

MANAGEMENT OF INTELLECTUAL PROPERTY RIGHTS ENFORCEMENT WORK

Executive Summary

1. The Customs and Excise Department (C&ED) is responsible for the enforcement work against intellectual property rights infringement. The work includes conducting investigations and taking enforcement actions against infringement of intellectual property rights; detaining goods at importation for the purpose of enforcing boundary measures; arranging and supervising the examination and identification of seizures by trademark and copyright owners; conducting inspections on licensed optical disc mastering and replication factories to guard against manufacturing of pirated optical discs and stampers; controlling the import and export of optical disc mastering and replication equipment; and applying to the court for the confiscation of financial proceeds obtained from intellectual property rights infringement crimes. The work is performed mainly by the C&ED's Intellectual Property Investigation Bureau (IPIB), which had an establishment of 233 staff as at 31 August 2012. The Audit Commission (Audit) has recently conducted a review of the C&ED's management of intellectual property rights enforcement work.

Investigation of infringements

2. *Use of Case Processing System.* The C&ED uses a computerised Case Processing System (CAPS) to support the processing of investigation cases. According to the IPIB Work Manual, the case records in the CAPS database should be updated at least bi-monthly. However, for 1,371 of the 12,045 outstanding cases as at 30 April 2012, the CAPS records had not been updated for 7.7 months on average and according to the system, over 50% of the outstanding cases had been outstanding for over five years. In addition, for the majority of the outstanding cases recorded in the CAPS database, details of investigation progress and results were not recorded. The lack of timely updates and maintenance of the records has diminished the usefulness of CAPS as an effective management tool.

Executive Summary

3. ***Conduct and monitoring of investigation of intellectual property rights infringement.*** The Head of the IPIB Operations Group is responsible for reviewing all suspected intellectual property rights infringement cases to determine whether investigation is required. Audit examination of 70 outstanding infringement cases revealed that five had not been investigated without documented justification or approval. Of the 65 cases being investigated: (a) for 29 cases, progress reports were not prepared after conducting investigation work, contrary to the requirement of the IPIB Work Manual; (b) for 15 cases without follow-up action taken for two years or more, there was no record to show that the supervisory officers concerned had given any directives as to whether these cases should still be pursued; and (c) for 18 cases, although the Head of the IPIB had given approval to close the cases, action to update the CAPS database had not been taken up to 30 April 2012 (after the lapse of about seven years on average).

4. ***Spot checks on optical disc factories.*** Since 1998, the IPIB has conducted surprise spot checks on optical disc factories to guard against manufacturing of pirated optical discs and stampers. According to the IPIB, because of its sustained and rigorous enforcement action, there have been no signs of any significant pirated optical disc manufacturing taking place locally in recent years. With the rapid advancement in the Internet and other technologies, the mode and methods used in pirating literary and artistic works have changed. However, the IPIB has continued to conduct around 300 spot checks on optical disc factories every year. With the decrease in number of optical disc factories in recent years, the average number of spot checks per factory has increased from 3 in 1999 to 12 (planned) in 2012.

Management of seized articles

5. In conducting an enforcement operation, IPIB staff have the power to seize articles suspected to be related to intellectual property rights infringement. According to the IPIB Work Manual, after obtaining the court judgement that a case involves intellectual property rights infringement, an application to the court for a confiscation order should be made to forfeit the seized articles. After a confiscation order has been obtained, an application should be made to the C&ED Supplies Section for a destruction certificate to destroy the seized articles.

6. As at 1 April 2012, there were 625 concluded court cases pending the IPIB follow-up action on the seized infringing articles. Audit examination revealed delays

Executive Summary

of the IPIB in obtaining confiscation orders and destruction certificates. For example, for 144 cases, confiscation orders had not been obtained after a lapse of more than one year since obtaining the court judgement. In addition, for 28 cases with confiscation orders obtained in 2010 or earlier, destruction certificates had not been obtained.

Combating Internet piracy

7. With the rapid advancement in the Internet technology, different software/technologies and websites are available for Internet intellectual property rights infringers to share/distribute or trade infringing materials over the Internet. In April 2007, the IPIB developed a tailor-made Internet monitoring system to combat illegal file sharing activities on the Internet, with focus placed on the predominant file sharing software being used at the time (i.e. BitTorrent). The system has since been used to detect infringing activities on peer-to-peer file sharing networks created using BitTorrent. Audit notes that, apart from BitTorrent, there are other software/technologies commonly used for file sharing. However, the IPIB Internet monitoring system can only monitor BitTorrent networks at present. The IPIB needs to enhance the system or develop appropriate technologies and countermeasures to combat suspected Internet infringing activities using up-to-date software/technologies.

Audit recommendations

8. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Commissioner of Customs and Excise should:**

Investigation of infringements

- (a) **take measures to ensure that IPIB staff properly maintain the CAPS database for effective monitoring and control of investigation cases;**
- (b) **require the IPIB to:**
 - (i) **take measures to ensure that investigation progress is closely monitored by supervisory officers, and records of their monitoring work are properly kept;**

Executive Summary

- (ii) **review the 15 long outstanding cases in paragraph 3 above and other similar cases to determine whether further investigation is warranted and take appropriate action accordingly;**
- (iii) **take prompt action to update the CAPS database in respect of the status of the 18 cases in paragraph 3 above, and identify any other similar cases in the CAPS database for necessary follow-up action; and**
- (iv) **review the overall extent of spot checks on optical disc factories taking into account changed circumstances such as the reduced number of such factories, with a view to enhancing cost-effectiveness;**

Management of seized articles

- (c) **review the cases of delays in obtaining confiscation orders and destruction certificates to identify areas requiring improvement;**
- (d) **based on the review results, implement measures to ensure that the officers concerned take prompt actions to obtain confiscation orders and destruction certificates; and**

Combating Internet piracy

- (e) **periodically review and explore the feasibility of enhancing the IPIB Internet monitoring system or developing appropriate technologies and countermeasures to combat piracy activities on the Internet using up-to-date software/technologies.**

Response from the Administration

9. The Administration agrees with the audit recommendations, and has undertaken to continue protecting intellectual property rights through legislation, law enforcement, public education and cooperation with stakeholders.