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SGAE-gate. Spanish Collecting Society Facing Corruption

Pedro Letai (IE University (Segovia, Spain)) · Friday, July 15th, 2011

Not a day had elapsed since elections to the board of directors at the Sociedad General de Autores y Editores (SGAE), Spain's largest copyright collecting society, when civil guard officers suddenly raided its headquarters at Palacio de Longoria, in downtown Madrid last July 1. Workers were quickly sent out of the landmark modernist building, following orders from High Court judge Pablo Ruz. The agents were looking for evidence of a large-scale corruption scheme allegedly involving four of SGAE's executives, including the long-serving chairman of the board, Eduardo Teddy Bautista, who was about to confirm his leadership of an organization that is as powerful as it is controversial.

They and five other people were arrested and charged with embezzlement, fraud and gross misadministration over a racket that allegedly diverted large sums from SGAE to private firms controlled by executives from the collecting society. The fraud, which is being investigated by the Anticorruption Attorney's Office, allegedly went on between 2003 and 2007. These firms appear to have received 26.4 million Euros from SGAE's digital unit between 2003 and 2009. Investigators who looked at the services the companies provided said it is difficult to claim that this amount corresponded to market prices.

Besides Bautista, whom investigators believe must have been aware of what was going on, police arrested director general Enrique Loras and financial director Ricardo Azcoaga. But the main suspect in the case is José Luis Rodríguez Neri, a former board member and the current director of the Sociedad Digital de Autores y Editores (SDAE), a unit of SGAE created in 2000 to protect intellectual property rights on the internet and in digital media. This unit contracted most of its work out to a private consulting and IT firm called Microgénesis, which was alternately run or controlled by Neri, his wife, his sister-in-law and various other business partners.

Microgénesis developed some of SGAE's main digital projects, such as the Teseo system, which designs computer applications for the defence of intellectual property rights on the internet; it also created Portal Latino, a website devised to disseminate Spanish-speaking culture and provide online services to authors. The company allegedly sent SDAE invoices that overcharged for its services and possibly even charged for non-existent ones.

Judge Ruz is also looking into a second set of companies that worked with Microgénesis and were equally linked to the suspects. Ruz referred to these companies as a "*parasitic business network*."

The role played by Teddy Bautista, a former musician-turned-copyright manager, seems secondary in principle, according to investigators. Yet Rodríguez Neri was one of his most trusted aides, and

Bautista personally appointed him to lead SGAE's digital unit. Sources familiar with the investigation said that, considering how Bautista personally oversaw most aspects of the organization's operations, it is difficult to believe that he was unaware of Neri's activities, and probably tolerated them or, in the words used by Judge Ruz, "*authorized, tolerated and also fomented*" the fraud.

The investigation was triggered by an accusation filed in 2007 with the Anticorruption Attorney's Office by several restaurant, internet and computer business associations who considered themselves victims of the private copying levy, a controversial tax levied pre-emptively by SGAE on gadgets able to store copyrighted digital material, regardless of what their eventual use would be. Recently, SGAE [lost a court case against a computer store](#) owner who refused to pay thousands of Euros to SGAE for selling this kind of technology.

This is not the first time that SGAE has come under fire. Known primarily for collecting fees on behalf of Spanish musicians and publishers, the society has been often accused of exceeding its remit by going as far as to infiltrate private weddings to check whether fees had been paid for the music being played at the banquet.

Finally, SGAE's chairman Bautista has been freed without bail after appearing before a High Court judge for the above mentioned charges of serious misappropriation of funds and disloyal administration. A couple of days after that, Bautista resigned from his post.

The board of directors of SGAE would be run by a governing commission and an outside president in the meantime, while everyone wonders who will take command of this ship adrift.

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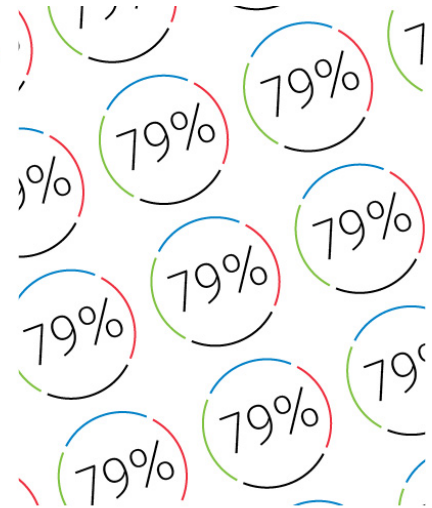
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