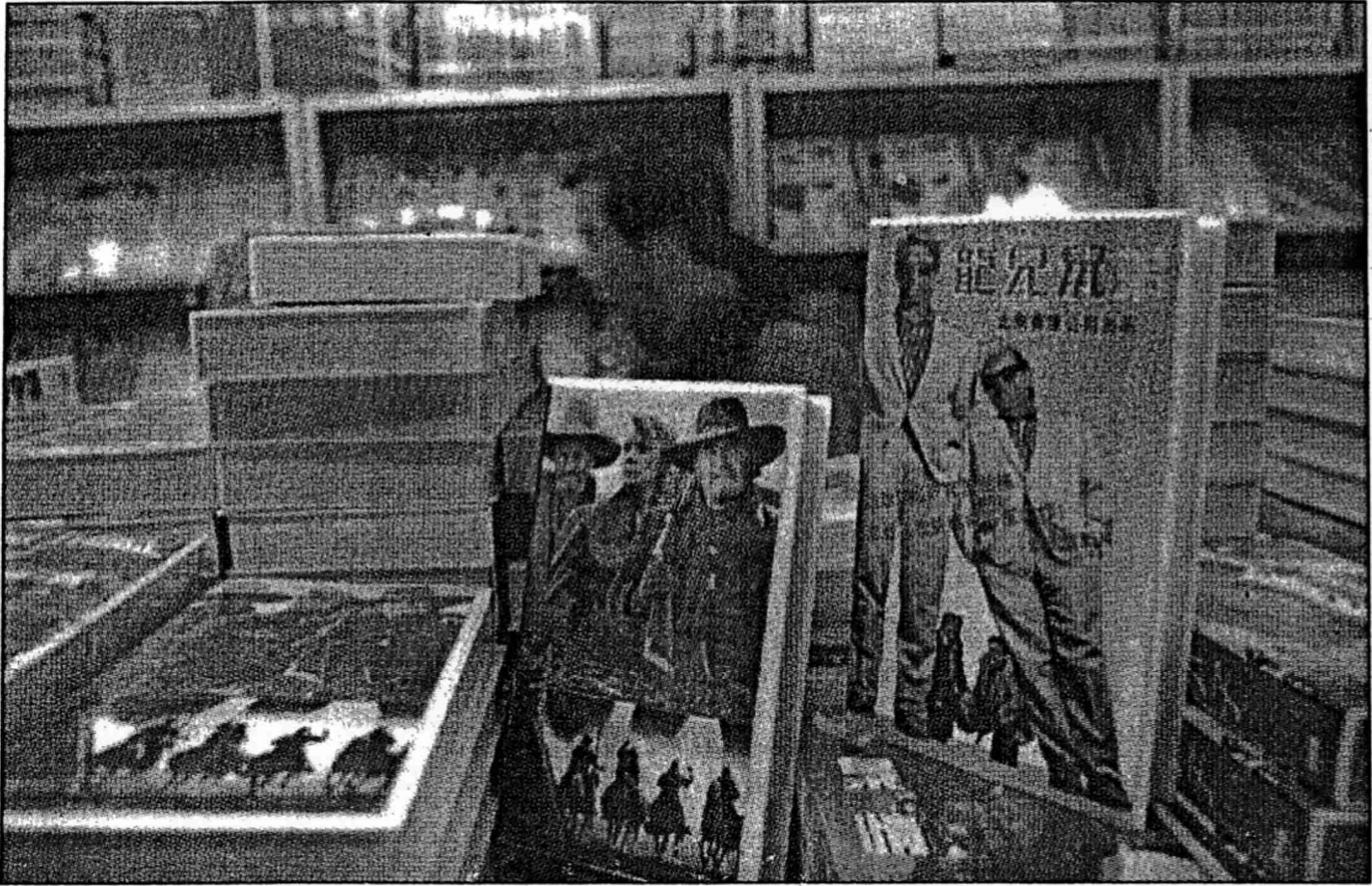


A penchant for piracy



AP/LOIS RAIMONDO

Retail outlets in China, such as this one in Beijing, offer locally licensed versions of foreign videos for \$6 rather than the street price of \$2.

Hong Kong's preference for pilfered software is killing the city's technology dreams

By Harry Mok and Ahmad Co
SPECIAL TO THE EXAMINER

HONG KONG — It took only a few days after its U.S. debut before "Star Wars: Episode I — The Phantom Menace" was on sale on the streets of Hong Kong.

Even though the movie is not supposed to open in Hong Kong cinemas until next month, the appearance of pirated copies of the film was no surprise to many.

One definite dark side of Hong Kong revolves around technology piracy. As later installments of the movie series will show, the dark side is often hard to resist.

Pirated video compact discs of the movie were selling for as little as \$2.50 soon after the movie's U.S. release. The bootlegged versions were recorded by hand-held video cameras in stateside cinemas.

The pictures and sounds are grainy, and the crowd can be heard cheering as the movie opens. Silhouettes of heads can also be seen moving across the

[See PIRACY, C-3]

THE SERIES

EDITOR'S NOTE: In a five-part series, The Examiner business section explores the economic climate of Hong Kong nearly two years after the Asian metropolis exchanged the British Union Jack for the red star of China. While the political change was certainly dramatic for Hong Kong and its residents, the economic crisis that has gripped Asia for more than two years has proven to be the more difficult adjustment.

Sunday:

Hong Kong's economy
Surviving the recession
The technology race

► **Monday:** Technology piracy

Tuesday: Slumping tourism

NOTE: Examiner National Edition stories appear one day later.

◆ PIRACY from C-1

Hong Kong displays penchant for piracy

screen near the end.

The swift pace with which "Phantom Menace" made its way to Hong Kong is indicative of the city's reputation as a den of intellectual property piracy. Not only is the Hong Kong market hungry for the pirated goods, but the city represents a pipeline to all of China. Many pirated titles that start in Hong Kong end up on store shelves in Beijing, Shanghai and other major Chinese cities.

In an effort to stem the tide, the government recently intensified its effort to fight piracy, but has barely put a dent into the illicit industry.

The problem stretches beyond the cinema and into the workplace. A report released last year by Hong Kong's Business Software Alliance and the Software Publishers Association estimated that in 1997, 67 percent of business software used in Hong Kong was pirated. If that level of piracy in Hong Kong is maintained, many tech proponents fear it will thwart high-tech investments and high-paying jobs.

Furthermore, if that level of piracy continues, the legitimate industry will only grow by 7,000 jobs by 2001, according to a PriceWaterhouseCoopers report. If Hong Kong's piracy level were the same as in the United States (27 percent), information technology job opportunities would more than double to 16,500, the report said.

The PriceWaterhouseCoopers study also estimated that the software industry would contribute \$228 million in tax revenue in 2001 if piracy were cut to the U.S. level, as opposed to \$95 million at current levels.

In 1998, the Business Software Alliance and the Software Publishers Association's global piracy report estimated that \$11 billion was lost to businesses due to piracy of business applications such as word processors, spreadsheets and database programs.

According to the BSA, business software companies lost \$1.2 billion to piracy in China. In Hong Kong, losses amounted to \$88.6 million. Video game publishers lost an estimated \$3.2 billion worldwide to piracy in 1998, ac-

ording to the Interactive Digital Software Association. The movie and music industries have also estimated losses in the billions.

"Normally within a week, the (pirated version) of a movie is available in Hong Kong after its release in the States," said Sam Ho, head of the Hong Kong and Macao anti-piracy unit of the Motion Picture Association.

At least 160 shops were found selling "Phantom Menace" in Hong Kong, Ho said. Some have been shut down, but many remain open, and new ones are cropping up all the time.

Even the government is not immune. The Housing Department here made headlines in May when an audit found that about 10 percent of the software on the agency's computers was pirated.

Enforcement is the first line of defense.

In the first quarter of 1999, the Hong Kong Customs and Excise Department seized 5.4 million illegal versions of computer programs, games, music CDs and VCDs, a format common in Asia that is not available in the United States.

Because of stricter enforcement, piracy rates in Hong Kong have declined in recent years, according to the BSA. Since March the Customs Department has added more officers to the intellectual property investigation bureau and has been conducting raids on a nearly daily basis in a campaign called Operation Thunderbolt. Stiffer anti-piracy laws that were passed in 1997 precipitated the move.

Nevertheless, the captured contraband is still just a fraction of what is out there. Along with stepped-up enforcement, the department recently started an education campaign at elementary and secondary schools.

"It's not only an enforcement problem; I think it is a social problem," said Ben Leung, a division commander in the Customs Department's Intellectual Property Investigation Bureau. "The long-term strategy is educating our students, our teenagers on the importance of intellectual property rights."

The Ho King Commercial Centre in the Mong Kok neighborhood of Kowloon is a well-known haven for peddlers of pirated goods.

Copies of movies like "Star

SOFTWARE PIRACY

Software piracy in Hong Kong

Year	Piracy rate	Retail losses (In millions)
1994	62%	\$64.5
1995	62%	\$122.9
1996	64%	\$129.1
1997	64%	\$122.2
1998	59%	\$88.6

SOURCE: Hong Kong Chamber of Commerce

EXAMINER GRAPHICS

Wars Episode I: The Phantom Menace," "The Matrix," Sony PlayStation games and other software are openly on sale.

Video games can be had for about \$1 each (they cost \$40 to \$50 for legitimate versions). Pirated versions of popular software like Windows 98 sell for about \$3, way below the \$200 price for the real thing. Copied movies and music CDs can be had for \$1 to \$3 each.

The fact that software makers and other companies lose money to piracy doesn't cross Alex Chung's mind when he is buying pirated products.

"You can save quite a lot of money," said Chung, 36. "The price difference is quite attractive."

Chung said he frequents the shops at Mong Kok and Sham Shui Po in Kowloon, buying mostly computer software. He reasoned that cheap, pirated software gives more people access to computers.

"After you use it for a couple of months, maybe a new version is already on the market," he said. "Pirated copies are always more convenient."

The Customs Department's efforts are having some effect at the Golden City Computer Centre in the Sham Shui Po. Only original versions of programs like Microsoft Windows 98 and video games were on display during the same week "Phantom Menace" showed up in Hong Kong.

Shopkeepers quickly said "no" to inquiries about copied software, but a request for U.S. versions of PlayStation games yielded pirated goods.

"Yeah, I have (U.S. versions), but I can't show you," the sales clerk said. "Give me a title, and I'll give it to you." Stores have had to be more discreet because customs

agents have been raiding the shopping arcade every day, the clerk said.

Fining buyers is becoming a workable answer. Currently, buying pirated goods is not illegal in Hong Kong, so earlier this year some city officials proposed changing the law.

"The government believes that imposing fines on people who purchase pirated materials is the only solution to stop piracy," Leung said, "but it remains a controversial step."

Last April, the Customs Bureau published a report on possible new measures. The report suggested fines for individuals who bought pirated products. Leung said more than 500 persons responded to the report, their opinions split between pro and con. Still, the legislature is considering imposing the penalty to assuage the problem.

"Hong Kong people's morals seem to have declined to such a low level that they do not feel shame in buying pirated goods," Trade and Industry Secretary Brian Chau Tak-hay said in March.

WEEK IN BUSINESS**Monday, June 21**

► **Treasury Department** holds T-bill auction.

Tuesday, June 22

► **Treasury Department** holds T-bill auction.

Wednesday, June 23

► **Treasury Department** holds note auction.

Thursday, June 24

► **Labor Department** reports on weekly jobless claims.

► **Commerce Department** reports on durable goods for May.

► **Freddie Mac** reports on weekly mortgage rates.

Friday, June 25

► **Commerce Department** reports on revised first-quarter gross domestic product and corporate profits.

► **National Association of Realtors** reports on existing home sales for May.

SOURCE: Associated Press