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**Citation:** Bonadio, E. and Cantore, C. M. (2011). The ECJ Rules on Private Copying Levy. *European Intellectual Property Review*, 33(4), pp. 260-263.

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## The ECJ Rules on Private Copying Levy

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### Abstract

*Padawan SL v Sociedad General de Autores y Editores (SGAE)* (Case C-467/08), 21 October 2010.

On 21 October 2010 the European Court of Justice (ECJ) gave its decision in *Padawan v SGAE*, an interesting case regarding the so-called “private copying levy”. The ECJ held that such a levy is in conformity with Directive 2001/79 (on the harmonization of certain aspects of copyright in the information society) when charged on copying devices sold to individuals, as it can reasonably be assumed that those equipments will be used for copying. Yet the levy should not be charged when said devices are sold to companies and professionals.

### Legal context

On 21 October 2010 the European Court of Justice (ECJ) ruled on an interesting case regarding the so-called “private copying levy” (*Padawan SL v Sociedad General de Autores y Editores (SGAE)*, Case C-467/08). The case had originated from a Spanish litigation between the above parties and was referred to the ECJ by the Barcelona Court.

The ECJ interpreted Recitals 31 and 38 and Article 5(2)(b) Directive 2001/79 on the harmonization of certain aspects of copyright and related rights in the information society (“Info-Society Directive”). Recital 31 states that a fair balance between copyright holders and users of copyrighted work should be reached. Recital 38 provides that EU Member States should be permitted to introduce an exception to the exclusive rights of copyright holders in connection with certain types of reproduction of audio, visual and audio-visual material for private use. This recital adds that in such cases copyright owners should be paid a fair compensation, which may include the introduction or continuation of remuneration schemes to compensate for the prejudice suffered by said owners. Article 5(2)(b) further specifies that EU Member States may provide forth exceptions or limitations to the exclusive rights owned by copyright holders in relation to unauthorized reproductions on any medium made by a natural person for private use and for purposes

which are neither directly nor indirectly commercial, provided that a fair compensation is paid to right owners.

The Info-Society Directive has been implemented in Spain by the Spanish Law on Intellectual Property (CTLIP) (Royal Legislative Decree 1/1996). In particular, this law allows the reproduction of works without the permission of the author where (i) the reproduction is for private use and the works are accessed legally and (ii) the copy has not been made for profit (Art. 31(2) CTLIP). Moreover Article 25 CTLIP provides that a fair compensation should be paid to copyright owners (via the collecting society SGAE) at a flat rate: this compensation takes the form of a private copying levy to be paid by distributors, wholesalers and retailers of products such as blank CDs, DVDs, MP3 players, printers and photocopying machines, *i.e.* devices capable of being used for reproducing copyrighted works.

## **Facts**

The national litigation was triggered by the Spanish collecting society SGAE which is responsible for the collective management of copyright in Spain. In particular, SGAE requested the company Padawan the payment of the private copying levy provided by Article 25 CTLIP for the years 2002-2004, as the latter had marketed in Spain CD-Rs, CD-RWs, DVD-Rs and MP3 players. Padawan refused to pay, claiming that the application of this levy to the devices in question - indiscriminately and regardless of the purpose for which the equipments were intended (private use or other professional or commercial activities) - was not in conformity with the Info-Society Directive.

On 14 June 2007 the Barcelona Court upheld SGAE's arguments and ordered Padawan to pay Euro 16,759.25 plus interests. The latter appealed the decision before the Provincial Court of Barcelona which then referred the case to the ECJ pursuant to Article 234 EC Treaty (now Article 267 TFEU).

## **Analysis**

The ECJ was requested *inter alia* to interpret the concept of "fair compensation". In particular the ECJ was asked to confirm whether such compensation can be calculated on the basis of the harm caused to copyright holders as a consequence of the unauthorized reproduction of their works. It was also requested to basically clarify who is the person

that have the obligation of making good the above harm and thus pay the right holder the compensation (in this case, the private copying levy).

Moreover, the referring national court asked the ECJ whether the private copy levying should be considered justified even if it is presumed that the digital devices in question are to be used for purposes different from “private copying”, *i.e.* by companies or professional persons. In particular, it was asked whether an indiscriminate application of this levy to companies and professional persons (that clearly purchase the devices in question for purposes different from “private copying”) was compatible with the concept of fair compensation as provided by the Info-Society Directive.

*(i) Interpretation of “fair compensation”*

The ECJ clarified that the aim of the fair compensation is to compensate authors “adequately” for the unauthorized use made of their works. Moreover, the amount of the compensation should be calculated on the basis of the harm caused to authors by said unauthorized reproduction. In other words, fair compensation must be considered as a recompense for such harm (paragraphs 39-40 ECJ decision).

But who is the person that causes the harm to authors and thus should pay the compensation?

One might think: it is the person who makes the unauthorized copy of the work! It seems to be an obvious answer.

The ECJ however recognized that it is practically difficult (if not impossible, I would add) to identify the persons who make copies of copyrighted works and thus should be obliged to compensate right holders. That is why – the ECJ added – EU Member States are free to introduce a “private copying levy” and thus finance a fair compensation which is chargeable not to the private persons concerned, but to those subjects which make available copying devices to private users: *i.e.* the companies which sell and distribute copying devices (such as the company Padawan in the present case). These are the persons that should discharge the levy in question (paragraph 46 ECJ decision).

It must however be noted that private users should still be considered as indirectly liable to pay the fair compensation: indeed it is assumed that the levy paid by the distributor or retailer of copying devices is passed on the purchasers of such devices and ultimately to the user through the purchase price. Thus this system allows the persons liable to pay

compensation (e.g. a distributor of a MP3 player) to pass on the cost of the levy to the private user. It is therefore such user who ultimately assume the burden of this levy: and this renders the whole system compliant with Recital 31 Info-Society Directive, according to which – as shown above - a fair balance between right holders and users of copyrighted work should be reached (paragraphs 46-49 ECJ decision and paragraph 93 of the Advocate General’s opinion of 11 May 2010).

*(ii) Should the “private copying levy” be paid in connection with possible uses of copying devices by companies and professional persons?*

The ECJ held that the levy in question constitutes fair compensation pursuant to the Info-Society Directive only if the devices to which it applies are liable to be used for private copying purposes. Thus there should be a necessary link between the application of such levy to said equipments and their use for private copying. It follows that an indiscriminate application of the levy to all kinds of devices, including those acquired by professional persons or companies, is contrary to Article 5(2)(b) Info-Society Directive (paragraphs 52-53 ECJ decision).

The authors believe this finding is correct. Indeed companies or professional persons (let’s think about law or accounting firms) buy devices such as photocopying machines or printers just for commercial purposes, and not for private copying uses. Including devices sold to companies and professionals amongst the equipments triggering the fair compensation obligation would clearly go beyond what is required by the Info-Society Directive (paragraph 100 Advocate General’s opinion). The ECJ was therefore right in refusing to expand the circle of persons (who can be considered liable to pay the levy) to undertakings and professionals.

Yet the ECJ also stressed that Article 5(2)(b) Info-Society Directive does not prohibit EU Member States from charging a different levy in connection with copying devices used by companies and professionals for reasons different from private copying. Thus Member States are free to provide a system for compensating right holders in relation to purchases of copying devices by said subjects (paragraphs 104-106 Advocate General’s opinion). This finding is also correct: the authors do believe that the need for a compensation of copyright holders in such circumstances would be even stronger (than in private copying cases), as undertakings and professionals clearly use the equipments in question and copy

copyrighted material for their own profit. Let's think about a law firm which purchases a photocopying machine to make copies of legal literature which is useful for winning a case.

*(iii) "Objective suitability" of devices for private copying*

Finally, the ECJ faced the issue of "objective suitability" of a device for private copying. In particular it was held that – where the copying device is made available to users (e.g. sale of a CD burner) – it is not necessary to prove that such users have effectively made private copies by effectively using the device. Indeed users are assumed to benefit just from the making available of that equipment, especially from its copying-related potentialities, regardless of the fact that they use or do not use it. In other terms, a presumption that in all probability the purchaser of the device will make use of it for making copies of copyrighted works applies (paragraphs 54-56 ECJ decision and paragraph 94 Advocate General's opinion).

The ECJ added that this interpretation is buttressed by the wording of Recital 35 Info-Society Directive which indicates – as a valuable criterion for determining the level of fair compensation – the "possible" harm caused to copyright holders by unauthorised copies of their works. And the possibility of causing such harm – the ECJ stressed – logically depends on the making available to ultimate users of devices allowing the copying, irrespective of whether said making available is followed by the actual realization of the private copy (paragraph 57 ECJ decision).

The above interpretation is also supported by the previous ECJ decision in *SGAE v Rafael Hoteles* (Case C-306/05). In that case it was held that providing a TV set in a hotel room is to be considered as "communication to the public" pursuant to Article 3(1) Info-Society Directive, regardless of the fact that the clients of the hotel had not made use of that possibility because they had not switched on the TV set: thus the mere possibility of a work being made available to the public (by switching on TVs) was held to be sufficient. In her opinion in *Padawan v SGAE* Advocate General Verica Trstenjak made express reference to her colleague's opinion in *SGAE v Rafael Hoteles*, where the latter stressed that copyright owners are remunerated not on the basis of the actual enjoyment of the work, but of a legal possibility of that enjoyment (paragraph 90 Advocate General's opinion in

*Padawan v SGAE* and paragraph 67 of Advocate General's opinion in *SGAE v Rafael Hoteles*; see also paragraph 22 of Advocate General's opinion in *Egeda v Hosterleria Asturiana*, Case C-293/98).

### **Practical Significance**

The impact of this decision will be strong in those EU Member States which have adopted systems of fair compensation based on private copying levy, these countries being obliged to modify said systems in accordance with the ECJ's interpretation. Thus far almost all EU Member States have introduced this levy, except Cyprus, Ireland, Luxembourg, Malta and the United Kingdom (Greece adopted a private copying levy scheme, but it has not enforced it yet).

The consequence of this ruling in the countries which have adopted private copying levies is rather obvious: *i.e.* copyright holders will not rely anymore on those portions of the levies applied to devices sold to companies and professional persons. This could be seen - copyright holders might claim - as indirectly discouraging creativity and thus as jeopardizing human and financial investments in the cultural sector, especially if another kind of levy is not applied to the equipments used by enterprises and professionals.

It should also be noted that applying the copying levy only to sales of equipments to individuals - as recommended by the ECJ - may be easier said than done. Indeed, how to find out whether the purchase is made by an individual or by a professional, especially where purchasers do not request the issuance of an invoice?

Some commentators propose to use specific criteria including the price, speed or size of the equipment: *e.g.* devices destined to professionals and company would be more expensive, speedier and bigger than equipment destined to individuals for personal uses, and such differentiation would facilitate the application of the levy. This proposal however seems to miss the point as there exist expensive and sophisticated devices which are used for private copying. Therefore the authors believe that the payment of the levy in question might be facilitated by adopting another approach, *e.g.* by requesting buyers - when purchasing the equipment - to formally declare whether the device will be used in a business or in a private context, with penalties in case of false declarations.