;
  - (iii) exhibits in public; or
  - (iv) distributes; or
  - (f) distributes otherwise than for the purpose of trade or business to such an extent as to affect prejudicially the owner of the copyright, an infringing copy of a copyright work.
- (2) Subsections (1)(b) and (c) and (4)(b) and (c) do not apply to an article in transit.
- (3) It is a defence for the person charged with an offence under subsection (1), to prove that he did not know and had no reason to believe that the copy in question was an infringing copy of the copyright work.
- (4) A person commits an offence if he—
- (a) makes;
  - (b) imports into Hong Kong;
  - (c) exports from Hong Kong;
  - (d) possesses; or
  - (e) sells or lets for hire, or offers or exposes for sale or hire, an article specifically designed or adapted for making copies of a particular copyright work which article is used or intended to be used to make infringing copies of the copyright work for sale or hire or for use for the purpose of trade or business.
- (5) It is a defence for the person charged with an offence under subsection (4) to prove that he did not know and had no reason to believe that the article was used or was intended to be used to make the infringing copies for sale or hire or for use the purpose of trade or business.
- (6) For the purpose of subsections (1)(b) and (3), where a person is charged with an offence under subsection (1) in respect of a copy of a copyright work which is an infringing copy by virtue only of subsection 35(3) and not being excluded under section 35(4), if he proves that—
- (a) he had made reasonable enquiries sufficient to satisfy himself that the copy in question was not an infringing copy of the work;
  - (b) he had reasonable grounds to be satisfied in the circumstances of the case that the copy was not an infringing copy;
  - (c) there were no other circumstances which would have led him reasonably to suspect that the copy was an infringing copy, he has proved that he had no reason to believe that the copy in question was an infringing copy of the copyright work.
- (7) In determining whether the person charged has proved under subsection (6) that he had no reason to believe that the copy in question was an infringing copy of the work, the court may have regard to, including but not limited to, the following—

has enacted against people guilty of violating the provisions concerning manufacturing or distribution.<sup>35</sup>

The British 1956 Copyright Act remained in place until the British enacted the 1988 Copyright Act and the Designs and Patents Act, although the 1956 Act continued as part of the Hong Kong body of law.<sup>36</sup> With the transition back to the mainland and the advancements in digital reproduction technology, however, the Legislative Counsel decided, in November 1996, to pursue the new Copyright Ordinance to fight the piracy threat.<sup>37</sup> Proponents of the Ordinance argued that it would better protect product licensing, manufacturing, and distribution rights. Some of the most vocal proponents of the bill were members of the entertainment and film industries in Hong Kong.<sup>38</sup> Although the proponents argued in favor of a stronger law with harsher penalties, there remained similarities between the Ordinance and the 1956 Act.

Specifically, the Ordinance maintained the same definition of "infringing copy."<sup>39</sup> Infringing copies are imported into or produced in Hong Kong and the infringement must be of a copyright or a breach of

(a) whether he had made enquiries with a relevant trade body in respect of that category of work;

(b) whether he had given any notice drawing attention of the copyright owner or exclusive licensee to his interest to import and to sell the copy of the work;

(c) whether he had complied with any code of practice that may exist in respect of the supply of that category of work;

(d) whether the response, if any, to those enquiries made by the defendant was reasonable and timely;

(e) whether he was provided with the name, address and contact details of the copyright owner or exclusive licensee (as the case may be);

(f) whether he was provided with the date of first day of publication of the work;

(g) whether he was provided with proof of any relevant exclusive license.

(8) A person commits an offence if he has in his possession an article knowing or having reason to believe that it is used or is intended to be used to make infringing copies of any copyright work for sale or hire or for use for the purpose of trade or business.

(9) Sections 115 to 117 (presumptions as to various matters connected with copyright) do not apply to proceedings for an offence under this section.

35. See *infra* Part II.

36. See Kristi Heim, *Distributors, Retailers Battle Over Ban on Parallel Imports*, ASIAN WALL ST. J., June 16, 1997 (H.K. Week), at 1.

37. See *id.*

38. See generally Winnie Chung, *Empty Houses Empty Future*, S. CHINA MORNING POST, Mar. 21, 1999, at 1.

39. See H.K. Ord. No. 92 35(1-4) (1997).

an exclusive licensing agreement.<sup>40</sup> Diverging from the 1956 Act, however, the new Ordinance sets the maximum penalties available in a criminal or civil prosecution at imprisonment for up to four years and a HK \$50,000 (USD \$6410) fine.<sup>41</sup> Furthermore, these penalties are available for each individual violation of the Ordinance.<sup>42</sup> In addition to these harsher penalties, the new Ordinance also makes available defences not readily available under the 1956 Act.<sup>43</sup> Most notably, a defendant can argue lack of knowledge, and thus intent, as a defense.<sup>44</sup> Despite this available defense, however, the case law will show that the new Copyright Ordinance has proved harsher in language and application than the older versions of the statute.<sup>45</sup>

While many people favored this harsher law, including local film producers, perhaps the most outspoken and powerful proponent was the transnational film and entertainment industry.<sup>46</sup> One report indicates that the U.S. film industry lost \$78 million in revenue between 1995 and 1998 in Hong Kong because of piracy.<sup>47</sup> The vice-chairman of the Motion Picture Industry Association stated that revenue from U.S. films dropped 50 percent between 1992 and 1999.<sup>48</sup> As a result, U.S. film distributors maintained that copyright infringing VCDs caused fewer films to open in Hong Kong and those films that did open grossed substantially less revenue because the underground VCD market took away potential customers.<sup>49</sup> Illegal VCDs sell for a fraction of the cost of a cinema ticket and often a film can be found on the VCD black market even before it reaches Hong Kong theaters.<sup>50</sup> Industry experts argue

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40. See H.K. Ord. No. 92 35(4).

41. See H.K. Ord. No. 92 119.

42. See generally *id.*

43. See H.K. Ord. No. 92 118(1).

44. See H.K. Ord. No. 92 118(5).

45. See *infra* Part II.

46. See Alison Morr, *Hong Kong's Copyright Ordinance: How the Ban on Parallel Imports Affects the U.S. Entertainment Industry and Hong Kong's Free Market*, 21 HASTINGS COMM. & ENT. L. J. 393, 403 (1999); see Li, *supra* note 19, at 1; see generally SODIPO, *supra* note 27, at 163 (discussing southeast Asia more generally, and not Hong Kong specifically, the author acknowledges that the movement toward stronger intellectual property laws throughout this region is the result of trade pressure brought to bear by more developed countries); See also Thomas N. O'Neill, III, *Intellectual Property Protection in Thailand: Asia's Young Tiger and America's "Growing" Concern*, 11 U. PA. J. INT'L. BUS. L. 603, 604-05 (1990).

47. See International Intellectual Property Alliance, at [http://www.iipa.com/rbc/1999/rbc\\_hong\\_kong\\_301\\_99.html](http://www.iipa.com/rbc/1999/rbc_hong_kong_301_99.html). These figures represented a growing trend of VCD piracy. The total amount lost in 1998, \$30 million, represented a 50% increase over the dollar amount lost in 1997.

48. Jo Pegg, *Threat of Movie Embargo*, S. CHINA MORNING POST, Mar. 19, 1999, available at 1999 WL 33577977. Revenues slumped from \$800 million in 1992 to \$400 million in 1999.

49. See Li, *supra* note 22, at 1.

50. The typical VCD costs two to three dollars. See *supra* note 47; see also Davis, *supra* note 9, at 23.

that one in five U.S. film releases is available on the illegal black market.<sup>51</sup> Furthermore, they contend that the VCDs damaged their revenue on the aftermarket because legitimate Hong Kong VCD, VHS, and DVD distributors are less likely to pay for the rights to films that the underground market has already made available even before cinemas presented the film in theaters.<sup>52</sup>

Perhaps most important to the HKSAR government is the negative image film piracy has created overseas. The impact can be felt beyond the film industry. As Lam-Yuk Wah, a Hong Kong film industry official, lamented, "I don't think people would want to invest here, and they'd have second thoughts about bringing new information technology into Hong Kong" as a result of the film piracy problem.<sup>53</sup> These arguments and the industry forces bringing this pressure to bear were the main reasons Hong Kong enacted a new Copyright Ordinance in 1997. The practical results of this Ordinance and its impact on Hong Kong society, however, did not become evident until the past few years.

## II. CASE LAW

At the urging of transnational film industries, Hong Kong enacted the Copyright Ordinance, in large part, to deter individuals or businesses from manufacturing or distributing VCDs in violation of intellectual property norms. The Legislature, however, left the interpretation of the statute to the courts. Consequently, since 1999, the courts of Hong Kong have rigidly enforced these laws and the penalties in particular. A pattern has emerged in the past few years: customs officials conduct a raid, seize legal and illegal products, the defendants are found guilty, and the court interprets the law so as not to allow mitigating factors to affect rigid sentencing. In other words, the courts are enforcing strictly what the Legislature intended as a deterrent.

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51. See *supra* note 47.

52. See Li, *supra* note 22, at 1. In this regard, the widespread availability of illegal VCDs is shown to have a wide-ranging economic impact across Hong Kong. Nevertheless, the widespread availability of the VCDs also suggests that the current problem in Hong Kong is one of supply, not demand.

53. See Pegg, *supra* note 48.

A. *The Initial Judicial Interpretations of the Law in Support of Deterrence*

The effort at deterrence is evident not only in the language of the statute, but also in the language courts have used to explain and to enforce the law. Hong Kong courts have made clear that they consider the Copyright Ordinance to be an important part of the legal effort to deter infringements on intellectual property. Toward that end, the courts have interpreted the language of the Ordinance broadly and in favor of law enforcement. Under the prevailing interpretation, officers of the Customs and Excise Department have far-reaching power to seize property and the court, to further this effort at deterrence, has established a less-than-reasonable standard that officers must meet to ensure the legality of any seizures. As a result of the courts reading a low threshold requirement into the law, parties accused of violating the ordinance have argued that the law allows officers to exceed their authority and that the law is a disguised effort to shut down legal as well as illegal operations, but these arguments have not met with success in any Hong Kong court.

The fact that the Legislature intended the Copyright Ordinance to act as a deterrent became evident throughout the early cases addressing the Ordinance. Courts have made it clear that they will enforce longer prison sentences in an effort to strengthen the deterrent value of the Copyright Ordinance. In *HKSAR v. Lee Kong*, a man convicted of selling copyright-infringing VCDs petitioned the appellate court to reduce his sentence from imprisonment to community service.<sup>54</sup> In December 1998, the appellant pled guilty to violations of the Copyright Ordinance stemming from the sale of 992 copyright-infringing VCDs.<sup>55</sup> The magistrate sentenced him to three months imprisonment.<sup>56</sup> The appellant's counsel argued before the magistrate that his client had only agreed to work in the shop where officials arrested him because he could not find another job.<sup>57</sup> On that basis, counsel requested community service as punishment, but the magistrate instead sent the appellant to prison.<sup>58</sup>

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54. *HKSAR v. Lee Kong*, [1999] HKEC 1004 (High Court of the HKSAR Appellate Jurisdiction, Apr. 22, 1999), available at 1999 WL 3357797.

55. *Id.*

56. *Id.*

57. *Id.* at 2. This mitigating circumstance is a prevalent argument in prosecutions of employees of distributors. Often, as here, the defendant pleads economic hardship and necessity as mitigating factors. The court has rejected this plea, but this contention is important in the final deterrence analysis because it suggests that many defendants, such as Lee Kong, are not of rational mind when committing this crime.

58. *Id.*

After making essentially the same argument at the appellate level, the court recounted the history of the Copyright Ordinance and extolled how the levels of fines and imprisonment had steadily increased through the years, culminating with the present-day penalties<sup>59</sup> contained in the HKSAR Ordinance.<sup>60</sup> Specifically, the Court enumerated that HKSAR courts in the past and present imposed prison sentences “in order to stamp out this illegal activity. . . .”<sup>61</sup> The purpose of the Ordinance “was to protect Hong Kong’s reputation as a fair international trade centre.”<sup>62</sup> In a continuation of this trend, the court in *Lee Kong* acknowledged that “the sentences passed by the Courts had been more severe as offences of this nature had become more prevalent”<sup>63</sup> and that it had “no doubt that this is the proper approach. . . .”<sup>64</sup> The court summarized the prevailing judicial attitude toward these VCD counterfeiters by stating that it “is just proper that immediate custodial sentence be passed as a deterrent for the offence which has become prevalent and the message from these Courts is that such an offence will be dealt with severely.”<sup>65</sup> Ultimately, however, in this case the court decided to order a community service report to consider alternative sentencing for the appellant, but only because the court recognized that the appellant had spent much time abroad and the deterrent value of the Ordinance would be ineffective against individuals not recognizing the severity of their crimes.<sup>66</sup> Nevertheless, the court clearly demonstrated its commitment to deterrence in this case.

The legality of the seizure in *Lee Kong* was not an issue and with good reason. Precedent did not favor the defendant. To further facilitate

59. *Id.* The HKSAR raised the levels of fines and imprisonment to \$50,000 and four years, respectively.

60. *See id.*

61. *Id.* at 3. The court’s language is emblematic of a law aimed at deterrence.

62. *Id.* This justification for the law suggests, at the very least, that the Legislature was aware of transnational trade factors when passing the law.

63. *Id.* The court essentially argues that there is a proportionate relationship between prevalence of piracy and attempts to deter that activity through harsher penalties.

64. *Id.*

65. *Id.*

66. *See generally id.* at 5. The court acknowledged that community service sentencing is available in Hong Kong if the applicant avails himself of six conditions and the court found that the appellant might meet these conditions. However, the court stated that it was giving the appellant “the benefit of the doubt” because he was not familiar with the laws and situation in Hong Kong after spending many years in Spain. Thus, the court only granted the possibility of an alternative sentence because the deterrent of imprisonment was ineffective against an individual who did not realize he was breaking the law. Living abroad, there was no way Hong Kong could publicize the law to this particular defendant. The court specifically declared that this case was of an “exceptional nature” and the strong language supporting the Ordinance as a deterrent suggests that the court was only carving out a narrow exception to the rigid enforcement of this law.

the effort at deterrence, courts have imposed a very low threshold requirement on officers attempting to seize VCDs. One of the largest raids of the Sino Centre in 1998 resulted in a prominent opportunity for the High Court to demonstrate the legal system's commitment to deterrence and clarify the broad powers of officers acting to enforce the Ordinance.<sup>67</sup> Not surprisingly, the court began its decision in *Wong Chi Yin Andy et al. v. Commissioner of Customs and Excise* by noting that the Sino Centre on Nathan Road had become a vast market for counterfeit discs.<sup>68</sup> Thus, from the first sentence of the decision, the court affirmed that the judicial system, and this court particularly, recognized the growing problem of illegal counterfeits.<sup>69</sup> The Customs and Excise Department had targeted the Sino Centre as early as 1997 because many individuals "are selling counterfeit video compact discs . . . of television programmes and other works from Japan."<sup>70</sup> Thus, on September 10, 1998 Customs officials raided 26 shops in the Centre and seized "many thousands" of VCDs.<sup>71</sup>

The three applicants in this case owned some of the raided shops.<sup>72</sup> Customs officials seized 11,125 VCDs in total from the three shops.<sup>73</sup> Of these 11,125 VCDs, 6,120 of them contained copyrighted Japanese television programs.<sup>74</sup> Based on these facts, the prosecution decided to pursue both criminal charges and forfeiture proceedings against the applicants.<sup>75</sup> In their defense, the applicants did not dispute the facts, but focused on the validity of the underlying law that justified the raid.<sup>76</sup> They argued that "the Customs and Excise Department has exceeded the wide powers given to it to combat the war against copyright piracy."<sup>77</sup>

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67. *Wong Chi Yin Andy v. Comm'r of Customs and Excise*, 1999 284 HKCU 1 (High Court of the HKSAR, Feb. 12, 1999).

68. *Id.* This conclusion, however, is not supported by any facts presented in this case. Apparently, the Court seems to accept the fact that the Sino Centre is a hotbed of illegal VCD activity simply because the police have targeted the area as such. While the Court's conclusion is reasonable, it is still not supported by any data.

69. *Cf. id.*

70. *Id.*

71. *Id.* Although the number of illegal VCDs seized suggests that this raid was a large one, there is still no data to suggest that on a daily basis there is this kind of illegal activity in the Sino Centre.

72. *Id.*

73. *Id.* at 3.

74. *Id.* The remaining VCDs consisted of plays, films, cartoons, and other recordings. There was no evidence that they infringed any copyrights or that they were Japanese in origin.

75. *Id.* at 4-5.

76. *See id.* at 1-2.

77. *Id.* Although this case came before the court two years after the passage of the Ordinance, there still remained many legal questions of interpretation that no court had yet answered in regard to the Ordinance. Most of these yet unanswered questions in 1999 concerned the extent of the police powers granted by the Ordinance and the length of sentencing available to individuals convicted under the statute.



Furthermore, the applicants argued that Customs was acting upon a "hidden agenda" to shut down all VCD sellers in the Centre, regardless of whether or not the products were counterfeit or genuine.<sup>78</sup> The court did not agree with any arguments of the applicants and held in favor of Customs.<sup>79</sup>

The court explained the large grant of power the Copyright Ordinance gives Customs officials and the court elucidated a very low threshold to justify Customs' seizure of discs.<sup>80</sup> The court specifically noted that the Ordinance "empowers such an officer to 'seize, remove and detain . . . any article which *appears* to him to be an infringing copy of a copyright work."<sup>81</sup> The court then explained that an article can *appear* to be an infringing copy if the article was "held to have appeared to be likely to be evidence of an offence if the officers believed that they were likely to be relied on as evidence in proceedings for an offence under Part II of the Ordinance to prove that such an offence had been committed."<sup>82</sup> The court further explained that

[T]he threshold which has to be overcome is *much lower* than that the belief has to be reasonable. That is apparent from the structure of section 122(1). Section 122(1)(a) expressly requires the suspicion to be reasonable before premises may be entered or vessels and aircraft may be boarded or vehicles may be stopped for the purposes of searching them. The requirement of reasonableness in section 122(1)(b) is conspicuous by its absence.<sup>83</sup>

Later decisions upheld this low threshold standard for seizing property and it has become an accepted legal standard in VCD seizure cases.<sup>84</sup>

Based on this interpretation of the Ordinance, the court in this case looked to the evidence and determined that the officers were justified in

78. *Id.*

79. *See id.* at 1.

80. *Id.*

81. *Id.* at 2 (emphasis added). This interpretation of the threshold requirement is the generally-accepted view of Hong Kong courts today. The important precedent can be traced to this case that many courts continue to cite.

82. *Id.* at 6-7.

83. *Id.* at 7 (emphasis added).

84. *See generally* Comm'r of Customs and Excise v. Golden Sci. Tech. Ltd. & ORS, 1999-4 HKC 169 (Court of Appeal, Aug. 20, 1999). In this appeal concerning a separate issue, the court reiterated that the Copyright Ordinance Section 122(1)(b) authorizes an officer to

seize, remove or detain, not only any article which appears to him to be an infringing copy of a copyright work as well as any article which is specifically designed or intended to be used for making such a copy, but also anything which appears to him to be or to contain or to be likely to contain evidence of an offence.

*Id.*

seizing all of the discs and that their actions, thus, were lawful.<sup>85</sup> The court found that shortly before the raid, two delegations of Japanese television officials visited Hong Kong and purchased on the black market VCDs of their Japanese programs.<sup>86</sup> These visitors confirmed that they had not granted a license to produce these copyrighted works and that they believed every VCD “in the market” was infringing on their intellectual property.<sup>87</sup> Consequently, the court found that the information supplied by the Japanese delegations “provided some foundation for the belief of the officers who authorized their seizure that all the VCDs and DVDs which were seized were Japanese television programmes, and were therefore infringing copies. . . .”<sup>88</sup> The court concluded that there “can be no doubt what[so]ever that there is some foundation for the belief that the 6,120 VCDs . . . which feature Japanese television series are infringing copies.”<sup>89</sup>

After explaining the low threshold requirement and concluding that the Customs officers met that threshold in *Wong*, the court briefly addressed the “hidden agenda” argument.<sup>90</sup> The applicants claimed that Customs was carrying out an illegal agenda to shut down retail businesses in the Sino Centre, regardless of whether the retailers sold legal or illegal discs.<sup>91</sup> They argued that the Customs officials had no intention of ever returning any of the seized merchandise, including the legal merchandise that did not infringe any copyrights, and that the officials seized everything whether they believed the discs to be infringing or not.<sup>92</sup> The applicants even went so far in their Notice of Application to request that the court declare “this ‘policy’ was unlawful”<sup>93</sup> because Section 122 of the Ordinance created “powers of entry and search, seizure and detention . . . exercised for a collateral purpose, and that rendered unlawful what might otherwise have amounted to the lawful seizure and detention of the articles.”<sup>94</sup>

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85. See *Wong Chi Yin Andy. v. Comm’r of Customs and Excise*, 1999 284 HKCU 1 (High Court of the HKSAR, Feb. 12, 1999).

86. *Id.* at 10.

87. *Id.*

88. See *id.* at 12-13.

89. *Id.* at 14. The language of the court is revealing. Requiring a bare minimum standard for the basis of seizure has resulted in sweeping authority for the Customs department. Conceivably, the department could seize and hold thousands of legally-produced VCDs on the basis that merely a few discs may violate copyright laws. The fact that the legislature has not amended the Ordinance to rescind or clarify this interpretation is tantamount to tacit consent.

90. See *id.* at 21.

91. See *id.* The defendants never provided any reasonable explanation for why government officials would want to close down the legal businesses as well as the illegal ones.

92. See *id.*

93. *Id.*

94. *Id.* at 23.

The court rejected this hidden agenda argument by applying the same threshold requirement used to justify the initial seizure.<sup>95</sup> Based on the facts,<sup>96</sup> the court reasoned that the officials had a justifiable basis for believing that the works infringed on copyrights and, thus, that belief, not a hidden agenda, motivated their raid and seizure of the thousands of VCDs.<sup>97</sup> Furthermore, the Court held that there was not sufficient evidence for the hidden agenda argument because the “fact that all the Applicants’ VCDs and DVDs were seized and detained is just as consistent with the belief that they were infringing copies as it is with the desire to close down the Applicant’s businesses.”<sup>98</sup>

Although the low threshold requirement for seizing VCDs appears to have set a dangerous precedent, the court, in the month following *Wong*, eliminated any lingering doubts that the justice system and the government were working in a tandem to further a hidden agenda when the court granted protective relief to the respondents in *Commissioner of Customs & Excise v. Golden Science Technology Ltd.*<sup>99</sup> In this case, the Customs department pursued criminal charges against the respondent owners of plants designed to manufacture VCDs.<sup>100</sup> Following a raid that uncovered the illegal duplication of copyrighted works, the Customs department decided to detain the VCD machinery inside the plant and post guards on the premises so the respondents could not enter and use the production facilities.<sup>101</sup> Customs denied the respondents access to their plants, in part, because they feared that the respondents may damage or remove evidence that Customs required for the upcoming

95. See *id.* at 22-23. Additionally, by looking at the issue in a transnational context that extends beyond Hong Kong laws, one can see that the hidden agenda argument is logically flawed. Both domestic and transnational film distributors profit from the legal sale of VCDs in Hong Kong. The argument that the intent of the Ordinance, as argued unsuccessfully in this case, is to close down all storefronts selling legal and illegal VCDs ignores the basic facts that the transnational film community has applied pressure to the HKSAR government to protect the legal trade of VCDs, and thereby the profits derived from legal sales, by clamping down on the black market. If it truly were the government’s intent to crackdown on all VCDs, it could accomplish this goal much more readily by simply banning the sale of VCDs in Hong Kong rather than going through the arduous steps of passing a law with a hidden agenda.

96. The court primarily relied on its already-reached conclusion that the Customs officials were justified in their belief that all the VCDs they found were infringing copies.

97. *Wong Chi Yin Andy*, 1999 284 HKCU at 22.

98. *Id.* at 23. The court most likely reached the appropriate conclusion with regard to this hidden agenda argument. Although the sweeping authority this Ordinance grants the Customs department does not present the possibility of abuse or selective enforcement, this case seems to present only an example of zealous enforcement.

99. *Comm’r of Customs & Excise v. Golden Sci. Tech. Ltd.*, 1999 344 HKCU 1 (High Court of the HKSAR, Mar. 26, 1999).

100. *Id.*

101. *Id.*

criminal trial.<sup>102</sup> The respondents, however, argued that they needed access to their plants and machinery so they could continue their legal VCD manufacturing business and keep the company solvent until the date<sup>103</sup> of their criminal trial.<sup>104</sup>

The court recognized the competing interests of both Customs (the public interest) and the respondents and concluded that the respondents should have access to their plants.<sup>105</sup> The court acknowledged that Section 190(1) of the Copyright Ordinance allows the respondents to sue the government for any damages resulting from unlawful detention of their property,<sup>106</sup> but the court reasoned that this protection, "a possible civil claim against the Government in some distant future," would not help a company that has gone out of business during the interim between seizure and criminal trial.<sup>107</sup> Thus, the court allowed the respondents to re-enter their plants, subject to certain safeguards to protect evidence for future trials.<sup>108</sup> On appeal, the higher court held in favor of Golden Science on the same grounds and enumerated that the court had the power to establish "temporary arrangements" to resolve pending disputes over seized property.<sup>109</sup>

While the decision in *Golden Science* may have granted a small victory to defendants in copyright violation cases, the fact remains that Hong Kong courts, through their interpretation of the Ordinance, have created a law where the goal of deterrence trumps all other considerations. The language of these early cases revealed the courts' desire to enforce a strong deterrent and to allow the government broad power to seize property. The result is a strict law that despite its best efforts has not achieved its goal: to deter copyright infringements. Despite the rigid enforcement of the Ordinance in these early decisions, defendants still have access to statutory defenses and sentencing arguments, but these avenues have proved generally unfruitful.

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102. *Id.* at 6. Customs decided to prosecute the respondents for criminal violations of the Copyright Ordinance.

103. There seems to be some dispute as to when the respondents would face the criminal charges. Customs seized the plants and machinery, but waited almost six months before charging the respondents with violations of the Copyright Ordinance. The parties to this case acknowledged that it would be at least six months, perhaps longer, before the criminal trial ever came before a court. *See id.* at 2-3.

104. *Id.* at 5.

105. *Id.* at 10.

106. *Id.*

107. *Id.* at 12.

108. *Id.* at 12-13.

109. *See Comm'r of Customs and Excise v. Golden Sci. Tech. Ltd.*, 1999-4 HKC 169 (Court of Appeal, Aug. 20, 1999), available at 1999 HKC Lexis 315. The power of the courts to erect temporary arrangements is important beyond the scope of this case because it also establishes a precedent through which future courts can avoid unfavorable precedent by creating temporary arrangements that are distinguished merely by small differences in fact from the facts in the precedential cases.

### B. Available Defenses

The Copyright Ordinance offers the accused a statutory defense to the mens rea element. If the defendant can prove that he did not know, or had no reason to know, that the works he had reproduced infringed on copyrights, then that defendant may avoid the penalties of the Ordinance. However, a defendant is unlikely to succeed arguing this defense because Hong Kong courts have interpreted this defense very narrowly.

Section 118(3) and (5) provide a defense for persons who did not know or had no reason to know that the works, they had produced infringed on copyrights.<sup>110</sup> Nevertheless, as the court in *HKSAR v. Mega Laser Products Ltd. & ORS* made clear, violations of the Copyright Ordinance are strict liability offenses and the defenses are thus subject to a high objective standard to argue and prove successfully.<sup>111</sup> In *Mega Laser*, the government charged and convicted the appellants of three violations of the Copyright Ordinance for making for sale infringing copies, for being in possession of articles designed to make copies of copyrighted works, and for "being in possession of an article used or intended to be used to make infringing copies of any copyright work and the particulars of the offence contain particulars of the plant and equipment in question which comprised the components of the production line."<sup>112</sup> A Taiwan-based company, Cheung Ying, had approached Mega Laser to produce VCDs of the Walt Disney films "The Lady and the Tramp," "101 Dalmatians," "Alice in Wonderland," "Peter Pan," and "The Sword in the Stone."<sup>113</sup> Following a Customs Department raid and a criminal trial, the court convicted all three defendants of Copyright Ordinance violations on all three grounds.<sup>114</sup> At its trial, Mega Laser argued the defenses available under Section 188, subsections (3) and (5), and contended that it only sought to distribute the VCDs in Taiwan to Cheung Ying, but the trial judge held that the defendants had a duty "to make reasonable inquiries whether the films produced by them infringed copyright in Hong Kong."<sup>115</sup> Consequently,

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110. See H.K. Ord. 92, 35 (1-4).

111. *HKSAR v. Mega Laser Prod. Ltd.*, [1999] HKEC 1100 (Court of Appeal, June 10, 1999), available at 1999 WL 33578066.

112. *Id.*

113. *Id.*

114. *Id.*

115. *Id.* The court never defines what type of inquiry would satisfy the reasonableness requirement. Instead, the court merely recites the argument that to allow copyright infringers to pass the buck and argue that they believed someone else had checked the copyright status of the work amounts to bad policy. While the court may be correct that allowing infringers to pass the buck is bad policy, the court should garner little sympathy because it is equally poor policy to outline a reasonableness standard without defining the context of reasonableness in this situation.

the defendants' inquiries into the copyright status could never be reasonable because they "failed to take into account the law of Hong Kong. . . ." <sup>116</sup>

On appeal, Mega Laser argued that the trial judge erred as a matter of law in reaching both conclusions. <sup>117</sup> The Court of Appeals upheld the trial judge, first noting that "offences under ss 118(1)(a) and (4)(d) are strict liability offences" <sup>118</sup> and that the trial judge did not err as a matter of law. <sup>119</sup> The court initially examined whether the trial judge erred in holding that the Copyright Ordinance "imposed upon the Appellants a duty to make reasonable inquiries whether the films produced by them infringed copyright in Hong Kong." <sup>120</sup> The court agreed with the trial judge's reasoning that because Mega Laser was

manufacturing copies of an artistic work in Hong Kong, the reasonable steps which the defendants could have taken was to make enquiries through normal channels in Hong Kong about the state of the copyright in the Disney titles. In the event [the third defendant] took no such steps, <sup>121</sup> so he did not meet the standards of statutory defence available under subsections (3) and (5). . . . <sup>122</sup>

The appellants argued that because the trial judge recognized the films as "artistic works," then they had no reason, as lay people, to consider any copyright implications flowing from such works. <sup>123</sup> The Court of Appeals disagreed and recounted the history of the Copyright Ordinance, stating that the Ordinance covered "drawings" and "cartoons." <sup>124</sup> Thus, the trial judge correctly referred to the films as artistic works. <sup>125</sup> Furthermore, the court explained that defendants must make inquiries themselves and cannot rely on the statements of others, in this case Cheung Ying. <sup>126</sup> The court reasoned that for the statutory defense to succeed, the defendants must make their own reasonable investigations somewhere along the line and that it is

incumbent upon anyone who proposes to make use of any artistic work in a way which might infringe copyright, if it subsisted in the work, to make

116. *Id.*

117. *Id.*

118. *Id.*

119. *Id.*

120. *Id.*

121. *See id.* Mega Laser inquired Cheung Ying about the state of the copyrights in Taiwan, but did not make any inquiries about the state of the copyrights in Hong Kong.

122. *Id.*

123. *Id.* Although the court did not seize upon it, this argument by the defendants is inconsistent with the facts. If they truly were lay people without knowledge of copyrights, then they would not have asked Cheung Ying about the status of the copyrights in Taiwan.

124. *Id.*

125. *Id.*

126. *See id.*

such inquiries and investigation as he reasonably can to satisfy himself that the work is free of copyright. No doubt every case must depend upon its own particular facts, but if no adequate inquiries or investigations are made, it must . . . be difficult to suppose that the person proposing to use the work has no grounds for suspecting that it must be subject to copyright.<sup>127</sup>

The appellants next argued that the trial judge erred in finding that “an inquiry made by the defendants, which failed to take into account the law of Hong Kong, could never be reasonable.”<sup>128</sup> Instead of making inquiries as to the state of the copyrights in Hong Kong, the appellants checked their status in Taiwan.<sup>129</sup> The Court of Appeals, however, illustrated that the appellants gave no reason why inquiring about the copyrights in Taiwan should assist them in complying with Hong Kong law and, furthermore, because Mega Laser was making the copies in Hong Kong it was “undoubtedly necessary for the applicants to comply with the law of Hong Kong.”<sup>130</sup> After examining the transcripts of the trial, the court concluded that the appellants made only “minimal efforts” to ensure their compliance with the Hong Kong Copyright Ordinance.<sup>131</sup> Thus, the court upheld the convictions against the appellants and they could not avail themselves of the enumerated defenses.<sup>132</sup>

The holding of *Mega Laser* was implicitly challenged one year later by the appellant in *HKSAR v. Tan Say Seng*.<sup>133</sup> In this case, a magistrate convicted the appellant of violating the Copyright Ordinance by importing 10,000 copyright-infringing VCDs.<sup>134</sup> The appellant was the manager of the Hong Kong company Summit, a VCD manufacturer, and received the VCDs from its Singapore associates.<sup>135</sup> Customs searched the shipment upon its arrival and discovered 10,000 VCDs that infringed on Polygram copyrights.<sup>136</sup> The appellant had, however,

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.* Here the court establishes that the reach of the Copyright Ordinance stretches beyond VCDs to be sold on Hong Kong streets. Arguably in deference to transnational trade interests, the court establishes that the mere production of VCDs that violate Hong Kong copyright licenses, even if only manufactured for sale outside Hong Kong, comes within the scope of the Ordinance.

131. *Id.* On a related subject, the transcript from the trial reveals that the defendant was aware of Hong Kong's piracy problem and the laws designed to crack down on it. At the very least, this record indicates that the law has been publicized yet copyright infringements continue to be a serious problem. Thus, this exchange relates the ineffectiveness of the law's deterrence.

132. *Id.*

133. *HKSAR v. Tan Say Seng*, [2000] 3 HKC 236 (Court of Appeal, June 30, 2000), available at 2000 HKC Lexis 201.

134. *Id.*

135. *Id.*

136. *Id.*

received a Certificate of License to Copy from its mainland China agent.<sup>137</sup> Normally, this licensing process authorizes a company or individual to make duplications of copyrighted works.<sup>138</sup> In this case, however, the received license was insufficient.<sup>139</sup>

At trial, the defendant relied upon the Section 118(3) defense, arguing that he did not know and had no reason to know that the copy in question was an infringing copy because he had received what he honestly believed to be an official license.<sup>140</sup> He argued that it was reasonable to rely on the veracity of the license even though the license did not indicate the date of delivery, the date of the signing by the publisher's authorized signatory, or the identity number and telephone number of the authorized signatory.<sup>141</sup> According to the defendant, such omissions on these forms were common.<sup>142</sup> The court disagreed and found him guilty.<sup>143</sup>

On appeal, the defendant raised four grounds for error.<sup>144</sup> First, he argued that the magistrate incorrectly interpreted the Section 118(3) defense by applying a subjective test for the "did not know" first limb and an objective test for the "had no reason to believe" second limb rather than applying a subjective test to both.<sup>145</sup> The magistrate accepted that the defendant did not know that the VCDs were infringing, but he required "the defence to show, on an objective standard, that the copyright enquiries the appellant made were adequate. . . ."<sup>146</sup> The magistrate conceded that the defendant need not engage in the same level of diligence as the Customs Department often does in tracking down infringing copies, but the standard "must mean such diligence as an ordinarily prudent and diligent man would exercise under the circumstances of his case."<sup>147</sup> The Court of Appeals agreed with this

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137. *Id.*

138. *See id.* The International Federation of Phonographic Industry (IFPI) deals with sound recording copyrights in Hong Kong. In 1997, the organization established a system whereby those persons placing orders in optical disc plants could check to see if they had the permission of the copyright owners to make duplications. Summit, however, through its Chinese agent, instead obtained a Certificate of License to Copy, but made no copyright inquiry in Hong Kong.

139. *Id.*

140. *See id.*

141. *Id.* The omissions are typically included on such licenses.

142. *See id.*

143. *Id.*

144. *Id.*

145. *Id.*

146. *Id.*

147. *Id.* When compared to the relatively low threshold required for customs to seize VCDs, this higher "ordinary prudent man" standard reveals that the Ordinance places heavier burdens on defendants rather than the prosecution. Arguably, there is almost a presumption that raids are legally conducted when there is any basis for seizure, but here the court applies a much higher standard to *negate mens rea*.



standard and deemed the magistrate correct in finding that the appellant's inquiries were insufficient under the circumstances.<sup>148</sup>

Next, the appellant argued that the magistrate erred because under either standard, any reasonable man would have accepted the License Certificate as genuine.<sup>149</sup> He argued that the errors on the certificate were common and that the magistrate, thus, should not have expected him to make inquiries in Hong Kong because he reasonably relied on the commission's license to grant him authority to make duplications.<sup>150</sup> This reliance was reasonable, he contended, because "[w]hen one deals with a country where the system is communist and everything is regulated by the State Authorities, there are no further enquiries to make once the certificate is issued."<sup>151</sup> The Court of Appeals agreed with the magistrate that reliance on the certificate may be reasonable on the mainland, but not in Hong Kong because of the license's "inherent weaknesses".<sup>152</sup>

The most obvious weakness, the court declared, was that these certificates "are documents produced in the mainland to govern Mainland practices relating to the copying of goods,"<sup>153</sup> and although they may provide the necessary protection for people relying on them in China, they "cannot offer the same protection so far as Hong Kong legal requirements are concerned."<sup>154</sup> The court also acknowledged other dangers in relying on the certificates, such as the fact that Press and Publications Administration (PPA) procedures for issuing the license are not subject to any oversight in Hong Kong.<sup>155</sup> Furthermore, because the PPA relies on the applicant to supply information about the current holder of the copyright on the submitted work, there is no evidence that the PPA engages in an independent system of checks to ensure the honesty of the applicants.<sup>156</sup> Finally, the court believed that the PPA licensing process may actually only be "to ensure that material copied meets censorship requirements" on the Mainland.<sup>157</sup>

Next, the appellant argued that he was not subject to the *Mega Laser* requirement that the defendant make inquiries in Hong Kong even though he was producing the VCDs for a foreign market.<sup>158</sup> Instead, the appellant contended that he was subject to the rule in

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148. *Id.*

149. *Id.*

150. *Id.*

151. *Id.*

152. *Id.*

153. *Id.*

154. *Id.*

155. *See id.*

156. *Id.*

157. *Id.*

158. *Id.*

*Megabyte Magnetic Industrial Co.*,<sup>159</sup> where the court established “that it was not necessary to make copyright enquiries in Hong Kong as long as sufficient enquiries had been made.”<sup>160</sup> The appellant conceded that *Mega Laser* is unclear as to whether a person must make inquiries in Hong Kong as a precondition for availing himself of the statutory defense, but he argued that the court in this case should not adopt such a standard.<sup>161</sup>

The court disagreed and found no basis to distinguish *Mega Laser* from *Megabyte Magnetic*.<sup>162</sup> The court reasoned that under the rules established by either case, a court must consider an argument “according to its particular facts and, depending on those facts, enquiries and investigation that can be regarded as sufficient must be made.”<sup>163</sup> In *Megabyte Magnetic*, the court only allowed the defendant to argue the defense without having first made inquiries in Hong Kong because the “particular circumstances” of the case gave the defendant no reason to doubt the veracity of the inquiries he had made outside of Hong Kong.<sup>164</sup>

In *Mega Laser*, the court also established that reasonable inquiries were established based on the facts of the case and because the defendant in that case was manufacturing the VCDs in Hong Kong, that fact justified making inquiries in Hong Kong.<sup>165</sup> *Mega Laser* did not provide authority for the proposition that there must always be an inquiry in Hong Kong, but rather, as in this case, there must be an inquiry if the manufacturing is to take place in Hong Kong.<sup>166</sup> Thus, under that interpretation of the case law, the Court of Appeals concluded that the magistrate reviewed the facts appropriately, and held that the incomplete certificate combined with the fact that the defendant was a manufacturer in the HKSAR necessitated making inquiries in Hong Kong.<sup>167</sup>

Finally, the appellant argued that the magistrate’s oral reasoning for the verdict contradicted the written assessment of the facts and the decision should, thus, be thrown out.<sup>168</sup> Specifically, the magistrate indicated orally that a key defense witness, Chow Ming, struck him as dishonest and unreliable, yet the magistrate later wrote that he “could

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159. HKSAR v. Megabyte Magnetic Industrial Co., 3 HKC 340 (1996). This case is not germane to the overall discussion of the Copyright Ordinance because it was decided under the previous, less strict copyright laws. The appellant in *Tan Say Seng* only cites it for the proposition that the statutory interpretation of the defense in the current Ordinance should create an easier burden for the defense to prove.

160. *Id.*

161. *Id.*

162. *Id.*

163. *Id.*

164. *Id.* The implication of this argument is that the defendant in this case had reason to doubt the veracity of his License.

165. *Id.*

166. *Id.*

167. *Id.*

168. *See id.*

accept the evidence of all the witnesses whether called by the prosecution or the defence.”<sup>169</sup> The appellant argued that the magistrate’s “change of heart” concerning Chow Ming should raise a doubt about the conviction.<sup>170</sup>

The Court of Appeals disagreed emphatically with this contention.<sup>171</sup> Within the context of the witnesses’ testimony, the Court of Appeals concluded that the magistrate questioned whether anyone, honest or otherwise, could trust the accuracy of the license issued.<sup>172</sup> The magistrate did not cast any doubt on the veracity of Chow Ming’s statements, only their accuracy.<sup>173</sup> Thus, with every ground for appeal denied, the court upheld the conviction.<sup>174</sup>

### C. Sentencing

Because a defendant rarely avails himself of the statutory defense, many defense attorneys have taken a different strategic approach in representing their clients. They have argued that courts should reduce criminal fines and sentences because of mitigating circumstances. Typically, these circumstances revolve around the lack of employment or education of the defendant. While some defense lawyers have achieved minimal success in reducing sentences in recent cases, the history of the case law indicates that Hong Kong courts are still likely to impose and uphold harsh sentences in an effort to support the law’s deterrence goals.

The law leaves wide discretion to judges during the sentencing phases of Copyright Ordinance offences.<sup>175</sup> In *HKSAR v. Wu Wei-Cheng*, the Court of Appeals upheld the trial judge’s discretion to impose a sentence based on the totality of the circumstances.<sup>176</sup> In this case, the trial court convicted the appellant of, among other charges, violating the Copyright Ordinance when a Customs raid revealed 92,242 infringing VCDs in the apartment of the appellant’s sister.<sup>177</sup> The judge imposed a sentence of three years and three months that he would run concurrently with the other charges<sup>178</sup> for which the court convicted

169. *Id.*

170. *Id.*

171. *Id.*

172. *Id.*

173. *See id.*

174. *Id.*

175. *See HKSAR v. Wu Wei-Cheng*, [1999] 1143 HKCU 1 (Court of Appeal, 1999), available at 1999 HKCU Lexis 919.

176. *Id.* at 6. Although a totality of the circumstances approach suggests that judges have wide latitude to consider mitigating factors, they rarely entertain such factors. *See HKSAR v. Lee Kong*, [1999] HKEC 1004, 2 (High Court of the HKSAR Appellate Jurisdiction, Apr. 22, 1999).

177. *See Wu Wei-Cheng*, [1999] HKCU 1, at 1.

178. *Id.* Wei-Cheng was also convicted of violating the Control of Obscene and Indecent Articles Ordinance. Among the over one million VCDs in his sister’s

him.<sup>179</sup> The judge indicated that he chose to impose such a harsh sentence because “the number involved is . . . very substantial”<sup>180</sup> and he wished to protect “Hong Kong’s international reputation as a fair trading centre. . . .”<sup>181</sup> Specifically, the trial court indicated that it applied “the totality principle of sentencing” in reaching the punishment.<sup>182</sup>

Based on this totality approach and the defendant’s belief that the sentence was excessive, he appealed.<sup>183</sup> First, the appellant argued that the trial judge erred in his use of sentencing discretion because he

failed to take account sufficiently or at all that any factors which went to mitigation in respect to the 1st charge and resulted in a starting point of 2 years imprisonment being reduced to 15 months imprisonment, applied equally to the 2nd charge in respect of which the sentence of 3 years imprisonment adopted as the starting point for that charge was imposed in full.<sup>184</sup>

Essentially, the appellant contended that since the other obscenity charge leveled against him was the result of possessing 357,679 obscene VCDs and that the copyright charge against him was the result of possessing 92,242 infringing VCDs, the obscenity charge, for which the judge reduced the sentence, was the more significant violation even though it carried the lighter penalty.<sup>185</sup> Thus, the appellant argued, the court should reduce the sentence for the Copyright charge since it was the less serious offence in terms of the raw number of VCDs involved.<sup>186</sup>

The Court of Appeals rejected this reasoning.<sup>187</sup> The Court extrapolated that the trial judge had an ultimate sentence to fit the totality of the crimes and, thus, the allocation of the sentence between the two charges was irrelevant, especially since the two sentences were

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apartment, 357,679 of them were obscene in violation of the statute. The Obscene and Indecent Articles Ordinance is the legal effort to regulate Apornographic” materials in Hong Kong. Outlawing all pornography, Hong Kong law defines such materials to include exposure of genitalia. Thus, the law draws a fine line between illegal pornography and the legal pornoviolence of category III films.

179. *Id.* at 2.

180. *Id.* at 5.

181. *Id.* Again, the court’s language seems to acknowledge the interests of transnational trade.

182. *Id.* at 6.

183. *See id.* at 7.

184. *Id.*

185. *Id.* This fact is also interesting from the standpoint that it reveals the greater significance the court places on copyright infringements rather than obscenity. Although obscene materials are strictly outlawed in Hong Kong and the Copyright Ordinance is a controversial law, the court reduced the sentence for the obscenity offence and not the copyright offence. This decision shows the greater emphasis Hong Kong places on copyright and that the legal system is less forgiving of these offenses than other crimes.

186. *See id.*

187. *Id.* at 9.

to run concurrently.<sup>188</sup> The balancing of the two sentences was within the judge's discretion and was part of his attempt to achieve "ultimate totality."<sup>189</sup>

Next, the appellant argued that the sentence was "manifestly excessive and wrong in principle."<sup>190</sup> The Court of Appeals dismissed this claim with little explanation, merely saying that it was within the judge's discretion to look at all the facts, conclude that the defendant was more than a bit player in this piracy scheme and impose a sentence accordingly.<sup>191</sup>

Even in cases where the trial judge imposes a light sentence or suspends it entirely, the Secretary for Justice can, and often does, petition the Court of Appeals to enforce a harsher sentence.<sup>192</sup> In the pivotal case of *Secretary for Justice v. Choi Sai Lok & Anor*, the Secretary appealed the trial judge's decision to suspend the sentences of two men found guilty of violating the Copyright Ordinance.<sup>193</sup> On April 5, 1998, police detained the two respondents whom they had observed carrying cartons that contained 719 infringing VCDs.<sup>194</sup> The respondents admitted that they worked for man called "h Hung" and were paid \$350 a day to deliver compact discs they knew contained pirated material.<sup>195</sup> In addition, the police found on the second respondent a set of keys that unlocked a room in a nearby building where the police discovered "paraphanelia used for labeling, pricing and packing" VCDs.<sup>196</sup> Based on these facts, both men admitted their guilt at trial.<sup>197</sup> Section 118(1)(d) of the Copyright Ordinance allows the trial judge to impose a sentence of up to \$25,000 and two years imprisonment for each of these offences,<sup>198</sup> but the trial judge suspended the sentences.<sup>199</sup>

188. *See id.* at 8.

189. *Id.* Nevertheless, even if the trial judge had an ultimate sentence in mind, his emphasis in attributing the majority of the sentence to the Copyright Ordinance infringements indicates which crime the court considered more serious.

190. *Id.* at 9.

191. *Id.* The Court of Appeals' decision not to outline a structure for sentencing is significant because it leaves the trial judge indeterminate discretion to enforce a law aimed at deterrence.

192. *See Sec'y for Justice v. Choi Sai Lok*, [1999] 4 HKC 334 (Court of Appeal 1999), available at 1999 HKC Lexis 75.

193. *Id.* at 5.

194. *Id.* at 9.

195. *Id.* The defendant's admission suggests that the Copyright Ordinance has been sufficiently publicized. Otherwise, they would not refer to the VCDs as "Apirated."

196. *Id.* at 10.

197. *Id.* at 11.

198. *Id.* at 6.

199. *Id.* at 11.

Applying a totality approach,<sup>200</sup> the trial judge acknowledged that “the seriousness with which these offences are now viewed would clearly make some form of custodial sentence the norm rather than the exception when persons are convicted of being involved in this illegal enterprise. . . .”<sup>201</sup> Nevertheless, the judge also recognized that case law in the area of imposing Copyright Ordinance sentences varied widely based on the facts and that none of those cases established a precedent for the facts presented in this case.<sup>202</sup> Furthermore, because the judge viewed the respondents as “transporters of goods rather than distributors,” he decided that the facts<sup>203</sup> warranted suspending the sentences.<sup>204</sup>

The Court of Appeals disagreed with this reasoning and imposed custodial sentences of six and nine months on the respondents.<sup>205</sup> Recognizing the Copyright Ordinance and the sentences it imposes as an effort to deter future violations,<sup>206</sup> the higher court acknowledged that there was no case law directly addressing this issue and that “a distinction should be drawn between the proprietors of retail outlets and warehouses who commit these offences, and the persons employed by them.”<sup>207</sup> Nevertheless, the court also recognized that there is not much difference between a warehouse owner and a courier of infringing VCDs as it pertains to criminal culpability.<sup>208</sup> Instead, trial judges can elect not to impose the maximum sentence for deliverymen and employees,<sup>209</sup> but an individual’s status as a mere employee “will not warrant the suspension of an otherwise appropriate sentence of imprisonment.”<sup>210</sup> The Court of Appeals established this rule because

despite their efforts the Customs and Excise appear to have been unable so far to catch the big fish of the trade and can only bring the minnows before the courts. Without their salesmen, however, the big fish cannot operate and so the salesmen must be deterred. Experience has shown that they are not deterred by fines, so that resort needs to be had to custodial sentences, even where the offender is a young person with a clear record.

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200. *See id.*

201. *Id.* Here, the judge reveals that the harsher penalties of the new Ordinance are being enforced.

202. *Id.* at 12.

203. *See id.* at 13. Not only were the men not the salespeople or owners of the infringing VCDs, but the judge also considered the facts that they were family men who had worked all their lives at honest jobs. This case is a rare example of a judge considering mitigating factors when imposing sentence.

204. *Id.*

205. *Id.* at 18.

206. *See id.* at 12.

207. *Id.* at 15.

208. *Id.* at 15-16.

209. *See id.*

210. *Id.* at 16. Although the court acknowledges the impact of mitigating factors under a totality approach, the result is still imprisonment.

That is a clear echo of the thinking behind the sentencing, for example, of couriers in the narcotics trade.<sup>211</sup>

Thus, after *Choi Sai Lok*, the courts have been required to impose custodial sentences, even when they found mitigating factors or when the defendant has a sympathetic plea. Additionally, the court acknowledged that age and prior criminal records should not sway a judge from imposing a custodial sentence. Although this reasoning seems to undercut the “totality of the circumstances” principle, the concern for deterrence has defeated any semblance of stare decisis or consistent reasoning in this line of sentencing cases.

This inconsistent trend continued in the Court of First Instance decision in *HKSAR v. Kong Tak Wah*.<sup>212</sup> In this case, the defendant at trial plead guilty to violating the Copyright Ordinance when he offered for sale 6,906 VCDs and 480 MCDs without the approval of the copyright owners.<sup>213</sup> The judge sentenced him to ten months imprisonment and the defendant appealed that sentence on the grounds that it was too harsh.<sup>214</sup> In rejecting the argument that the sentence was excessive, the appellate court cited the reasoning underlying the *Choi Sai Lok* decision and also referred to its earlier reasoning in the *Lee Kong* decision.<sup>215</sup>

Nevertheless, the appellant argued that the sentence was excessive for specific reasons. First, he contended that he only admitted to possessing 3,507 infringing copies in his guilty plea, but the judge improperly took into account the over 7,000 infringing copies the police discovered in the defendant’s possession.<sup>216</sup> The appellate court, however, rejected this contention because the defendant knew that he was pleading guilty to a charge alleging he possessed over 7000 infringing copies and if he disputed that number, then he should not have plead guilty to the charge or he should have argued for an amended charge.<sup>217</sup>

Finally, the appellant argued that the magistrate erred by not considering suspension of the sentence.<sup>218</sup> Counsel for the defendant argued that because his client was a married man who only turned to this crime because of an economic slowdown, the court should have

211. *Id.* at 16-17. The comparison to the narcotics trade is an interesting one that has not gone unnoticed by this Author. Although the focus of this paper is not to draw comparisons between the illegal trafficking of VCDs and narcotics, the obvious parallels between the two criminal enterprises cannot be denied and warrant further exploration in future papers and articles.

212. *See HKSAR v. Kong Tak Wah*, [1999] HKEC 581 (Court of First Instance Appellate Jurisdiction 1999), available at 1999 WL 33578706.

213. *Id.*

214. *Id.*

215. *Id.* at 2-4.

216. *Id.* at 4.

217. *Id.*

218. *Id.*

considered, or at least addressed, the possibility of suspension.<sup>219</sup> The appellate court, however, was not persuaded and although they did not cite any specific case, the court stated that “the Magistrate was bound, and so am I, by the line of authorities cited above that the Courts must impress upon the community that they are determined to stamp out this kind of offence.”<sup>220</sup> Most likely, that “line of authorities” included *Choi Sai Lok* and its adherence to rigid deterrence over mitigating factors such as the defendant’s social status or prior criminal record.

Recently, however, some Hong Kong courts have taken a few small steps back from the rigid sentencing guidelines of *Choi Sai Lok*. In *HKSAR v. Poon Mei Fun*, the High Court suspended a 15-month sentence imposed by a trial judge.<sup>221</sup> The case involved a defendant who sold 15 copyright-infringing VCDs to undercover customs officers.<sup>222</sup> The trial court found her guilty and imposed a custodial sentence of 15 months.<sup>223</sup> On appeal, the defendant argued that the sentence was too harsh for such a minor infraction—only 15 VCDs.<sup>224</sup>

The appellate court acknowledged that the precedent in *Choi Sai Lok* did not make any distinctions based on age when imposing a sentence, but in this case the court nevertheless revived a totality of the circumstances approach.<sup>225</sup> Despite the fact that the defendant sold copyright-infringing VCDs to the officers, the court noted that the defendant was a “family girl, living at home with her family, she did very well at school, certainly above average and she had hoped to save up money to go and study abroad.”<sup>226</sup> Additionally, the defendant was not a full-time employee of the shop and had only gone to the store that day to help out a busy friend.<sup>227</sup> Consequently, based on these mitigating facts, the court suspended the sentence for two years.<sup>228</sup>

While this decision appeared to signal a victory for defendants in Copyright Ordinance trials, the decision did not overturn *Choi Sai Lok*.<sup>229</sup> Courts may still look to that precedent to guide them during sentencing. Furthermore, the court in this case acknowledged that copyright piracy had become “a particular problem”<sup>230</sup> and that the

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219. *Id.* at 5-7.

220. *Id.* at 8. It is logical to assume that the court referred to the *Choi Sai Lok* decision.

221. *HKSAR v. Poon Mei Fun*, [2002] HKEC 1081, \*2 (High Court of the HKSAR Court of First Instance 2002), available on WESTLAW at 2 HKLRD H8.

222. *Id.*

223. *Id.*

224. *Id.*

225. *See id.* at \*4.

226. *Id.* at \*3-4.

227. *Id.* at \*4.

228. *Id.* at \*7.

229. *See id.*

230. *Id.* at \*6.



reputation of Hong Kong was at stake if the government did nothing to crack down on this problem.<sup>231</sup> Taking into consideration the court's continuing concern with copyright piracy, this decision did not provide a solid basis for future defendants to use when arguing against harsh sentences. The court did not establish a standard to determine when a defendant can avoid custodial sentences. With *Choi Sai Lok* still in place, the only possible standard this precedent established was that good students who sell 15 copyright infringing VCDs or less should receive a suspended sentence. Thus, it is reasonable to conclude that arguing mitigating factors in sentencing, while more effective than arguing the statutory defense, is not likely to result in a reduced sentence for guilty defendants.

#### D. Recent Changes in the Ordinance

The aforementioned judicial decisions and interpretations of the Copyright Ordinance have established the law as it is enforced today. Ultimately, the Copyright Ordinance has pervaded other areas of Hong Kong culture and intellectual property beyond film and entertainment.<sup>232</sup> In April 2001, the government of Hong Kong extended the Copyright Ordinance impositions to teachers and educators who photocopied texts and pictures for educational purposes, and this extension of the law resulted in a general public backlash against the policy.<sup>233</sup> The Legislature responded to the backlash by suspending the Copyright Ordinance.<sup>234</sup> The suspension, however, did not "cover piracy of films, television dramas, video or sound recording, or computer software."<sup>235</sup> The Secretary of Commerce reasoned that "these four areas faced 'rampant piracy problems' and 'the SAR's international image would be greatly damaged' if the suspension was extended into such areas."<sup>236</sup> Thus, despite the recent rolling back of the copyright laws in Hong Kong, their application to the underground VCD market has continued. Regrettably, those laws have also failed to solve the problem.

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231. *See id.*

232. *See generally Copyright Ordinance Partially Suspended*, HONG KONG IMAIL, June 21, 2001, available at LEXIS, News Group File, Most Recent Two Years. The article briefly recognizes the Copyright Ordinance's influence in areas beyond VCDs, including sound recordings, computer software, and the photocopying of texts and pictures for educational purposes.

233. *See id.*

234. *Id.*

235. *Id.*

236. *Id.*

### III. THE LEGAL ANSWER

The Copyright Ordinance has not effectively deterred piracy of film copyrights. While this conclusion is based on the holdings, assumptions, and inferences of the case law and the dissatisfaction of the film industry with regard to this ongoing threat to its intellectual property, one must concede that no definitive answer to the deterrence question can be reached without the aid of a socio-economic analysis of the underground VCD market and the criminal activities and attitudes of those people engaged in this activity before and after the passage of the Ordinance. There are many factors germane to any deterrence analysis and, thus far, there is no conclusive statistical evidence on either side of the deterrence debate to evaluate the Ordinance's effectiveness. Therefore, a comprehensive study should be conducted to discern the number of trials and convictions for piracy pre-Ordinance, the number of trials and convictions post-Ordinance, whether potential criminal pirates or recidivists are aware of the new Ordinance and the harsher penalties it imposes, whether there has elapsed any gap of time between the 1997 passage of the law and enforcement by Customs, and whether the people charged or convicted under this statute were of rational mind. Nevertheless, despite the lack of a study to answer these questions, the conclusions and inferences ascertainable from the available evidence strongly suggest that the Copyright Ordinance has failed as a legal deterrent to piracy and Hong Kong should explore alternative methods to address this problem.

#### A. *The Failure of Deterrence*

Undoubtedly, the goal of the Copyright Ordinance is to deter future infringements on intellectual property.<sup>237</sup> The statute attempts to impose this deterrence by assessing harsher penalties than existed under previous copyright laws.<sup>238</sup> In this respect, the Hong Kong law is an attempt at general deterrence in the classic model.

Deterrence can best be described as consequentialist insofar as it attempts to prevent the consequences of sentences.<sup>239</sup> It relies on threats and fears. In Hong Kong, the threats contained in the Copyright Ordinance are obvious: heavy fines and incarceration for each offense.

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237. See *HKSAR v. Lee Kong*, 1999 435 HKCU 1, available at 1999 WL 33577977; *Sec'y for Justice v. Choi Sai Lok*, [1999] 4 HKC 334 (Court of Appeal 1999), available at 1999 HKC Lexis 75; Lai, *supra* note 25, at 24.

238 See *infra* Part II.

239 Andrew Ashworth, *Sentencing Aims, Principles, and Policies*, in *FOUNDATIONS OF CRIMINAL LAW* 333, 335 (Leo Katz ed., 1999).

The Ordinance, like most efforts at deterrence, is a general one. General deterrence is premised on the assumption that the law applies to everyone equally, not just specific individuals such as repeat offenders.<sup>240</sup> Further, the goal of this model is to maximize social utility.

Accordingly, the law should inflict pain and punishment sufficient to deter others from engaging in similar conduct.<sup>241</sup> The writings of Jeremy Bentham and his utilitarian response to Blackstone provide the philosophical underpinning of this view.<sup>242</sup> More recently, economic theorists, including Richard Posner, have justified this general theory of deterrence as punishment based on a pricing system.<sup>243</sup> Under either approach, the goal of the deterrence is to prevent future violations of the law by imposing a daunting penalty on would be offenders.

Not surprisingly, there are many criticisms of this general theory of deterrence. Most of this criticism is empirical. Thus far, the criminal justice systems have yet to develop a reliable method to collect and analyze findings about the relative effectiveness of deterrence for various crimes.<sup>244</sup> Furthermore, general deterrence rests on the assumption that the criminal is of rational mind and will act in his own self-interest.<sup>245</sup> Some studies, including one by Richard Harding, argue that the professional criminal refrains from certain forms of offense during the planning stages of their crimes.<sup>246</sup> This study, however, rests on the assumptions that the criminal is “professional,” plans his crimes well in advance, and is aware of the potential penalty for breaking the law. In essence, this study is premised on the idea that the law is well known and the criminal is of rational mind.

240. *See id.* at 336. The concept of individual, or special, deterrence is premised on the assumption that certain people, usually recidivists, are the target of the deterrent effect. Thus, special deterrence efforts take the form of escalating penalties for repeat offenders. Conversely, general deterrence aims at harsh, yet consistent, penalties for all offenders regardless of prior convictions. The Hong Kong ordinance is best characterized as general because it makes no distinctions.

241. *Id.*

242. *See id.* Bentham, a London lawyer and philosopher, was troubled by the publishing of Blackstone’s treatises because he believed the law should be developed to facilitate the greatest good for the greatest number of people. It is not the goal of this Note to analyze the philosophical assumptions of Bentham, but instead suggest the philosophical basis of the general deterrence model. For a brief overview of Bentham’s work and theories see [BluPete.com, BluPete Biographies: Jeremy Bentham](http://www.blupete.com/Literature/Biographies/Philosophy/Bentham.htm), at <http://www.blupete.com/Literature/Biographies/Philosophy/Bentham.htm>.

243. *See* Ashworth, *supra* note 239, at 336.

244. *Id.*

245. *See id.*

246. *Id.* The Harding study examined laws that imposed extra penalties on robbers who carried firearms. The study found that “professional” criminals, who planned out their crimes well in advance, were less likely to risk the extra penalties and not carry any firearms. Harding, however, admits that publicity must accompany these harsher penalties for them to have any effect.

The Hong Kong law fails to meet the requirements of this model. While the law does appear to be well known, the fact remains that VCD piracy remains a serious problem because would-be offenders do not make rational decisions when choosing to engage in the prohibited activity. It is reasonable to conclude that the Copyright Ordinance is well known because it has received extensive publicity in the Hong Kong media.<sup>247</sup> The South China Morning Post frequently publishes articles concerning the "piracy problem" and Hong Kong consumers are well aware that the VCDs are illegal.<sup>248</sup> Polls indicate that Hong Kong consumers do not favor the law, thus demonstrating that the public at large is familiar with the Ordinance.<sup>249</sup> Furthermore, defendants, both sophisticated manufacturers and common distributors, in previous prosecutions indicated that they were cognizant of the Ordinance when they broke the law.<sup>250</sup> In *Mega Laser*, the defendants indicated their awareness of copyright laws when they asked Cheung Ying about the copyright status of the films they intended to reproduce.<sup>251</sup> In *Choi Sai Lok*, the defendants admitted that the VCDs were pirate copies and their attempt to hide the illicit products in a nearby apartment shows that they were aware of legal repercussions for their actions.<sup>252</sup>

Thus, because the offenders knew about the law when they sold pirated VCDs, the breakdown in the deterrence model must be found elsewhere. Most likely, the deterrence failed because the defendants are of irrational mind. The mitigating factors that defendants often cite (e.g., economic necessity) suggest that the offenders believe they must break the law.<sup>253</sup> In *Lee Kong*, the defendant only worked for a VCD counterfeiter because he could not find another job.<sup>254</sup> The defendants in *Choi Sai Lok* took a similar approach.<sup>255</sup> Whether taking these jobs qualifies the defendants as irrational is not relevant. At the very least, it shows that the current economic realities in Hong Kong force these people, at least in their own estimation, to take work that runs afoul of the Copyright Ordinance. Some offenders, especially professional VCD manufacturers, may not confront the economic necessity of distributors, but their rationalizations that they can avoid prosecution has the same effect of taking the teeth out of the deterrent. Whether they rely on the

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247. See Wan, *supra* note 5, at 4; Li, *supra* note 22, at 4; Lai, *supra* note 25, at 24.

248. *Id.*

249. See Legco Survey, *supra* note 14.

250. See *HKSAR v. Mega Laser Prod. Ltd.* [1999] HKEC 1100, available at 1999 WL 33578066; *Sec'y for Justice v. Choi Sai Lok*, [1999] 4 HKC 334 (Court of Appeal 1999), available at 1999 HKC Lexis 75.

251. See *Mega Laser*, [1999] HKEC 1100.

252. See *Choi Sai Lok*, [1999] 4 HKC 334.

253. See, e.g., *HKSAR v. Lee Kong*, [1999] HKEC 1004 (High Court of HKSAR App. Juris. Apr. 22, 1999), available at 1999 WL 33577977.

254. *Id.*

255. See *Choi Sai Lok*, [1999] 4 HKC 334.

statements of others like the defendants in *Mega Laser*,<sup>256</sup> or if they try to obtain a license that they reasonably should know will not carry much weight in a HKSAR court like the defendants in *Tang Say Seng*,<sup>257</sup> the deterrence does not affect this class of defendants because they believe they can avoid punishment. Thus, the deterrent, while known, fails because the penalty it imposes is insufficient to overcome the offender's deep-rooted belief that they must break the law or will not be caught.

Other criticisms of the general deterrence model are founded in principle, not empiricism. These critics argue that under a utilitarian approach to deterrence, the punishment of an innocent person is justified if that punishment deters others from committing the crime in the future.<sup>258</sup> More realistically, there exists the potential for exemplary sentences that single out one offender with a harsh sentence to deter future offenders.<sup>259</sup> In the past, English judges have actually imposed exemplary sentences for deterrence purposes.<sup>260</sup> The discretion afforded judges in the HKSAR suggests that if judges have not yet imposed exemplary penalties, the possibility of imposing such a sentence certainly exists. Regardless of these principled arguments, however, the failure of the law within a classical deterrence framework justifies its reexamination.

Even if both the Copyright Ordinance decisions and the fact that piracy is growing does not persuade that the deterrent has failed, the statements and requests of the Customs Department and the transnational film industry reveal that they—the proponents of the law—believe the deterrent has failed. In March 1999, two years after the enactment of the law, the Customs Department petitioned the government to hire 48 new enforcement officers.<sup>261</sup> While one could speculate that Customs requested the manpower increases to make the deterrent more visible, the statements of the Customs department do not support this argument.<sup>262</sup> Customs admitted that the new officers would coordinate raids and formulate enforcement strategies.<sup>263</sup> The most obvious conclusion from this statement is that despite efforts during the past two years, VCD piracy remains prevalent and Customs required

256. See *HKSAR v. Mega Laser Prod. Ltd.*, [1999] HKEC 1100 (Ct. of App., June 10, 1999), available at 1999 WL 33578066.

257. See *HKSAR v. Tay Say Seng*, [2000] 3 HKC 236 (Ct. of App., Jun 30, 2000), available at 2000 HKC Lexis 201.

258. See Ashworth, *supra* note 239, at 337.

259. *Id.*

260. *Id.* The most glaring example of an exemplary sentence occurred after the Notting Hill race riots of 1958.

261. See Wan, *supra* note 5, at 4. The request for 48 new employees represented a 20% increase in manpower over then current levels.

262. See *id.* Furthermore, the case law suggests that the Copyright Ordinance and its penalties are already known to would-be offenders.

263. *Id.*

more officers to combat the criminals. Furthermore, at the time of the request, the Secretary for Trade and Industry admitted that the public needed to change its attitude toward pirated goods and not buy them.<sup>264</sup>

This statement suggests that the deterrent either had not achieved the notoriety required to make it effective under a general deterrence model (because demand still existed and criminals were either not aware of, or were more willing to risk, harsher sanctions to supply that demand), or that the HKSAR had begun to realize that the real solution lay in curbing supply and demand, not deterring future actions.

The statements urging that the Copyright Ordinance deterrent failed were not limited to only the HKSAR government. The film industry, years after the enactment of the Ordinance, continues to express concerns that piracy is growing. Hollywood insiders intimated that the continuing problem of piracy might force them to stop bringing big-budget films to Hong Kong.<sup>265</sup> In the spring of 1999, a representative for Universal, Paramount, and MGM lamented that the almost immediate availability of pirated copies of their films on the streets of Hong Kong made it unprofitable to release the films there.<sup>266</sup> Another industry report acknowledged the increased number of raids and seizures since the passage of the law, but also acknowledged that the market for piracy continues to boom despite the crackdown.<sup>267</sup> The manufacturers and distributors appear to have adapted their techniques to combat the Customs enforcement techniques. The report indicated that AVCD's are retailed using low-inventory business methods that minimize the impact of C&E Division raids, and allow outlets to reopen within days or even hours after closure."<sup>268</sup> This adaptability suggests that the professional VCD pirates, rather than being deterred under a Harding model, are actually altering their methods of retail at the planning stage so as to subvert the goals of the Ordinance.

The U.S. film industry is not alone in its concerns and criticisms. In the eyes of the Hong Kong film industry, the Ordinance has also failed. Its concerns reached a cathartic level during a 1999 protest march led by their biggest star, Jackie Chan.<sup>269</sup> The 1600-person protest emphasized that 20,000 people in the industry lost jobs as a result of piracy leading to reduced film revenues.<sup>270</sup> Chan warned that if the current levels of piracy continue, within the next few years the industry may not produce

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264. *Id.*

265. *See* Pegg, *supra* note 48, at 1.

266. *Id.*

267. *See supra* note 47. The report laments the disturbing trend of U.S. releases becoming available on black market VCDs before they open in the theater. *Mulan*, for example, was available illegally a week before the film premiered in a Hong Kong cinema.

268. *Id.*

269. *See* Chung, *supra* note 38, at 1.

270. *Id.*

any more domestic films.<sup>271</sup> In trying to allay the concerns of protestors, Customs indicated that they shut down many plants manufacturing the illegal discs and had seized over \$39 million worth of pirated products.<sup>272</sup>

These raids, however, were not particularly effective in stemming the tide of illegal products reaching the black markets because most of the manufacturing plants simply moved their facilities to Macau and then smuggled their discs into Hong Kong through the mainland or on boats.<sup>273</sup>

Ultimately, the Copyright Ordinance has failed to deter. It has instead granted sweeping police power to the Customs department, resulting in the interference of legitimate business, and has spawned a lamentable series of decisions from HKSAR courts. All the while, piracy continues and the original proponents of the Copyright Ordinance call for new action. Thus, the time has arrived for Hong Kong to consider new legal answers.

### B. *Alternative Solutions*

The goal of this Note is to suggest possible legal solutions to the problem of VCD piracy. Nevertheless, there are obvious social solutions that should be acknowledged. Since the deterrent value of the statute has failed, the most likely alternative solution involves reducing either the supply or the demand for the pirated products. From a social standpoint, demand for illegal VCDs will most likely swoon if the demand for category III films also decreases. Because category III films are both a substantial source of illegal VCD sales and they also discourage patrons from attending the cinemas, this type of film has had a profound effect on the demand for all illegal VCD products. While many social theorists could proffer diverse theories as to how changes in Hong Kong culture could affect the demand for category III fare, this Note will not attempt to propose one. It should be noted, however, that while attempting to reduce illegal VCD purchasing by changing the entire social landscape of Hong Kong may seem daunting, the answer could be as simple as producing higher quality alternative forms of entertainment such as television programs.<sup>274</sup> While these shifts in cultural attitudes could certainly result in decreased demand for category III films, this Note focuses on three potential legal solutions.

First, because the deterrent contained in the Copyright Ordinance has failed, one can argue that for it to become effective the Legislature

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271. *Id.*

272. *Id.*

273. *Id.*

274. See Davis, *supra* note 9, at 23. Hong Kong television programs are notoriously some of the worst in the world and, not surprisingly, Hong Kong also has one of the world's largest markets for VCDs.

should amend the Ordinance to create even harsher penalties for distributors and manufacturers. Harsher penalties, promotion of the new law, and strict enforcement could result in a more effective deterrent that would decrease the supply of illegal VCDs. This argument, however, is the least persuasive of the three offered. An amendment would suffer from the same problems plaguing the current deterrent effort: promotion of the new law, lack of a rational mind on behalf of the offenders, and changing techniques on the part of the criminals to avoid sanction. Furthermore, because there already exists a lack of hard data to support the conclusion that the current deterrent could be effective, it is logical to conclude that there would be no data to justify support for an even harsher deterrent. This solution could only be effective if a study can show that a certain level of punishment can deter the activities of these irrational criminals.

Second, the Hong Kong film industry has called for a new law aimed at deterring customers from purchasing pirated VCDs.<sup>275</sup> In theory, imposing fines on people who buy illegal VCDs should reduce the demand for the product. The HKSAR government, however, has stated its reluctance to pass such a law<sup>276</sup> and the attitudes of the consumers suggests that they would continue to seek out the pirated copies despite fines.<sup>277</sup> This fact raises the question of whether consumers are of rational mind. Furthermore, this solution is merely another attempt at deterrence, albeit deterrence aimed at the consumer and not the manufacturers and distributors. Thus, it would encounter the already identified problems associated with deterrence.

Arguably the best alternative to deterrence attempts would be to change the definition of pornography—a category of films that are banned in Hong Kong—to include category III films. As seen in *Wu Wei-Cheng*, the defendant distributed both category III VCDs and illegal pornographic VCDs.<sup>278</sup> The court found him guilty of distributing the VCDs because he did not hold the copyright, but the violation of the Obscenity Ordinance was a strict liability violation.<sup>279</sup> Tight government controls on this hardcore pornography makes it exceptionally hard to find and most pornographic films, called ham-sup pin, available on VCD are imported from overseas countries.<sup>280</sup>

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275. See Chung, *supra* note 38, at 1.

276. *Id.*

277. See Li, *supra* note 22, at 4.

278. See *HKSAR v. Wu Wei-Cheng*, [1999] 1143 HKCU 1, 6 (Court of Appeal, 1999), available at 1999 HKCU Lexis 919.

279. See *id.*

280. See Davis, *supra* note 9, at 15.

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Importing ham-sup pin, rather than manufacturing it locally, drives up the costs of these VCDs and, in turn, reduces demand. Thus, whether for reasons of strict liability creating a deterrent or stringent government controls, the supply and demand for pornographic films is substantially less than it is for category III. Therefore, a reclassification of category III films, or at least the "pornoviolence" category III films, as ham-sup pin could reduce the supply and demand for illegal VCDs. Also, by reducing the number of category III films produced, the film industry could attract more customers back into the theaters and away from home viewing of illegally produced VCDs. With fewer category III films available for viewing in the theaters, consumers who previously avoided theaters (and the patrons of category III films) may prove willing to return to the theaters to view categories I and II films.

Ultimately, the problem of VCD film piracy is a growing one. It has not dissipated in the years since the passage of the Copyright Ordinance despite judicial efforts to strengthen the deterrent effectiveness. Consequently, the HKSAR government must consider new solutions to this serious problem. Reducing the supply and demand of category III films should return customers to the mainstream film market and, in time, obviate the need for a Copyright Ordinance pertaining to films.

*Allen Woods\**

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Also, special appreciation goes to Alan Smithee, without whom, I am confident, many of the films discussed in this Note would not have been made.