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Private Copying, an Institution Shaped by the Courts

Pablo Hernández · Monday, June 29th, 2015

The progressive breakdown of the legal system regulating compensatory remuneration for private copying has given rise to some unusual cases. We consider this to be true of a Spanish Supreme Court judgment of 6 March 2015 which had to rule on whether mobile telephones and memory cards were subject to compensatory remuneration payment, the amount of that payment and the application of the *Padawan* doctrine. The legislation on which the court was to base its findings was shaky and limited to the general principle governing devices suitable for making recordings. In view of this, the court had to decide on the royalty payable and the *Padawan* effect on such devices where the damages exceeded the minimum compensation threshold. We are presented with a proactive court in contrast with a retreating legislature.

In June 2008, the Spanish government approved an order establishing the digital media and devices subject to payment of compensatory remuneration for private copying. This provision had been on the cards since the legislature approved the current wording of the Spanish Copyright Act in 2006, which referenced the future publication of that list of devices in order to incorporate digital media into the private copying system.

This regulation seemed to constitute the definitive adaptation of the private copying system to the new digital environment. However, it became the prologue for a succession of dramatic changes in the private copying system in Spain.

The aforementioned order would succumb barely two and a half years after it came into being, when it was declared null and void on formal grounds by a decision from the Spanish National High Court on 22 March 2011. That decision would later be upheld by the Spanish Supreme Court.

Finally, in December 2011, the State would end up repealing the private copying regulation and replacing it with a public payment to the beneficiaries of the compensation.

This transition has left some issues unresolved and, uniquely, no applicable legislation,

which has created a formerly unheard of void for the courts to step in and apply the variable rule of equal treatment.

In 2009, Spain's largest collecting society, SGAE, had filed a complaint, in its name and on behalf of music producers and performers, against Nokia and Sony regarding the amount due for the telephones and memory cards that those companies had sold in the last half of 2008.

The complaint merely called for the application of the aforementioned 2008 order. At that time, it was a simple claim for payment.

By the time the courts examined the case, the situation had changed dramatically. The administrative regulation subjecting mobile telephones capable of recording phonograms to a royalty of 1.1 Euro cents and memory cards to a royalty of 0.3 cents had been removed from the law, and the question of whether mobile telephones were subject to the payment had been left in the air.

In fact, the judge of the first instance court opted to reject all the creditors' petitions on the grounds that the claim was based on a rule that had been declared contrary to Directive 2001/29.

Only at second instance, and in the cassation appeal that would give rise to the Spanish Supreme Court's findings, were the merits of the case examined.

There were three particularly relevant issues raised in the court debate. The first, and perhaps most interesting for the purposes of legal examination, referred to the potential application of the concept of minimal damages, and consequently, the lack of any obligation to pay for the mobile telephones in question due to the low memory capacity that they possessed back then. The second issue touched on the consequences to this claim of the cancellation of the mutual system. Were all mobile telephones subject to payment or only those sold to individuals? The third issue referred to the amount of the remuneration. If the rule that fixed the amount per device was invalid, how would the remuneration system be established?

Regarding the concept of minimal damages, it is interesting to note how the Spanish Supreme court applies the presumptions technique that the CJEU developed in relation to private copying in the *Padawan* judgment to specify minimal damages. If, in order to merit compensation, it will suffice to demonstrate potential damages, the court conversely indicates that "*if there are no potential damages, or if they can be classed as minimal, fair compensation shall not be payable*". On this basis, the Supreme Court upheld the Appeal Court's reasoning that mobile telephones should be exempt from payment as their low capacity for recording sound meant there would not have been more than a few songs per device. It also supported the Appeal Court's finding that this argument did not apply to memory cards, since their recording capacity exceeded 600 songs per unit.

Professional use, private use

Sony and Nokia argued before the Supreme Court that the application of the *Padawan* doctrine should lead to an exclusion from payment for memory cards sold to

companies.

Their claim was not accepted on the grounds that where the equipment has been made available to natural persons for private purposes, without restriction, "*it is unnecessary to show that they have in fact made private copies with the help of that equipment* (paragraph 54)…", according to the *Padawan* judgment.

Amount of compensation

According to the debtors, Nokia and Sony, the disappearance of the order fixing the amounts payable per device made it impossible to establish a payment award setting fixed amounts.

However, the second instance decision (and later the Supreme Court), despite acknowledging that said administrative order had been declared null and void, nevertheless applied the amounts that had been included in it against memory cards manufacturers. Given that the court is responsible for the task of specifying damages, to that end there is nothing to prevent it from relying on the quantitative criteria of the annulled provision since, in its opinion, the fairness of the sums laid down in that provision was undisputed.

Basically, the Supreme Court's judgment in this case is not reminiscent of numerous cases in which the courts have refused to take on the role of regulatory body and, as law enforcers, are waiting for the competent authority to complete the regulatory machinery. There is no doubt that the rights of creditors must have had an influence, but it is also true that the application of this order subjected mobile telephones to payment, whereas the court has, to the contrary, exonerated them.

Private copying legislation is laid down in two brief provisions of Directive 2001/29/EC. Few texts have given rise to such a recurrent deluge of questions referred to the Court of Justice of the European Union as this one. Its decisions are carving out the private copying system applicable in Europe, and from the example given in this article, the same thing is happening on a local level. All of this reveals the legislature's astonishing negligence when it comes to fulfilling its obligations. It must decide either to stop using this institution for compensating the creative industries or to re-design it, so that there is no longer constant uncertainty as to how it is applied. Due to the amount of time that has elapsed, the latter initiative can be deemed to have been ruled out, and the fate of this institution will depend on whether the courts are able to take the place of the lawmaker with their decisions.

A full summary of this case has been published on Kluwer IP Law

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