

# INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

## 2003 SPECIAL 301 REPORT

# KENYA

### EXECUTIVE SUMMARY

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Kenya should be placed on the Watch List.<sup>1</sup>

As the U.S. government moves to enhance trade with African countries, it is important to address a full range of trade issues, and to call out significant breaches of international and local law in the form of heavy trade losses due to overall poor copyright enforcement and legislation. Further, it is important that the U.S. government target resources to those markets that will have the most impact on overall trade growth in the region. Kenya is such a market, being the largest market in the East African region and a leader in economic policy directions. Kenya serves as a distribution point for goods into countries such as Ethiopia, Rwanda, Tanzania, and Uganda. As such, piracy in Kenya has the potential to damage markets throughout East Africa. On the other hand, strong leadership in protection of copyright industries can incubate local talent and raise Kenya's role as a leader in this segment of the economy.

There are two major areas of concern in Kenya: weak enforcement and inadequacies in the law. In order to improve the piracy situation in Kenya, action items for 2003 should include:

- Enforcement and Related Issues
  - Encourage relevant government agencies to develop and implement an aggressive action plan to tackle piracy in Kenya, including training for appropriate officials on IP enforcement, and take steps to assure regularization of judicial/other legal procedures.
  - Bring a specific number of target cases to criminal prosecution in 2003.
  - Consider development of a specialized intellectual property (IP) court and a specialized cadre of prosecutors to handle IP cases, and foster the imposition of deterrent penalties.
  - Develop workable and effective border measures to prevent the entry of piratical goods.
  - Encourage and seek commitments from the government to act as a model business software user and intellectual property leader for the country.
- Copyright Law and Related Issues
  - Address deficiencies in the Copyright Act, especially in the area of strengthening enforcement remedies.
  - Clarify presumptions, particularly subsistence requirements, so that they ease and do not unduly hinder enforcement efforts against piracy.
  - Ratify and deposit the WIPO Performances and Phonograms Treaty (WPPT) and the WIPO Copyright Treaty (WCT).

Piracy levels for business software were 78%, the highest piracy rate of any of the African countries surveyed by the business software industry in 2002.

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<sup>1</sup> The U.S. government recognized the importance of addressing intellectual property issues in Kenya in the 2002 National Trade Barriers' Foreign Trade Barriers report, noting that the Kenyan manufacturing sector reported losses of some \$254 million in direct sales and \$16.5 million in tax revenue due to counterfeit goods. Given such statistics, IIPA believes copyright piracy in Kenya has reached sufficient proportions to merit its designation under Special 301.

## **PIRACY IN KENYA**

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Business software and music piracy damage the domestic market, and threaten neighboring markets as well. All forms of business software piracy (namely, retail piracy, corporate end-user piracy of business software, and government use of unlicensed software) are present in the Kenyan market. In addition, there is some pirate photocopying of published materials, mainly reprints of published materials intended for the market in India.

Retail piracy runs rampant in Kenya. The quality of counterfeit goods available in Kenya is quite extraordinary and of great concern to the industry. Most computers are sold with business software installed for “free” (so-called “hard-disk loading piracy”). Pirated copies of business software products are available in stores for no more than the price of the physical medium. The Business Software Alliance has attempted to address the issue of retail piracy in 2002 through education and technical support to the government (e.g., in drafting copyright amendments). Some BSA member companies have taken legal actions in Kenya against retail pirates, but government action is necessary to effectively tackle this issue.

Corporate end-user piracy of business software (for example, when a business uses unlicensed software or exceeds the number of users for which a license is authorized) is also a significant concern in Kenya. BSA’s efforts in 2002 to educate corporations as to the illegality of using unlicensed software have had little effect. Corporate end-users know the government will not enforce the law. Even if the government chooses to enforce the law, a sufficient number of loopholes and complexities exist for piracy to be worth the risk to end-users.

A third form of business software piracy facing Kenya today involves the illegal or unlicensed use of business software by government entities. In each case noted above, industry has an important role to play in educating the general public and businesses. Both groups of consumers must understand the value of software to business and to the illegality of using unlicensed software. Governments can play an important role in this process, not just through strong enforcement, but also through leading by example.

Finally, Kenya has become a dumping ground for all kinds of pirated and counterfeit goods, including pirated music. For instance, since June 2002, Kenya’s Customs & Excise department has seized over 100,000 music CDs coming into Nairobi. A further 15,000 music CDs were seized in Mombasa. During the same period of time, industry reported meager legitimate sales of approximately 15,000 music CDs.<sup>2</sup>

## **ENFORCEMENT EXPERIENCES IN KENYA**

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Enforcement failures, from raid to prosecution in the courts, as well as in regard to border procedures, make it virtually impossible for right holders to protect their rights in Kenya. Police, customs, and other enforcement agencies are reluctant to pursue raids against copyright violations, sending a message to the pirates and the general public that there is no negative consequence for engaging in acts of piracy. Systemic bureaucratic failures also contribute to an overall ineffectiveness in the enforcement system. Lack of legal knowledge further exacerbates the problems.

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<sup>2</sup> Notoriously, pirates do not pay taxes. This phenomenon is borne out by the failure of pirate manufacturers of music to register with the Kenya Bureau of Standards and the Value Added Tax (VAT) Department of the Kenya Revenue Authority. Yet, copying or duplicating in Kenya is done “while you wait,” without the imposition of the VAT.

For example, raids are generally run by the Police in Kenya, but as copyright is not a subject covered in police training, police officers have little knowledge or understanding of the law, and have difficulties writing up charging documents. A “Special Crime Prevention Unit” was even established recently by the Commissioner of Police to handle copyright cases, but the officers of that Unit never received training. The judicial system in Kenya is slow and expensive, and cases rarely if ever result in deterrent sentencing. Attempts to reign in piracy, such as a stickering system, fail due to lack of legal knowledge among authorities and sometimes even mismanagement.

## **Raids Fail to Materialize, But Even When They Do, Cases Are Not Brought for Prosecution**

Despite the general reluctance of the Kenyan authorities to take actions against piracy, the Business Software Alliance has secured the assistance of the Police and the Kenyan Revenue Authority to conduct three actions against resellers since 1999. The first two actions were against companies offering business software for “free,” while charging customers only for the purchase of new hardware (so-called “hard disk loaders”). Despite convincing evidence seized in the raids, no follow-up has ever been taken by the government to prosecute or levy fines against either company.

A third action was taken in September 2000 with the assistance of the Kenyan Bureau of Standards and the Revenue Authority against a reseller for sale of counterfeit business software. The investigation and subsequent raid were extremely disturbing as the quality of the counterfeit goods was very high. Further investigation revealed that this product had been imported from Taiwan and that the store was engaged in re-export to Dubai. It is believed that the reseller was exporting to other East African markets as well. Again, as with the other raids, no follow-up has occurred nor, to our knowledge, is any planned.

Even when raids are carried out, problems with follow-up abound. First, results of raids are often marred by frequent movement of personnel from one department to another, meaning cases sometimes get “dropped,” or files “lost.” Newly shifted enforcement personnel have no incentive to take up actions taken by predecessors, meaning cases languish even before proceeding to court. Police prosecutors, who are authorized to carry out prosecutions against copyright infringement, are generally ill-prepared to handle such cases. Meanwhile, the Copyright Office in Kenya (part of the Department of the Registrar-General under the Attorney General) is helpless, since it has no authority to prosecute copyright cases under the Copyright Act.

## **Courts Fail to Provide Relief Against Piracy for Copyright Owners**

Business software and music industry experiences with the Kenyan judicial system have proved disappointing. The courts in Kenya have provided little relief against piracy. Until 1999, copyright cases were heard by the High Court or the Resident Magistrate’s Court.<sup>3</sup> The establishment of a special commercial court in 1999, the Milimani Commercial Court in Nairobi, was intended to relieve the backlog of commercial cases and provide a more effective avenue for dispute resolution. However, little has changed from the past, resulting in cases that take

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<sup>3</sup> It would appear that the majority of such magistrates have little or no knowledge of copyright law, and are unwilling to take the time to learn about it. Ignorance of the law has meant enormous wastes of time and right holder resources, since sometimes a subordinate court realizes it has no jurisdiction and throws the case to the High Court, where proceedings start again.

several years to reach judgment and costly court proceedings in even the most straightforward infringement cases.

The Business Software Alliance's member companies have filed several cases under the 1966 law, experiencing long, drawn-out proceedings (exacerbated by the deficient subsistence provisions in Kenyan law); a general backlog of commercial cases; lack of familiarity by the judiciary with copyright cases; and totally non-deterrent results, among other problems.<sup>4</sup> While no cases have been brought by the business software or music industries under the new copyright law, we anticipate the same systemic problems encountered in previous cases.

In one case,<sup>5</sup> Microsoft Corporation pursued action against a local system builder, Microskills Kenya Limited, accused of illegally preloading business software on hundreds of computers. Although the court found that the defendant was liable to damages of KES 25 million (around US\$325,310) the defendant merely applied for a "winding up" of the company, thereby leaving Microsoft with expensive legal bills and costs, and an "empty" victory.<sup>6</sup> Today, it is believed that the defendant still operates in the East African market. This clearly illustrates that the court judgment was not an efficient deterrent.

In another illustrative case,<sup>7</sup> Microsoft has brought action against a computer reseller accused of illegally preloading business software on personal computers they build and distribute (so-called "hard-disk loading" piracy). The matter is currently being litigated in court. Microsoft's local counsel estimates the case could take as long as three years to litigate, as the defense has proceeded with bringing technical and frivolous arguments to the court. The total cost of this action could exceed US\$30,000, which is relatively expensive in Kenya. Given the costs involved to the right holders, and given a poor track record of achieving acceptable recoveries for piracy cases, litigating is of questionable benefit, and either way, pirates win.

## **Lack of Coordination and Lack of Knowledge of Procedures Hinders Enforcement Efforts in Kenya**

Lack of enforcement coordination and knowledge of procedures remains a major problem in Kenya. One illustrative example involves Kenyan Customs' handling of IP infringement claims. When industry has alerted Kenyan Customs that a consignment of pirated/counterfeit CDs is coming into the country, standard procedure should allow the goods to be inspected by Customs and the Kenya Bureau of Standards (KBS)—no other department or body would be needed. However, oftentimes Customs officers have declared that they are not in a position to determine whether or not goods are pirated/counterfeit and that they will not

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<sup>4</sup> In music cases, problems abound. One problem has been the perpetuation by the General Manager of the Music Copyright Society of Kenya, a person deemed an authority on the subject of copyright in Kenya, of the misconception that copyright in a sound recording is held by the performing artist alone. Right owners in sound recordings have found it difficult to overcome this view, while defense lawyers have taken full advantage, demanding production of contracts between artists and international recording companies, resulting in dismissals of perfectly sound claims for copyright infringement if the company is or the local licensee has been unable to produce such documents.

<sup>5</sup> HCC No. 323 of 1999, Microsoft Corporation v. Microskills Kenya Limited.

<sup>6</sup> The defendants managed to avoid attaching liability for any outstanding issues. Further, it is unclear that in the bankruptcy process, that Microskills Kenya's existing corporate assets were properly reported.

<sup>7</sup> HCC No. 810 OF 2001, Microsoft Corporation v. Mitsumi Computer Garage Ltd.

be responsible. As the pirated/counterfeit discs technically meet KBS standards, the goods are released unless the Commissioner of Customs, in his discretion, calls on industry experts to assist. Customs officials in Kenya are also unsure of how to deal with suspected pirated or counterfeit goods. For example, they are unclear whether to release the goods or put them into bond; whether it is acceptable to charge duties on illegal goods; on how storage charges will be paid if an infringement case fails; who would indemnify them if an importer sued them for wrongful detention of their goods; and the like. Such lack of knowledge of the law and agency procedures does not help right holders to defend their rights in Kenya.<sup>8</sup>

## **The Kenyan Government Should Take Steps to Legalize Business Software Usage by Government Entities**

In both retail and corporate end-user piracy, industry plays an important role in educating the general public and businesses. Both groups of consumers must understand the value of software to business and the damage done by illegally using business software. However, governments must also play a role in the process, not just through strong enforcement, but leading by example. One area in which governments can directly lead by example is in the use of business software by government entities. Some of the greatest business software success stories worldwide involve countries whose governments lead public and corporate efforts to legitimize business software usage. For example, when governments issue executive orders instructing their agencies to: (1) conduct audits; (2) assess business software needs; (3) budget for those needs; (4) purchase properly licensed business software and support services, industry tends to follow suit. This role of government as a leader in proper use of business software is critical to demonstrate leadership in a host of other IT related areas. IIPA understands the Kenyan government, recognizing this important role, already is reaching out to industry. We commend efforts already made and strongly encourage the government to move forward.

## **COPYRIGHT LAW AND RELATED ISSUES**

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On December 31, 2001, the Kenyan Parliament passed the Copyright Act of 2001, replacing the Copyright Act of 1966 (as amended). The new Kenyan law went into effect on February 1, 2003. Many deficiencies of the 1966 Act were addressed in the revision, bringing Kenya's law closer to compliance with Kenya's international obligations under the TRIPS Agreement. In addition, the law deals with certain aspects of protection of copyright in the digital age, including several of the requirements of the WIPO "Internet" treaties, the WIPO Performances and Phonograms Treaty (WPPT) and the WIPO Copyright Treaty (WCT), which went into effect in 2002.<sup>9</sup>

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<sup>8</sup> Indeed, it can be said that right holders in Kenya now aim somewhat blindly to obtain enforcement under any legal regime that is plausible and available to address their issues. At a recent seminar on this issue, the Attorney General pointed to four possible avenues by which right holders can seek redress against infringements: the Copyright Act, the Kenya Bureau of Standards (KEBS), the Trade Descriptions Act, and the Trademark Act. Obviously, it is most crucial that the government of Kenya begin serious enforcement of the Copyright Act, but the recording industry is also looking at the Trade Descriptions Act under the Department of Weights & Measures, Ministry of Trade & Industry (headed by the Hon. N. Biwott) as a potential supplemental path to get pirated product off the streets of Kenya. The Kenya Revenue Authority (KRA) has also set up a Counterfeit & Sub-Standard Committee. This Committee is supposed to liaise with all relevant departments to look into taking action against counterfeits.

<sup>9</sup> The WPPT went into effect on May 20, 2002, while the WCT went into effect on March 6, 2002.

Several important weaknesses remain, particularly in the area of enforcement, that leave Kenya's law TRIPS-incompatible. Most importantly, the law lacks adequate penalties to deter piracy. The business software and recording industries raised concerns throughout the legislative process, and continue to raise concerns with government officials subsequent to the Act's passage. The following are some of the key deficiencies noted.

- **Presumption of Subsistence of Copyright Remains Weak:** The presumption of subsistence of copyright in the 2001 Act allows a defendant to place the question of subsistence into issue, without a requirement that a defendant produce evidence that copyright does not subsist in order to rebut the presumption.<sup>10</sup> This procedural issue must be addressed, since a defendant's ability to put into issue the presumption of subsistence of copyright can significantly raise the costs of bringing a copyright case to court by forcing a plaintiff to spend inordinate amounts of time and resources proving factual matters unnecessarily.
- **Civil and Criminal Remedies and Penalties Must Deter and Compensate:** The Copyright Act provides for civil remedies and criminal penalties. This was an important step forward for Kenya. However, the fines envisaged in the Act are so low as to be no more than a "cost of doing business" for business software pirates.<sup>11</sup> In addition to the absence of a deterrent impact, the fines are impractical in terms of implementation, since right holders must apparently prove how many copies were made in order to meet the "reasonable royalty" payment in Section 35(4)(c). In the digital world, presenting "proof" of copies made is a challenging task. Since proving actual damages in a digital world is difficult at best, the government of Kenya should enact "statutory damages" which can be elected by a right holder proving that illegal copying has taken place. A fixed amount or range of amounts of money can be awarded by the court to the plaintiff for each act of infringement proven to have been committed by the defendant. This remedy provides an appropriate approximation of damages adequate to compensate the right holder for injury, and serves as an effective deterrent to infringements.
- **Customs Authorities Should Receive *Ex Officio* Powers:** An important part of the fight against piracy is the role of customs authorities in searching and seizing potentially infringing copies intended for import, export or transshipment. The Copyright Act should

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<sup>10</sup> Section 35(8) of the Act currently reads (emphasis added):

In an action under this section . . . a) copyright shall be presumed to subsist in the work or other subject matter to which the action relates, ***if the defendant does not put in issue the subsistence of copyright therein*** and . . . b) where the subsistence of copyright is proved, admitted or presumed by paragraph a), the plaintiff shall be presumed to be the owner of the copyright if he makes a claim thereto ***and the defendant does not dispute that claim.***

<sup>11</sup> For example, Section 38(4) provides for fines "not exceeding four hundred thousand shillings" (US\$5,500) and/or "imprisonment for a term not exceeding ten years." Section 38(5) provides for fines "not exceeding one hundred thousand shillings" (US\$1,400) and/or "imprisonment for a term not exceeding two years." Section 35(4)(c) provides that, "in lieu of damages, the plaintiff at his option, [may] be awarded an amount calculated on the basis of reasonable royalty which would have been payable by license in respect of the work or type of work concerned." Section 35(6) provides for the imposition of additional damages where the Court is satisfied that effective relief would not otherwise be available to the plaintiff. It is questionable, and will have to be borne out in practice, whether the combination of Sections 35(4)(c) and 35(6) will adequately compensate a right holder for the injury caused by the infringement, as required by Article 45 of TRIPS. It is believed that courts may employ these provisions to mete out small fines and damages that constitute no more than a nuisance for large-scale producers of pirate software and corporate end-user pirates of software.

therefore grant customs authorities *ex officio* powers to search and seize copies that they suspect may be infringing.<sup>12</sup> Further, right holders and organizations mandated to enforce their rights have developed expertise in combating piracy and should be authorized to participate in such actions.

- **Point of Attachment:** One possible deficiency involves the lack of express point of attachment in the 2001 Copyright Act. The 2001 Act, unlike the 1966 Act that it replaced, fails to expressly protect foreign works. However, Section 49 of the new Act allows the Minister to issue a regulation to extend the Act to foreign works (including sound recordings). Section 52 further provides that regulations issued before the Act shall continue to have effect. It is therefore our understanding that protection for foreign works provided under the previous law is extended under the Copyright Regulations, Ref 1991 Cap 130. It would be useful for the Kenyan government to confirm this.
- **Banderole System Should Be Monitored:** The 2001 Copyright Act provides for a system of “banderoles” (stickers) to be overseen by the Kenya Copyright Board. IIPA members have not generally found banderoles to be helpful in the fight against piracy. Such systems interfere with right holders’ abilities to lawfully distribute in countries, since they require placement of the banderole underneath the shrinkwrap, and many members do not manufacture inside Kenya, imposing a significant burden on those affected industries. Banderole programs are also difficult for governments to administer, costly, and subject to possible fraud and abuse. Most important, the government of Kenya must not view a banderole system as a substitute for sustained enforcement against piracy, but only as a supplemental tool in the fight against piracy.

As noted, the new Act deals with many requirements of the WIPO “Internet” treaties, which just went into force in 2002. For example, the Act provides express protection under the reproduction right for certain temporary reproductions.<sup>13</sup> The Act also attempts to address a most important aspect of the treaties—the requirement that countries provide protection against the circumvention of technological protection measures (TPMs). While these provisions are not perfectly aligned with the requirements of the WIPO treaties or are in need of some clarification, they are an important first step toward providing key protections in Kenya to right holders’ uses of TPMs to enable healthy electronic commerce.<sup>14</sup> One glaring omission from the 2001 Act is the

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<sup>12</sup> Sections 39-42 of the Act reportedly grant certain authorities *ex officio* powers to conduct inspections and to seize evidence of suspected infringements, but these provisions may not grant explicit *ex officio* powers to customs authorities.

<sup>13</sup> 2001 Copyright Act, § 2 (interpretation of “copy”): IIPA is concerned that the definition may not be technologically neutral, since the definition includes “transient storage of a work in any medium by computer technology or any other electronic means.”

<sup>14</sup> The provisions cover both the act of circumvention [Section 35(a)] as well as the business of manufacturing and distribution of circumvention devices [Section 35(b)]. Importantly, it appears that the term “protect works” within the Section is broad enough to contemplate both TPMs that control access to a work, as well as TPMs that prevent unauthorized exercise of rights under copyright. Section 35(b), however, is not fully WIPO treaties-compatible. To make it so, other forms of “trafficking” would need to be added such as importation, offering to the public, providing, otherwise trafficking in circumvention devices, or offering a circumvention service to the public. In addition, the language in the Kenyan Act would need to make clear that the prohibition on devices extends to component parts. In addition, Section 35(b) does not provide indirect methods of discerning an illegal purpose, instead prohibiting only those devices “which are primarily designed or produced for the purpose of” circumvention. Other methods of proof, such as how a device is promoted, advertised or marketed, or whether the device has only a limited commercially significant purpose or use other than to circumvent, should be included in the statute. Finally, the internal limitation on what TPMs are covered should be removed. Sections 35(a) and (b) appear to limit coverage of the statute to TPMs

absence of a WIPO treaties-compatible “communication to the public” right, and some other provisions may require revision.<sup>15</sup> Kenya should take the opportunity provided by the regulatory process (or by the opportunity to update the Copyright Act) to meet the remaining requirements of the WIPO treaties, so that it can join the growing list of countries that now adhere to these treaties (as of February 2003, there were 39 members of both the WCT and WPPT). Ratification and full implementation of the WIPO treaties will ensure that the legal framework is in place in Kenya to fight digital piracy, as well as to ensure the protection of Kenyan right holders in foreign territories and support the development of electronic commerce in Kenya.

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“designed to” protect works. The test should be objective, such as whether the TPM, in the normal course of its operation, controls access to or protects the work, without regard to the purpose of its design, which adds an unnecessary element.

<sup>15</sup> For example, one key WIPO treaties’ requirement is to provide protection against unauthorized alteration of so-called “rights management information,” which is information that enables the identification of works in digital and other media in order to facilitate use and licensing of works. The definition of rights management information should be amended to refer to all categories of protected information (such as the title of the work; identity of the author, producer or performer; terms and conditions of use) and indicate that the information is attached to the work or appears in connection with an intangible use. The definition of “rights management information” should be added as follows:

“Rights management information” means information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of the use of the work, and any numbers or codes that represent such information, when any of these items is attached to a copy of the work, or appears in conjunction with the communication or making available of a work. Nothing in this section requires the owner of any right in the work to attach rights management information to copies of it, or to cause rights management information to appear in connection with a communication of the work.