

Private copying: bitter news for SIAE from the recent decision issued by the European Court of Justice on 22 September 2016

Professional devices must right from the beginning be exempt from any payment, even temporary, of the compensation for private copying; agreements entered into by SIAE with trade associations of producers to regulate this matter, thus not only in respect of professional devices, are not valid.

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In this issue of Market Place, I shall comment the recent decision by the **European Court of Justice (ECJ) of 22/09/2016 in the Case C-110/55**, whose content is summarily described above. In order to better understand what we are talking about, it is first necessary to recall what is meant by '*private copying*'. Copyright includes, among others, the prerogative to prohibit the public dissemination of a work or, when decided to make it public, the right to claim a compensation for its enjoyment by third parties. This right includes also the entitlement – provided for the first time in Italy by Law No. 93/92, which has now been replaced by the legislation at issue – to claim a second compensation in case of 'private reproduction', namely the recording by the user of a copy of the work originally purchased; this right is recognized also at EU level, given that pursuant to Article 5, para. 2 (b) of Directive 2001/29/EC, the Member States that decide to allow private copying of works protected by copyright, must provide for a fair compensation in favour of the holders of the related copyrights.

Thus, for example, on any sale of music CDs reproducing the musician TOM's recordings, the musician is entitled to a compensation that is added onto the price of the same, since the consumer DICK (buyer) may decide (despite the preventive measures taken) to legitimately make himself a copy of his own music CD (to also listen to in his car, for example). TOM is therefore entitled to receive via SIAE – Italian Authors and Editors Association, the public body solely responsible for the collection of the levies in question – also an additional '*compensation for private copying*' that from the start is spread over the cost of each blank recordable CD placed on the market by the producer HARRY; nothing is instead due in the event of sale by HARRY of CDs to companies or professionals, since such media is not intended in this case for private copying but for professional uses.

In Italy, the levy for private copying is periodically established by ministerial decrees from the MiBACT (periodical decrees issued by the Ministry of Cultural Heritage and Tourism, the last of which, so-called 'Franceschini Decree', dates back to 7 July 2014); the European Court of Justice's decision discussed herein refers to the previous ministerial decree (so-called 'Bondi Decree') dating back to 30/12/2009, but this does not however alter the actual relevance and validity of the judgment.

The ECJ's decision refers to two questions submitted for a preliminary ruling by the Italian Council of State, called to decide on the appeal filed by a number of EEE producers and other parties against the judgment with which the Lazio Regional Administrative Court (TAR) dismissed their action challenging the Bondi Decree.

Specifically, the first question submitted is **whether it is legitimate to entrust the fixing of the levies to be paid by way of fair compensation for private copying to private-law agreements between SIAE and trade associations**, while the second question submitted is **whether also the possible criteria for exemptions from payment of fair compensation can be legitimately identified through such a negotiation** which, as such, is not governed by general principles or any guarantee of equal treatment of the parties involved.

In this regard, the ECJ has first stated two principles, and recalled a third:

(A) Principle of the correlation of the levy with the harm for the rightholder and the recording capacity of the devices and media

The compensation for private copying must be related: 1.a.) to the harm caused to rightholders (para. 28) and, 1.b.) to the recording capacity of the devices or media which due to their intrinsic characteristics can be used for private copying (para. 29);

(B) Principle of the exclusion of the levy from the supply of reproduction devices not intended for private copying and the need for an effective and efficient reimbursement system

It is the person who, in principle, uses the devices for private copying that is required to pay the corresponding compensation; nonetheless, it is up to the Member States to establish a national law imposing on those having the reproduction devices or media the burden of paying the private copying levy (para. 31), however: 1.b.), “...that levy must not be applied to the supply of reproduction equipment, devices and media to persons other than natural persons for purposes clearly unrelated to private copying” (para. 36) and, 2.b.) “...such a system must provide for a right to reimbursement of the private copying levy which is effective and does not make it excessively difficult to obtain repayment of the levy paid” (para. 37).

(C) Principle of equal treatment

The ECJ noted that “...the exceptions provided for in Article 5 of Directive 2001/29 must be applied in a manner consistent with the principle of equal treatment, affirmed in Article 20 of the Charter of Fundamental Rights of the European Union, which, according to the Court’s established case-law, requires that comparable situations must not be treated differently and that different situations must not be treated in the same way unless such treatment is objectively justified” (para. 44). With the resulting prohibition for Member States to lay down compensation rules involving unjustified unequal treatment (para. 45).

On the basis of these principles, the ECJ ruled that EU law, in particular Article 5, para. 2 (b) of Directive 2001/29, must be interpreted as meaning that it precludes national legislation which,

(1) “...on the one hand, subjects exemption from payment of the private copying levy for producers and importers of devices and media intended for use clearly unrelated to private copying to the conclusion of agreements between an entity which has a legal monopoly on the representation of the interests of authors of works, and those liable to pay compensation, or their trade associations”

- in that the agreement has a purely incidental nature since subject to private law agreements;
- in that the legislation does not set out “...objective and transparent criteria to be satisfied by persons required to pay fair compensation ...for the purposes of concluding such agreement protocols”;
- in that “...there is no guarantee that producers and importers in comparable situations will be treated equally, the terms of such agreements being the result of negotiation governed by private law.”

¹ Article 5, para. 2 of this Directive, entitled ‘Exceptions and limitations’, provides: “Member States may provide for exceptions or limitations to the reproduction right provided for in Article 2 in the following cases: (...) (b) in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures referred to in Article 6 to the work or subject-matter concerned; (...)”.

(2) on the other hand “ ...provides that the reimbursement of such a levy, when it has been unduly paid, may be requested only by the final user of those devices and media ”; in fact, even if a national legislation providing for a reimbursement only to end users instead of who actually paid the levy is lawful in principle:

- such a system is compatible with EU law “ ...*only if the persons responsible for payment are exempt ...from payment of that levy if they establish that they have supplied the devices and media in question to persons other than natural persons for purposes clearly unrelated to private copying.*”
- such system is likewise compatible only if it provides for a right to the reimbursement of the fair compensation that is effective, while in the present case it “ ...*cannot be regarded as effective, since it is common ground that it is not open to natural persons, even where they acquire devices and media for purposes clearly unrelated to private copying*”.

Finally, the ECJ rejected SIAE’s request to not give retroactive effect to the decision, since interpretive (para. 64): in fact, according to the Court, the present case lacks the prerequisites for such a concession, which, according to the case-law, is nevertheless exceptional in nature, that is to say (a) good faith and (b) risk of serious difficulties. As to the good faith, the ECJ pointed out that it has already similarly ruled in its judgment of 21 October 2010, Padawan (C-467/08, para. 53); while as to the risk of serious difficulties, the Court noted that SIAE failed to provide any evidence in this regard.

In conclusion:

As to the arrangements for the reimbursement of the levy for private copying on professional products, the Council of State will have to decide on the basis of the answer received from the Court in reply to its two questions.

It must be noted though, that the Court decision has implications that go beyond the present case. In fact, according to the ECJ, not only professional devices must be exempt from the very beginning from any payment, even temporary, of the compensation for private copying, **but, more in general, the agreements entered into by SIAE with trade associations of producers to regulate this matter are not valid.** Now, given that the agreements in question govern, in addition to ‘professional’ products also other criteria for determining the compensation for private copying (as is the case, for example, of multifunctional products, like some present-day TV decoders, for which compensation is calculated with reference to the agreements between SIAE and trade associations), **the producers might today consider questioning what has been paid in the past under these agreements and take action to request, in whole or in part, reimbursement from SIAE.**

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