

**Court of Justice case C-463/12 (Copydan Båndkopi)**

***Introduction***

The IP Federation represents the views of a significant number of major innovative UK companies in matters concerning intellectual property policy. A list of members is attached. The member companies hold a large number of trade marks, both UK and EU (Community). The Federation and its member companies therefore have a very considerable interest in the proper functioning and improvement of the trade mark system in Europe.

***The decision***

We have received notification of a new case referred to the Court of Justice: [C-463/12](#). The case is a request for a preliminary ruling from a Danish High court regarding the so called 'blank tape remuneration', as described under national law, and its application to storage of copyrighted material on memory cards such that the rights holders are entitled to compensation, in accordance with Article 5(2)(b) of Directive 2001/29/EC (the Information Society Directive).

The IPO has asked for comments by 12 December 2012.

***The questions referred to the court***

The [questions](#) referred to the Court of Justice of the European Union are:

1. Is it compatible with Directive 2001/29/EC for Member States to have legislation which guarantees compensation for the rightholders for reproductions made using the following sources:
  - (1) files where the use in question is approved by the rightholders and paid for by the customer (licensed content from online shops, for example);
  - (2) files where the use in question is approved by the rightholders and not paid for by the customer (licensed content, for example, in connection with a marketing action);
  - (3) the user's own DVD, CD, MP3 player, computer, etc., where effective technological measures are not applied;
  - (4) the user's own DVD, CD, MP3 player, computer, etc., where effective technological measures are applied;
  - (5) a third party's DVD, CD, MP3 player, computer, etc.;
  - (6) unlawfully copied works from the Internet or other sources;
  - (7) files copied lawfully in some other way from, for example, the Internet (from lawful sources where no licence has been granted)?

2. How must effective technological measures be taken into account, (ref. Article 6 of the Directive) in the Member States' legislation on compensation for rightholders (ref. Article 5(2)(b) of the Directive)?
3. In the calculation of compensation for private copying (ref. Article 5(2)(b) of the Directive), what constitutes 'situations where the prejudice to the rightholder would be minimal', as referred to in recital 35 in the preamble to the Directive, with the result that it will not be compatible with the Directive for the Member States to have legislation which provides for compensation for rightholders for such copying for private use (ref. in this connection the survey referred to in part 2 above)?
4. (a) If it is assumed that the primary or most important function of memory cards in mobile phones is not private copying, is it compatible with the Directive for the Member States to have legislation which guarantees compensation for rightholders for copying on mobile phone memory cards?  
  
(b) If it is assumed that private copying is one of the several primary or essential functions of memory cards in mobile phones, is it compatible with the Directive for the Member States to have legislation which guarantees compensation for rightholders for copying on mobile phone memory cards?
5. Is it compatible with the concept of 'fair balance' in recital 31 in the preamble to the Directive and with the uniform interpretation of the concept of 'fair compensation' (ref. Article 5(2)(b) of the Directive), which must be based on 'prejudice', for the Member States to have legislation under which remuneration is collected for memory cards, whereas no remuneration is collected for internal memory such as MP3 players or iPods, which are designed and primarily used for private copying?
6. (a) Does the Directive preclude the Member States from having legislation which provides for the collection of remuneration for private copying from a producer and/or importer who sells memory cards to business concerns which sell the memory cards on to both private and business customers, without the producer's and/or importer's having knowledge of whether the memory cards have been sold to private or business customers?  
  
(b) Is the answer to question 6(a) affected if provisions are laid down in a Member State's legislation which ensure that producers, importers and/or distributors do not have to pay remuneration for memory cards used for professional purposes, that producers, importers and/or distributors, where the remuneration has nevertheless been paid, can have the remuneration for memory cards refunded in so far as they are used for professional purposes, and that producers, importers and/or distributors can sell memory cards to other undertakings registered with the organisation which administers the remuneration scheme, without payment of remuneration?  
  
(c) Is the answer to questions 6(a) and 6(b) affected
  - (1) if provisions are laid down in a Member State's legislation ensuring that producers, importers and/or distributors do not have to pay remuneration for memory cards used for professional purposes, but the concept of 'professional purposes' is interpreted as conferring a right of deduction applying only to undertakings approved by Copydan, whereas remuneration must be paid for memory cards used professionally by other business customers which are not approved by Copydan;
  - (2) if provisions are laid down in a Member State's legislation ensuring that producers, importers and/or distributors, where the remuneration has in fact been paid (theoretically), can have remuneration for memory cards refunded where they are used for professional purposes, but (a) it is in practice only the purchaser of the memory card who can have the remuneration refunded, and (b) the purchaser of memory cards must submit an application for refund of remuneration to Copydan;

- (3) if provisions are laid down in a Member State's legislation ensuring that producers, importers and/or distributors may sell memory cards to other undertakings registered with the organisation which administers the remuneration scheme, without payment of remuneration, but (a) Copydan is the organisation which administers the remuneration scheme and (b) the registered undertakings have no knowledge of whether the memory cards have been sold to private or business customers?

### **Background and context**

During 2012 two new cases on private copy levies were referred to the CJEU, bringing the total number of CJEU cases on levies to six (plus one that was withdrawn after its questions were answered by an earlier case). Two of these have now been decided, namely the *Padawan* case C-467/08 which, among other things, confirmed essentially that devices solely for professional use are not subject to levies, and the *Opus* case C-462/09 concerning cross-border 'distant' sales from foreign web shops.

In September the Dutch Supreme Court in case C-435/12 *ACI Adam et al* asks whether illegal downloading is entitled to be compensated by levies. Subsequently, in October, in the present case C-463/12 *Copydan* the Danish Østre Landsret referred questions concerning levies on memory cards for mobile phones, specifically seeking guidance on the *de minimis* rule which says that compensation may not be due when any private copying causes no more than minimal harm to rightholders. In Denmark levies apply to memory cards, but not to internal memories of devices. However, the case is expected to give guidance in both situations.

Other cases pending before the CJEU look at possible double payments in cross border sales (*Amazon* case C-521/11); and in the context of reprography whether or not levies can be claimed when use has been authorised (*Fujitsu, Canon, HP et al* case C-457/11 to C-460/11).

This continuing trend of cases coming before the CJEU demonstrates that the levies system is fundamentally flawed and is beyond repair. The priority must be to find alternative and fairer forms of compensation for private copying in the digital era.

At Member State level, we are seeing a growing number of initiatives emerging around alternative, fairer approaches to rightholder compensation.

At EU level the on-going mediation process is seen as an opportunity to sow the seeds of a longer-term EU-led transition away from device-based levies towards alternative and fairer compensation solutions fit for the digital era. The mediation process is being run by Mr António Vitorino, a former EU Commissioner, who was appointed by internal market Commissioner Barnier as the high level mediator in November 2011. Mr Vitorino is expected to publish a set of recommendations within the coming weeks.

In the last few days on 5 December the European Commission held an orientation debate on content in the digital economy at the initiative of President Barroso. As a result, the Commission announced that private copy levies is one of several topics where rapid progress is needed and will

therefore be the subject of a structured stakeholder dialogue starting in 2013 with a view to finding a solution fit for the digital age.

### ***UK perspective***

It is understood that the UK is likely in the near future to bring forward legislative initiatives to open up the UK's copyright exceptions, including a limited private copying exception for format shifting.

However, the Government has clearly indicated that it is opposed to a copyright levy system in the UK "on the basis that it is likely to have adverse impacts on growth and inconsistent with its wider policy on tax".

Following Hargreaves' recommendation, the Government has indicated an intention to rely on the *de minimis* principle to avoid introducing levies. In other words, any harm to rights holders caused by the new private copying exception would be minimal so that no "fair compensation" (levies) would be due under Article 5.2(b) of Directive 2001/29/EC.

The questions in the present case which in particular touch on the *de minimis* rule are therefore particularly significant to the UK as a wrong answer could undermine imminent legislative initiatives in the UK.

We trust that in the present case the UK will intervene at least to support the view that copies that cause no more than minimal harm to rightholders do not qualify for fair compensation under the Copyright Directive.

The UK intervened in the earlier CJEU cases C-475/11-C-460/11, arguing that compensation is priced into the price of the original work and based on the *de minimis* rule.

### ***Brief legal arguments***

1. The indiscriminate application of the private copying levy in particular with respect to digital reproduction equipment, devices and media not made available to private users and clearly reserved for uses other than private copying is incompatible with Directive 2001/29/EC (*Padawan* C-467-08). This is the case especially with multifunctional products such as mobile phones and their memory cards which are mainly used for making calls, sending text messages, storing calendar and contact data, maps for navigation and purposes other than any private copying.
2. In the *Padawan* decision the CJEU ruled that fair compensation must be based on actual harm caused to rightholders. This follows from recital 35 and it was confirmed in *Padawan* that use that causes no more than minimal harm cannot lead to an obligation to pay fair compensation. This is the case especially with multifunctional products such as mobile phones and their memory cards which are not predominantly used for any private copying.

3. Licensed files (authorised use) from online services cannot be subject to fair compensation under Article 5.2(b) of Directive 2001/29/EC. This also follows from Recital 35 of Directive 2001/29/EC: "In cases where right holders have already received payment in some other form, for instance as part of a licence fee, no specific or separate payment may be due." Further, unauthorised copying (illegal downloading) cannot be subject to fair compensation as such copying cannot be considered as authorised private copying under 5.2 (b).

Article 5.2 (b) and recital 31 of Directive 2001/29/EC require that a fair balance of rights and interests between the different categories of rights holders as well as between the different categories of right holders and users of protected subject-matter must be safeguarded. The fair compensation should ultimately be paid by the end user, the beneficiaries of the private copy exception. In Padawan the CJEU found that it is consistent with the requirement of fair balance to have a levy system, in as much as the companies required to pay under such system will ultimately be able to pass on the actual burden of the levy to private users. Companies selling to businesses only (retail, distributors) do not know the end user, whether they are private or professional users, and thus no levy should be required in such cases. If companies did pay in such circumstances they would not have a clear basis to claim reimbursement for the same reason that they do not know the identity or purpose of the end user.

Unfortunately we do not have sufficient time to make a more informed response at this stage, but we urge UK intervention in this case.

IP Federation  
12 December 2012

## **IP Federation members 2012**

The IP Federation represents the views of UK industry in both IPR policy and practice matters within the EU, the UK and internationally. Its membership comprises the innovative and influential companies listed below. Its Council also includes representatives of the CBI, and its meetings are attended by IP specialists from three leading law firms. It is listed on the joint Transparency Register of the European Parliament and the Commission with identity No. 83549331760-12.

AGCO Ltd

ARM Ltd

AstraZeneca plc

Babcock International Ltd

BAE Systems plc

BP p.l.c.

British Telecommunications plc

British-American Tobacco Co Ltd

BTG plc

Caterpillar U.K. Ltd

Delphi Corp.

Dyson Technology Ltd

Eli Lilly & Co Ltd

ExxonMobil Chemical Europe Inc

Ford of Europe

Fujitsu Services Ltd

GE Healthcare

GKN plc

GlaxoSmithKline plc

Hewlett-Packard Ltd

IBM UK Ltd

Infineum UK Ltd

Merck Sharp & Dohme Ltd

Microsoft Limited

Nokia UK Ltd

Nucletron Ltd

Pfizer Ltd

Philips Electronics UK Ltd

Pilkington Group Ltd

Procter & Gamble Ltd

Rolls-Royce plc

Shell International Ltd

Smith & Nephew

Syngenta Ltd

The Linde Group

UCB Pharma plc

Unilever plc

Vectura Limited