Bills Committee on the Copyright (Amendment) Bill 2011

Parody and Copyright Infringement

Purpose

At the meeting held on 11 October 2011, the Bills Committee requested the Administration to:

(a) advise on the circumstances under which a parody might be regarded as infringing the copyright of a work and falling into the criminal net with reference to examples raised by Members;

(b) advise whether the communication of a copyright work to the public without the authorisation of the copyright owner for the purpose of a parody or satire, through social network channels (such as Facebook) which generated little profit would constitute a criminal offence; and

(c) consider including in the Bill provisions specifying that only unauthorised communication of copyright works which caused direct and concrete economic prejudice to the copyright owners would fall into the criminal net.

Scope of the Criminal Liability

Existing Law

2. Currently, distribution of an infringing copy of a copyright work for the purpose of or in the course of any trade or business which consists of dealing in infringing copies of copyright works may constitute an offence under section 118(1)(e) of the Copyright Ordinance (Cap. 528). In other cases, distribution of an infringing copy may constitute an offence under section 118(1)(g) if the distribution is conducted to such an extent as to affect prejudicially the copyright owner (hereinafter referred to as "the prejudicial distribution offence"). Similar prejudicial distribution offences are prescribed in the respective copyright statutes in Australia and the UK.

3. It has been affirmed by the Hong Kong Court of Final Appeal in *HKSAR v Chan Nai Ming* (also known as the "Big Crook" case) that the legal concept of "distribution" encompasses distribution of electronic copies through the Internet in addition to conventional distribution of physical copies. In this regard, it is a misconception that the Copyright (Amendment) Bill 2011 (hereinafter referred to as "the Bill") is extending a hitherto non-existent rule to the Internet.

The Bill

4. To tie in with the introduction of the communication right under the Bill, corresponding criminal sanctions against unauthorised communication of a copyright work to the public are brought in. The proposals, mirroring the existing criminal sanctions available against unauthorised distribution mentioned in paragraph 2, are targeted at unauthorised communication (a) conducted for the purpose of or in the course of any trade or business that consists of communicating copyright works to the public for profit or reward; or (b) conducted to such an extent as to affect prejudicially the copyright owner (hereinafter referred to as "the prejudicial communication offence"). The proposals maintain the existing line demarcating the boundary between criminal and civil liability of copyright infringement.

5. As has been explained in our previous paper[1], where the making of parody for dissemination on the Internet is not for profit and does not prejudicially affect the copyright owners, such activity is outside the criminal net under the existing law and would remain so under the Bill.

6. There is so far no reported local criminal proceedings against dissemination of parodies on the Internet. Nor could we find any reported criminal proceedings involving prejudicial offences against parodies in the major overseas common law jurisdictions that we have surveyed.

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[1] LC Paper No. CB(1)3061/10-11(06).

Parody and Copyright Infringement

7. At the meeting held on 11 October 2011, some Members of the Bills Committee cited certain examples, and invited the Administration to comment on whether these specific examples would constitute a copyright infringement that would be caught by the prejudicial offences (see LC Paper No. CB(1)/10-11(01)). The Administration considers it inappropriate to offer any advice or opinion on the examples cited by Members having regard to the following considerations:

(a) whether there is a case of copyright infringement is a question of fact and law. A cogent judgment on this issue requires full and detailed consideration of all the factual circumstances of a particular case, including the overall conduct of the parties in question;

(b) where there is a copyright dispute, the court would ultimately be a proper forum to adjudicate the issue having taken into account all the evidence adduced;

(c) any comment made by the Administration based on hearsay information or hypothetical scenarios may likely be interpreted out of context or overgeneralised, thereby sending out confusing messages to the public; and

(d) a number of the examples of materials available on the Internet cited by Members of the Bills Committee involve works created or owned by different parties. We believe it is not appropriate for the Administration to comment on the specific cases which concern the rights and/or liabilities of the parties concerned, and those parties may wish to enforce or defend their rights in legal proceedings.

Cases in the US

8. Noting that certain examples cited by Members are related to the use of an underlying poster/photo for the purpose of parody, and in the absence of any relevant decided case in Hong Kong, we would like to refer Members to two decided cases in the US which involved the use of copyrighted posters/photos, in which the defence of fair use for parody was invoked against copyright infringement claims. By reviewing the decisions of these two cases, Members may better appreciate the difficulties inherent in drawing a clear line for permissible parodic use of underlying copyright works.

9. There is no specific exception or limitation for parody in the US copyright law. However, the law does provide an open-ended fair use exception which may be available for acts done for the purposes of criticism, comment, news reporting, teaching, scholarship or research, etc. There is no established rule in the US jurisprudence on whether a parody constitutes fair use of a copyright work, which has to be decided on a case-by-case basis. In relation to the fair use exception, the US law particularly highlights the following four factors for consideration by the court (section 107 of the Copyright Act 1976):

(a) the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;

(b) the nature of the copyrighted work;

(c) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(d) the effect of the use upon the potential market for, or value of, the copyrighted work.

Case 1: Leibovitz v Paramount Pictures Corporation[2]

10. In this case, it is alleged that the defendant, Paramount Pictures, infringed the copyright of a famous photo of the actress Demi Moore taken during her pregnancy by Ms Annie Leibovitz. Ms Moore was depicted nude and with a serious facial expression. To advertise its film *Naked Gun 33 1/3: The Final Insult*, the defendant produced a poster which superimposed the main actor Nielsen's mischievous smirk face on a photo depicting a nude body of a pregnant woman which was made to imitate the aforementioned photo. The defendant admitted that its work was modelled on Ms Moore's photo, but argued that the work is a parody, thus qualifying for the defence of fair use.

11. The Second Circuit Court reiterated that although the statute does not specifically list "parody" among the categories of potentially fair use, US cases have long afforded such works some measure of protection under the doctrine of fair use. Applying the established principles to the present case, the Court found that as the smirking face of Nielsen contrasts so strikingly with the serious expression on the face of Ms Moore, the advertisement may reasonably be perceived as *commenting on the seriousness, even the pretentiousness, of the original* and held that the balance marked favour to the defendant even though the poster promoted a commercial product. Based on consideration of the following factors as a whole, the Court held that there was no copyright infringement:

(a) *the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes*
The Court found that although the defendant used the photograph for commercial purpose to promote a movie, the use was transformative It concluded that "the strong parodic nature of the ad tips the first factor significantly toward fair use, even after making some discount for the fact that it promotes a commercial product";

[2] 137 F.3d 109 (available at http://ftp.resource.org/courts.gov/c/F3/137/137.F3d.109.97-7063.html).

(b) *the nature of the copyrighted work*
The Court found the original work "exhibited significant creative expression" but noted that "the creative nature of an original will normally not provide much help in determining whether a parody of the original is fair use". The Court concluded that "the second factor therefore favours [the Plaintiff], but the weight attributed to it in this case is slight";

(c) *the amount and substantiality of the portion used in relation to the copyrighted work as a whole*
After finding that the defendant "took more of the [original photograph] than was minimally necessary to conjure it up", the Court noted that "the reasonableness of taking additional aspects of the original depends on the extent to which the overriding purpose and character of the copy is to parody the original and the likelihood that the parody may serve as a market substitute for the original" and thus "the approach leaves the third factor with little, if any, weight against fair use so long as the first and fourth factors favour the parodist". In this case, as the first and fourth factors favour fair use, the Court found that "the third factor does not help [the plaintiff], even though the degree of copying of protectable elements was extensive"; and

(d) *the effect of the use upon the potential market for, or value of, the copyrighted work*
The plaintiff conceded that the defendant's photograph "did not interfere with any potential market for her photograph or for derivative works based upon it". As to the plaintiff's argument that "the defendant has deprived her of a licensing fee by using the work as an advertisement", the Court found that the plaintiff "is not entitled to a licensing fee for a work that otherwise qualifies for the fair use defense as a parody" and thus concluded that this final factor favours the defendant.

Case 2: Columbia Pictures Industries Inc v Miramax Films Corp.[3]

12. The allegedly infringing materials are the posters and trailers used by the defendant in advertising a film, *The Big One*, directed by Mr Michael Moore. For simplicity sake, the ensuing discussion only focuses on the case of the claimed parodic use of the poster. According to the verdict, the poster of *The Big One* "features Michael Moore, wearing a black suite, white shirt, black tie, and sunglass…", and "Moore is standing in front of a night time New York City skyline, carrying an over-sized microphone and is smirking". The poster also carried a tag line: "Protecting the earth from the scum of corporate America". The defendant admitted that the advertising material was intended to be a parody to the materials used for promoting the plaintiff's movie *Men In Black* and pleaded fair use in the infringement claim.

13. The District Court of California found that the defendant's advertisements cannot reasonably be perceived as commenting on or criticising the advertisement for *Men In Black*, and the defendant merely sought to use the plaintiffs' advertisement as a vehicle to entice viewers to see *The Big One* in the same manner as the plaintiffs used their own advertisement to entice viewers to see *Men In Black*. The Court concluded that the defendant failed to establish the fair use defence. Hence, the Court granted a preliminary injunction in favour of the plaintiffs enjoining the defendants' further use of the posters and trailers. The reasoning of the Court is summarised as follows:

> (a) *the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes*
> The Court concluded that "the TBO [*The Big One*] Poster merely incorporates several elements of the MIB [*Men In Black*] Poster: figures with a particular stance carrying large weapons, standing in front of the New York skyline at night, with a similar layout." "The TBO Poster …[is] designed solely for the purpose of attracting viewers to see *The Big One*." The Court found that the defendant "have not created a transformative work which alters the original with new expression, meaning or message";

[3] 11 F. Supp.2d 1179 (available at http://www.leagle.com/xmlResult.aspx?xmldoc=1998119011FSupp2d1179_11055.xml&docbase=CSLWAR2-1986-2006).

(b) *the nature of the copyrighted work*
Both the defendant and plaintiff agreed that the copyright work reflects original, creative expression of the owner. The court found that this factor "tilts the scale against fair use";

(c) *the amount and substantiality of the portion used in relation to the copyrighted work as a whole*
The Court found that the poster of *The Big One* is "substantially similar to the expressive ideas contained in the MIB [poster]". It concluded that "The amount and substantiality of the portion used in relation to the copyrighted work as a whole was not reasonable. Thus, the third factor weighs against a finding of fair use."; and

(d) *the effect of the use upon the potential market for, or value of, the copyrighted work*
It was noted that "Under this factor, the court must consider both the extent of market harm caused by infringing work and whether unrestricted and widespread dissemination would hurt the potential market for the original and its derivatives." Noting the defendant's failure in providing counter evidence to disprove market harm caused to the plaintiff, the court found that this factor "militates against a finding of fair use".

14. The above two cases illustrate up to a point the inherent difficulties in drawing a clear line for permissible parodic use of underlying copyright works. Cases having similar underlying scenarios could have diverse outcomes upon specific consideration of peculiar factors of individual cases by the court. Without a settled account of all facts and circumstances, it may not be appropriate to comment on specific cases.

Unauthorised Communication to the Public

15. Where a person has copied or adopted a substantial part of a copyright work (e.g. an artistic work) without authorisation of the copyright owner, such act is permissible if the use in the circumstance is fair for the purposes of criticism, review or news reporting (as discussed in our previous paper entitled "Parody"[4]), or the manner of use qualifies for any other applicable permitted acts under the Copyright Ordinance (such as cases where the act constitutes a fair dealing for research, private study or education under section 38 or 41A of the Copyright Ordinance). Turning to unauthorised dissemination of a copyright work which does not qualify as a permitted act, where the act is not done for profit and does not prejudicially affect the legitimate interest of the copyright owners, the act is outside the criminal net under the existing law, and would remain so under the Bill.

16. In response to Members' concerns about unauthorised communication of copyright works to the public (see parts (b) and (c) of the first paragraph), we would reiterate that the proposed criminal sanctions are targeted at unauthorised communication conducted (a) for the purpose of or in the course of any trade or business that consists of communicating copyright works to the public for profit or reward; or (b) to such an extent as to affect prejudicially the copyright owner. So long as an infringing act is not made in the course of or for the purpose of any business or trade that consists of communicating copyright works to the public for profit or reward, it is not the target of limb (a) of the offence. In a case related to the prejudicial communication offence, the material issue is to determine whether the extent of unauthorised communication prejudicially affects the copyright owner, thus attracting criminal liability.

17. To provide greater legal certainty as to what amounts to "prejudice", the Bill introduces a non-exhaustive list factors that the court may take into account when examining what constitutes "to such an extent as to affect prejudicially the copyright owner". The factors are summarised below:

(a) the purpose of the distribution/communication in question;

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[4] LC Paper No. CB(1)3061/10-11(03).

(b) the nature of the copyright work, including its commercial value;

(c) the amount and substantiality of the infringing portion in relation to the work as a whole;

(d) the mode of distribution/communication; and

(e) the economic prejudice caused to the copyright owner as a consequence of the act including its effect on the potential market for or value of the work.[5]

These factors aim to assist the court in evaluating the issue of prejudice having regard to all facts and circumstances of a particular face, including the presence or otherwise of a profit motive. In particular, factors (b) and (e) highlight that the court should take into account the commercial nature of the work and the economic prejudice caused to the copyright owner, and factor (c) requires a quantitative and qualitative comparison between the original work and the material so distributed/communicated, e.g. whether it is a complete copy of the original.

18. In this respect, we note comments from previous discussions that "parodies" in general target different markets from those of the underlying works, and that these parodies do not displace the legitimate market of the underlying works. Where no prejudice is caused to the copyright owners, these parodies would not be caught by the prejudicial offences.

19. The Administration is of the view that the above non-exhaustive list of factors together with the stringent burden of proof for establishing criminal liability would achieve our policy objective of targeting large-scale copyright piracy, and go a long way towards addressing concerns that Internet users may inadvertently breach the law.

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[5] See sections 118(2AA) and 118(8C) under Clause 51 of the Bill.

Conclusion

20. Given that the Bill does not alter the existing legal principles in determining whether the making of a parody constitutes a copyright infringement, a parody that does not amount to copyright infringement nowadays will remain so under the Bill. Where the dissemination of a parody on the Internet is not made for profit, and does not prejudicially affect the copyright owners, it will not constitute a criminal offence under the existing Ordinance or the Bill. The non-exhaustive list of factors in the Bill should help clarify that our policy intent is to target large-scale piracy that causes significant prejudice to the copyright owner.

Commerce and Economic Development Bureau
Intellectual Property Department
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