Kluwer Copyright Blog

Downloading from Unlawful Sources. Reflections following the Villalón Opinion on AciAdam and Others.

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This blog post discusses the recent Opinion by Advocate General Pedro Cruz Villalón in Case C-435/12 – *ACI Adam and Others*, delivered on 9 January 2014 (not available in English).

In this case, Advocate General Villalón considered whether reproductions from unlawful sources fall within the private copying exception of art. 5(2)(b) of Directive 2001/29/EC (Copyright Directive), as well as whether it is in line with the Directive to calculate the private copying levy based on reproductions from both lawful and unlawful sources. (All legal provisions cited hereinafter refer to this legal instrument, unless otherwise stated). The questions referred also relate to the effect of the application of the three-step test (art. 5(5)) on the scope of private copying and its articulation with Directive 2004/48/CE (Enforcement Directive).

Following a background and context section, and the clarification of the relevant legal provisions, this blog post will focus on the questions related to the Copyright Directive (questions 1 to 2.b; for the remaining questions, see §§ 85-91 of the Opinion). Readers familiar with the background, context and facts of the case should feel free to skip directly to the "Opinion" section below.

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Background and Context

Private copying promises to remain a hot topic for EU copyright in 2014, following a 2013 year that brought us the recommendations of Mr. António Vitorino and rulings by Court of Justice of the European Union (**CJEU**) in joined Cases VG Wort v Kyocera and Amazon.com v. Austro-Mechana. (For analysis of the first two in this blog see here and here).

On January 5, 2014 the Commission launched a public consultation "as part of its on-going efforts to review and modernise EU copyright rules", which deadline was extended to March 5 (see Press Release and dedicated website). Questions 64-71 thereof relate to "private copying and reprography", reflecting insights from the Vitorino Recommendations and recent CJEU decisions, but not explicitly dealing with the issue of the nature of the source from which private copies are made.

In addition to *ACI Adam and Others*, the CJEU will address the topic of private copying in its forthcoming decisions in Cases C-314/12 – *UPC Telekabel v. Constantin Film* and C-463/12 – *Copydan Båndkopi v. Nokia*.

UPC Telekabel v. Constantin Film tackles the issue of the nature of the source of the copy through the lens of the interpretation of art. 8(3), on the application of injunctions against intermediaries (here: Internet Service Providers) servicing users of infringing content made available online. This case also has an Opinion by Advocate General Villalón.

Copydan Båndkopi v. Nokia examines the concept of "fair compensation" in relation to levies on memory cards for mobile phones, further addressing a multitude of related questions on private copying: the subsistence of the right to fair compensation for reproductions made from various sources (e.g. paid and gratis licensed content, content subject to digital rights management, subsequent copies from third-party copies, lawful and unlawful Internet copies), the adequate consideration of the application of technical protection measures (**TPMs**), the scope of the *de minimis* exemption, and the correct articulation of concepts of "fair balance" (cf. Recital 31 of the Copyright Directive) and "fair compensation" in the selection of levy targets.

For a more detailed and critical examination of this background up to the end of 2013 – including CJEU case-law in *Padawan vs SGAE* and *Stichting de Thuiskopie vs Opus* – and the topic of the recent Villalón Opinion, readers are referred to a recent article in JIPITEC by one of the authors of this blog and Joost Poort.

Relevant legal provisions

For our purposes, the relevant legal provisions discussed in *ACI Adam and Others* are arts. 5(2)(b) and 5(5).

Art. 5(2)(b) focuses on the right to fair compensation for reproductions covered by the private copying exception or limitation. It states that:

"[…M]ember States may provide for exceptions or limitations to the reproduction right […] 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."

Art. 5(5) contains the Directive's version of the three step test and reads:

"The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder" (emphasis added)

The three-step test, which originally applied to the reproduction right, as stated in art. 9(2) of the Berne Convention, currently extends to all economic rights, by virtue of art. 13 TRIPS, 10 WCT (and its agreed statements) and 16 WPPT. In the copyright *acquis*, this test also applies to the Software Directive – art. 6(3) – Database Directive – art. 6(3) – and Rental and Lending Rights Directive (by virtue of art. 11(1)(b) of the Copyright Directive).

The Villalón Opinion on *ACI Adam and Others*

Facts and questions referred

The defendants in this case are *Stichting de Thuiskopie* (responsible for collecting and distributing the private copying levy) and *Stichting Onderhandelingen Thuiskopievergoeding* (responsible for its calculation). The appellants are the entities liable for payment of the levy, i.e. importers and manufacturers of devices used for reproducing copyrighted works.

The appellants started a proceeding at the District Court of The Hague, on the basis that in calculating the levy, no account should be taken of damages caused by copies originating from an unlawful source. The District Court rejected the appellant's claims, after which they filed for an appeal at The Hague Court of Appeals. The Court rejected the appeal, stating that neither the Copyright Directive nor the Dutch Copyright Act make a distinction between copies originating from lawful or unlawful sources. Therefore, copying from an unlawful source is permitted as long as there is no other technical measure available to prevent such copying. Because there currently exists no such technical measure, the Court concluded that requiring a levy to be paid is the best solution to address the damage caused by copies made from unlawful sources. The Court of Appeals considered this in line with the three-step test under art. 5(5).

The case was subsequently taken to the Dutch Supreme Court, which requested a preliminary ruling on the following questions (*follows the English version of the same, taken from the website of the UK IPO*):

"1. Should Article 5(2)(b) be interpreted as meaning that the limitation on copyright applies regardless of whether the works became available to the natural person concerned lawfully or does the limitation only apply when the work has become available without an infringement of copyright?

2. If the answer is that it applies only when *[a]* work becomes available without infringement:

a) Can the application of the three stage test form the basis of the expansion of the scope of Article 5(2) or can its application only lead to the reduction of the scope?

b) Is a national law that provides for payment of fair compensation for reproductions as above contrary to Article 5?

3. Is the Enforcement Directive (Directive 2004/48/EC) applicable to these proceedings – where a Member State has imposed an obligation to pay fair compensation under 5(2)(b)?"

In short, the crux of the matter is whether art. 5 covers the reproduction of works that originate from an unlawful source, and what effect the application of the three-step test has on the scope of the private copying exception or limitation (§§ 22-28). As noted above, in the following sections we will not address question 3.

Opinion

Under art. 5(2)(b), Member States can exclude acts of private copying for non-commercial purposes by natural persons from the scope of the exclusive right of reproduction; in other words, such acts are not deemed copyright infringement. As per the three-step test, however, the application of this exception must not be in conflict with the normal exploitation of the work and must not unreasonably prejudice the legitimate interests of the right holder.

According to the Advocate General, while the requirements of art. 5(2)(b) provide an illustration of a *certain special case*, the condition that the exception is subject to the payment of fair compensation – through a private copying levy – is aimed at satisfying the aforementioned third step. i.e. that the exception does *not unreasonably prejudice the legitimate interests of rightholders* (§§ 51-54). As such, the present reference allows the CJEU to make a ruling on matters related to the second step in connection to the private copying exception, on which art. 5 is silent (§ 55).

The Advocate General argues that the failure by the Copyright Directive to make an explicit distinction between works originating from lawful or unlawful sources (§ 57, § 63) cannot lead to the conclusion that copies from unlawful sources can be covered thereby. In fact, it is established CJEU case-law that the private copying exception must be interpreted strictly (§ 71). Furthermore, an interpretation of the Directive's three-step test in light of the international treaty provisions it implements cannot lead to the exception applying to copies from unlawful sources, mainly because such understanding would *conflict with the normal exploitation of the work*, hence violating the second step (§ 72).

In their oral observations, the defendant *Stichting Thuiskopie*, as well as the Dutch and Austrian Governments, argued that a literal, systematic and teleological interpretation of the relevant provisions does not exclude the application of the exception to private copying from unlawful sources. That would be so because there exists no technological means to prevent such acts, meaning that the levy is in fact the sole instrument to effectively deal with mass unauthorized uses of this type, thus contributing to the *normal exploitation of works* and *not unreasonably prejudicing the legitimate interests of the rightholders* (§§ 35-36, 64-69).

In this regard, the Advocate General pointed out that Dutch legislation tolerates *downloading* of

protected works from unlawful sources, and only prohibits the *uploading* of such materials. In doing so, it indirectly enables the mass distribution of protected works through unlawful sources. Such legal configuration is therefore the cause for the harm which the private copying levy aims to compensate, and necessarily c*onflicts with the normal exploitation of works* (§ 75).

In a less clear section of the Opinion, the Advocate General questions whether levies can adequately compensate rights holders for mass unauthorized acts of reproduction, communication to the public and distribution (§ 76). That question seems prompted by the aforementioned physiognomy of Dutch Law (indirectly enabling acts of uploading), and leads to the consideration that levies could hardly compensate for the harms caused to normal exploitation of works online; in order to ensure payment of fair compensation levies would need to be raised disproportionately, affecting the fair balance between rights holders and users (§ 77). There is some criticism to be made here, but that would go beyond the scope of this blog post. The least that can be said is that the Advocate General's comments lack backing by evidence.

Finally, and responding to observations by the Dutch Government, Advocate General Villalón sustains that the exclusion of copies from unlawful sources does not necessarily impact the private copying justification on the basis of users' right to privacy (§ 78).

Conclusion of the Advocate General

In sum, the Advocate General concludes that the private copying levy cannot cover acts of reproduction of works made from unlawful sources; consequently private copying levies can only be calculated on the basis of reproductions made from lawful sources (§§ 79-84, 92). If Member States were allowed to calculate levies taking into consideration copies from unlawful sources, that would be equivalent to a *sui generis* compensation system, contrary to the autonomous and uniform concept of "fair compensation" and in violation of the first and second steps of the three-step test (by going beyond a certain special case and conflicting with the normal exploitation of works) (§§ 80-84, 92).

Analysis and Implications

If the CJEU is to follow the Advocate General's Opinion, where would this lead?

Copyright levies were introduced to compensate rightholders for the harm caused by acts of private copying. There are good arguments from the legal and economic perspective that the utility consumers derive from offline private copies can to a large extent be appropriated indirectly. (Indirect appropriation refers to "the economic mechanism according to which, under certain conditions, the demand for originals will reflect the value that consumers place on both the originals and subsequent copies they make. Hence, the value of [*private copying*] can be priced into the initial purchase and by doing so, this value is *indirectly appropriated*.")

As such, the harm caused by these copying acts (if any) is smaller than the utility consumers derive from private copies or even the sales forgone by such copying. There is likewise a strong case (to a relevant extent ignored in *VG Wort v. Kyocera*) supporting the assertion that charging levies for copies licensed by rightholders would lead to double payment, as digital rights management and innovative pricing schemes have improved the possibilities for copyright holders to appropriate the value of private copies.

These considerations on indirect appropriability weaken the case for private copying levies. However, the same arguments do not hold true for private copies from unlawful sources, where there is no relation between the uploader (including any unlawful content provider) and the downloader, and the number of copies made from an original will vary significantly. Consequently, if the CJEU follows the Villalón Opinion (and the legislation of different Member States) and narrows the potential scope of the exception, the economic case for levies in the digital realm will become increasingly weaker. In addition, it will cause many end-user activities to fall outside the scope of the exception and be qualified as copyright infringement. Of course, it should be noted that this may already be the case in those Member States in which the domestic law contains provisions prohibiting private copying from (obviously) unlawful sources.

As following the Opinion *could* lead (in the Netherlands at least) to a reduction of the overall amount of levies for private copying, we may see a resurfacing of the debate on the phasing out levies in the digital environment, to be increasingly replaced by online licensing schemes and perhaps even stricter enforcement. Whether that will lead to rightholders being better off or welfare gains for society is doubtful.

Another option – strongly premised on the inadequacy or lack of desirability of enforcement – is to raise levy targets online, e.g. by levying Cloud services, as proposed in the European Parliament by French MEP Françoise Castex (and recently approved in a watered down version by the Committee on Legal Affairs).

A third (and related) possibility would be to examine the feasibility and desirability of alternative compensation systems for acts of digital content sharing (on which see an ongoing research project at the IViR). Note also that paragraph 27 of the Castex *draft* Report (but not its final version) makes explicit reference to the need ”to examine the possibility of legalizing works sharing for non-commercial purposes so as to guarantee consumers access to a wide variety of content and real choice in terms of cultural diversity”.

Whichever the case, the CJEU ruling on *ACI Adam and Others* is highly anticipated and could have a significant impact on the copyright *acquis*. A particular important aspect on which guidance would be welcome is the definition of *lawful source* for purposes of the exception. Does it exclude only “obviously” unlawful sources? If so, what is meant by that? And what about secondary or subsequent copies? An answer to these questions would have to take into account, for example, the decisions on whether linking from unauthorized sources triggers the right of communication to the public under Case C-466/12 *Svensson*, as well as the forthcoming rulings in Cases C-273/13 – *C More Entertainment* and C-348/13 – *BestWater International*.

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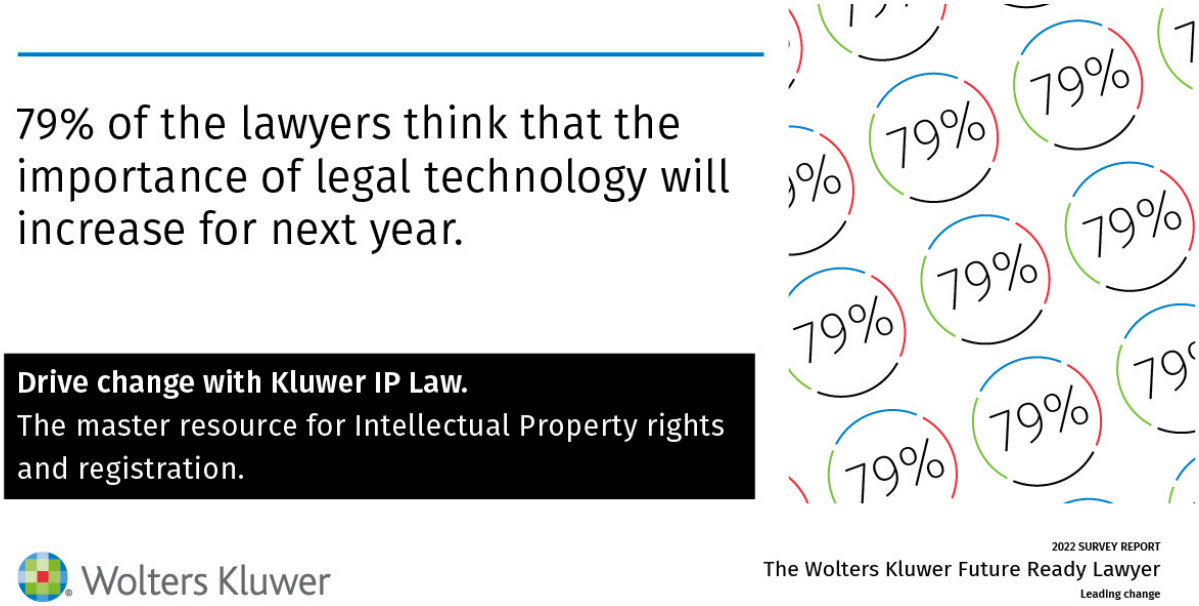

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