

INTELLECTUAL PROPERTY & LICENSING

Intellectual property rights (IPR) protection continues to play a crucial role in maintaining Taiwan's competitive position in the global economy. It is generally recognized that an IPR-friendly region attracts more investment, fostering a sound economic environment. In Taiwan, the availability of strong IPR protection has contributed enormously to the growth of the knowledge-based industries that are increasingly important to the Taiwan economy.

Over the years, we have been gratified to see various IPR-related efforts promoted by the Taiwan Intellectual Property Office (TIPO). One landmark development was passage of the Trade Secrets Act in 2013, which imposed criminal penalties for violation of the law. Although the environment for protecting trade secrets is now much improved, some difficulties remain. For example, the investigation agencies are often reluctant to pursue a case

unless the victim can first present concrete evidence, but that is usually almost impossible in trade-secret misappropriation cases. In the United States, the authorities will generally take action based on "reasonable suspicion," in expectation that specific details proving guilt or innocence will emerge in the course of the investigation. Other obstacles are the investigators' lack of experience with cases of trade-secret theft case, and the reluctance of the courts to issue evidence-preservation orders.

In the area of copyright protection, TIPO has also been working relentlessly on amendments to the Copyright Act, demonstrating the importance that the Taiwan government places on copyright protection. A fourth draft of the bill was recently made available for stakeholder comment. Some of the suggestions below provide this Committee's recommendations regarding the proposed legislation.

TIPO has also been active in helping prepare the way for Taiwan's expected bid to join the second tranche of the Trans-Pacific Partnership (TPP) trade agreement. It has conducted a public hearing to explain the contents of TPP, and also held meetings to discuss how Taiwan's Patent Law may need to be adjusted to meet TPP standards. The Committee strongly supports any initiative that will strengthen Taiwan-U.S. cooperation for the benefit of both countries. For example, we would encourage the two sides to enter into a Patent Prosecution Highway (PPH) partnership, as Taiwan has already done with Japan and Korea.

While we are generally highly supportive of the Taiwan government's efforts on IPR issues in recent years, the Committee is concerned that little movement has taken place on some important matters raised in the 2015 Taiwan White Paper. These issues, many of which date back a number of years, include:

1. Reform of the Copyright Collective Management Organization (CCMO) system.
2. Remaining issues regarding the proposed Copyright Act amendment.
3. Effective measures to deal with online copyright infringement.
4. IP Court willingness to grant evidence-preservation orders and award reasonable damages.
5. Strengthened enforcement of trade secret cases.

Suggestion 1: Remove all unreasonable or discriminatory regulations imposed on Copyright Collective Management Organizations (CCMOs).

Although amendments to the CCMO Act passed in 2010 appeared to give rights-holders the freedom to set their own rates for copyright royalty fees, it also gave content users greater freedom to appeal to the government for a ruling that would revise the fees. The resultant government intervention has led to unstable royalty rates and violates the right of copyright holders, both foreign and local, to conduct their

legal licensing business as they see fit.

Even though both CCMOs and users are dissatisfied with TIPO's intervention into rate setting, TIPO insists on maintaining the current review system. But if TIPO is unwilling to give up the system, it should at least restrict content-users' appeals under the following circumstances:

- a. When a similar rate had been reviewed and set within the past three years, whether or not any judicial remedy was sought;
- b. When there was a previous settlement or ruling regarding the tariff rate at issue and the applicant cannot provide a convincing reason why a new ruling is needed;
- c. When TIPO determines one of the follow:
 - (1) The grounds for appeal are clearly unreasonable;
 - (2) The purpose of the appeal is to disturb normal procedures;
 - (3) The applicant has a history of non-compliance with TIPO's rulings, instructions, and practices.

In addition, we strongly suggest removing provisions in Article 37 of the Copyright Act that unreasonably restrain and discriminate against copyright holders by allowing only CCMO members to seek criminal remedies for copyright violations. The restriction violates the constitutional rights of copyright owners that do not belong to a CCMO, and is particularly unfair to copyright owners for whom no CCMO exists in Taiwan.

Suggestion 2: Make needed revisions to the Copyright Act.

2.1 Maintain the penal provisions as set out under the current law, including penalties against optical media piracy. TIPO's fourth draft Copyright Act amendments released in April 2016 would remove the six-month minimum jail term for optical media piracy. Even though the use of optical disks is less common nowadays, they are still available in the market, sometimes in the form of high-quality counterfeit disks, and other physical media such as hard disks and SD cards are also being sold. For example, more than 50,000 pieces of pirated disks of Jody Chiang's live concert performances were seized in November 2014, and another 50,000-plus pieces of pirated disks recorded with unlicensed films, music, and software were seized in December 2015.

Aside from maintaining the current criminal penalties, we suggest amending the Copyright Act to permit another type of infringement to be treated as a public crime: the piracy of content stored in media with digital-storage functions similar to but having even more capacity than optical disks, such as USB drives, memory cards, etc.

2.2 Remove the proposed exemption for retransmission of content received by use of home-use facilities. Article 67 in TIPO's third draft permits the retransmission of publicly broadcasted works received by using normal

home-reception facilities. The provisions would disregard the three-step test as set out under the WTO's TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement, which restricts the right to engage in inappropriate public transmission. A WTO panel confirmed that position in a decision concerning a section of the U.S. Copyright Act that set out a "business exemption" which was similar in effect to the provision now proposed by TIPO.

Aggravating the situation is the vagueness of the term "home-use facilities," which is not clearly defined in the drafts. With the advancement of technology, it is very difficult to distinguish home-reception facilities from commercial facilities. In fact, many "home-use facilities" can be – and are in practice – used in a commercial context, providing entertainment to large audiences. Also, it is common practice in Taiwan for home-reception equipment to be used in commercial premises to play broadcasted works to the public. As a result, it is clear that this exception would not apply only to "certain special cases" as required under the three-step test. And since there is no way to control the use of "home-use facilities" for commercial purposes or in commercial premises, the exception would also breach other conditions under the three-step test through "conflict with a normal exploitation of the work" and unreasonable prejudice to the "legitimate interests of the author." As the proposed exemptions would contravene the TRIPS Agreement, we strongly suggest that this provision be removed from the draft in its entirety.

Suggestion 3: Adopt effective measures to deal with online copyright infringement.

Over the past several years, governments in Asia have attempted to find solutions to combat the proliferation of overseas websites engaging in online copyright infringement. Such sites profit off the infringement of copyrights on valuable creative content – motion pictures, television programming, music, games, software, and other copyrighted materials – and stifle the legitimate creative marketplace for local and foreign creators alike.

The "notice and takedown" mechanism articulated in the current Internet service provider (ISP) liability provisions of the Copyright Act provide a mechanism for controlling illegal or unauthorized content on hosted websites located within Taiwan. But the current copyright legislation is unable to deal with illegal activities from non-hosted websites and websites offshore. Local ISPs cannot take down infringing materials not hosted on their servers, and offshore websites are outside Taiwan's jurisdiction.

Pirating activity in Taiwan now typically consists of P2P file-sharing software and media box devices providing links to overseas websites offering access to large quantities of

unauthorized copyrighted content. But in the absence of legislation authorizing the blocking of sites that provide access to infringing material, there has been no effective solution to the problem.

In 2014, the Court of Justice of the European Union confirmed that providing website blocking injunctive relief to rights-holders is permitted under EU legislation and Article 8(3) of the EU Copyright Directive, irrespective of the ISPs' involvement in or liability for the infringing act, and does not constitute a violation of basic civil rights. Site-blocking has now become an international trend. More than 40 countries and territories – including the United Kingdom, France, Italy, Germany, Spain, and Australia, as well Singapore, South Korea, Malaysia, Indonesia, and India in the Asia region – have adopted administrative or judicial measures to stop access to rogue overseas websites known to be engaged in serious copyright infringement.

In May 2013, TIPO considered amending the Copyright Act to authorize site-blocking by means of the administrative approach, but withdrew the draft amendments in the face of protests that blocking blatant copyright-infringing sites might somehow be a curtailment of “freedom of speech” and the “fundamental right to access information.” As the administrative approach appears to be too controversial, we suggest that the Taiwan government follow the above-mentioned international trend for a legislative solution. The Intellectual Property Case Adjudication Act could be amended to create a special and swift judicial remedy for the copyright-holder victims of the dissemination of pirated content from overseas websites.

In addition, recent studies have shown that accessing infringing websites leaves users vulnerable to unintentionally downloading malware or exposure to high-risk advertising. Another recent study conducted in Taiwan found that most of those surveyed recognize that online piracy is equivalent to theft, and feel not enough is being done to deter such activities.

The Committee suggests two new measures to counter online piracy for Taiwan to consider. Both are being implemented in other countries and have proven effective in reducing online piracy rates and thereby fostering the growth of legitimate domestic online content services.

a. Develop a watchlist of illegal pirate sites for the reference of the online advertising industry.

The support of advertisers is a key factor in driving the growth of legitimate creative content. But major brands sometimes also inadvertently provide economic resources to popular pirate sites, simultaneously siphoning funds away from legitimate content creators. The problem is prevalent in many major markets around the world. In the United States and United Kingdom, the creative industries are working with their governments and online advertisers to develop “follow-the-money”

strategies aimed at keeping brands out of bad company and revenues away from illegitimate players.

The U.K. approach is led by a dedicated unit of the London Intellectual Property Police. As a first step, officers attempt to contact the illegal site owners, offering them the chance to correct their behavior and begin to operate legitimately. If the illegal site fails to comply, the site is placed on an “Infringing Website List” which is posted by the police unit on an online portal where it is available for reference by all entities involved in the digital advertising market. Based on the list, advertisers, ad agencies, and other intermediaries are likely to decide voluntarily to cease placing advertising on these culpable websites, impacting their business model by disrupting their revenue flow. Although the U.K. system is relatively new, it offers a promising new remedy that is already helping to slow the growth of online piracy and speed the development of legitimate online content services in Britain.

b. Amend the Electronic Communications Act to permit a no-fault remedy for ISPs to disable access to flagrantly infringing websites. Most countries provide a means to disable access to websites to prevent certain types of societal harm – for example, to halt access to child pornography. In an increasing number of Asia Pacific countries, including South Korea and most recently Australia and Singapore, this concept has been extended to access to websites built on copyright infringement. While the implementation in each of these countries has differed slightly, the goal remains the same: ensuring that the Internet is open for legitimate creative businesses, and that the marketplace is not flooded with websites whose business models are built on infringing the rights of creators. Since many infringing sites employ tactics such as locating their servers offshore to avoid detection and enforcement, governments have adopted a “no fault” approach whereby ISPs are instructed to disable access to an infringing site but are themselves freed from liability for the site’s violation of copyright. A similar approach has been adopted in Europe. The law of the United Kingdom, which is particularly instructive as to how a simple injunctive relief provision can be employed to effectively reduce online infringement, could provide a model for Taiwan.

Suggestion 4: Strengthen the IP Court’s willingness to grant more evidence-preservation orders and award reasonable damages.

In copyright-infringement cases, the lack of a discovery system in Taiwan puts rights-holders at a distinct disadvantage. As Taiwan’s Intellectual Property Court plays a vital role in IP protection in this country, we encourage

it to increase its willingness to grant evidence-preservation orders. Given their lack of technical knowledge, judges are often reluctant to issue evidence preservation orders because the time-consuming and complicated preservation process would then be their responsibility. But that obstacle could be overcome if the IP Court's technical experts could be brought into the process of evidence preservation.

In addition, one of the most important ways to protect copyright holders is for the IP Court to award damages that both properly reflect the loss to the copyright holders and are sufficient to deter further infringements. Article 88 of the Copyright Act states that if it is difficult for the injured party to prove actual damages, statutory compensation may be requested at an amount not less than ten thousand and not more than one million New Taiwan Dollars.

For copyright-infringement cases involving software, the damages can be based on the quantity of software or disks that are found, for example by searching a warehouse or seizing a shipment at customs. But the volume is harder to quantify in "hard-disk loading cases," where the system builders or stores have pre-installed illegal software for customers to help promote the sale of hardware products. During raids, only a limited number of disks or USBs can be seized, yet the storage devices may have been used to install software onto large number of computers over a long period of time. It is therefore unreasonable for damages in such cases to be based on the number of physical disks that are seized.

As a result, software companies usually try to base the amount of damages on the statutory compensation clause. For at least the past five years, however, the courts in Taiwan have declined to apply the statutory compensation clause in hard-disk loading cases, neglecting the difficulty of proving actual damages in such cases. Instead, they have consistently held the view that the damage merely equals the market price of the software in the disks seized during the raid. The IP Court's reluctance to apply the statutory compensation clause makes that clause totally irrelevant, and it enables system-builder infringers to diminish economic liability by using just a small number of disks. Further, the low awards for damages do not effectively deter future copyright infringements.

The recent draft amendments to the Copyright Act Amendment have removed the requirement that damages have to be difficult to prove in order to apply for statutory compensation. We support this revision, and if it is passed we hope that the IP Court will start to award damages based on statutory compensation. The concern we have over the new amendment is that it does not specify whether the basis for the statutory compensation is per software product or per case. We suggest that the wording be made more explicit on this point to confirm that when a given case involves a number of software products, statutory compensation should be calculated based on each individual software product instead of on each case.