Kluwer Copyright Blog

# Private copying levy in Italy: potential impact of the CJEU ruling in case C110/15 and Italian Council of State decision

Gianluca Campus (University of Milan) · Monday, April 3rd, 2017

## 1. Introduction

As reported previously on the Kluwer Copyright Blog, on 22 September 2016 the Court of Justice of the European Union ('CJEU' or 'Court') ruled on Case C-110/15 (*Microsoft Mobile Sales International and others Vs MIBACT and SIAE*) regarding the private copying exception in Article 5.2 *b* of Directive 2001/29/EC (the 'InfoSoc Directive').

The issues at stake were referred to the CJEU by the Italian Council of State in the context of a lawsuit brought by a number of companies (Microsoft, Hewlett-Packard, Telecom Italia, Samsung, Dell, Fastweb, Sony Mobile and Wind) manufacturing or distributing devices or media capable of making copies of copyright-protected works, against the MIBACT (the Italian Ministry of cultural assets and activities and tourism) and the SIAE (the Italian society for authors and publishers). Specifically, the claimants in the Italian administrative lawsuit before the Council of State (a joint appeal against various rulings of the Regional Administrative Court of first instance) were seeking annulment of the MIBACT's Decree on the determination of compensation for the private reproduction of phonograms and videograms (the "Decree of 30 December 2009" or simply the "Decree").

The Decree consists of a single article stating that "*the technical annex which is an integral part* [of that] *decree establishes the amount of compensation in respect of the private reproduction of phonograms and videograms by virtue of Article 71 septies of* [the Italian Copyright Law]". Article 2 of the Technical Annex to the Decree of 30 December 2009 ('the Technical Annex') sets out the amounts of compensation due in respect of the private copying levy and provides a list of 26 categories of product, each associated with the relevant amount of compensation.

The Decree also states that SIAE shall promote protocols for more effective application of the Decree's provisions, in particular for providing objective and subjective exemptions, for example, in the event of the professional use of devices and media or in respect of certain devices for video games. Those application protocols shall be adopted in agreement with the persons obliged to pay the compensation for private copying, or their trade associations.

The Italian Council of State referred questions to the CJEU in relation to whether the following provisions are consistent with European laws (namely Article 5.2 *b* of Directive 2001/29):

(1) Article 71 sexies-septies-octies of the Italian Copyright Law, read in conjunction with Article 4 of the Technical Annex, in the part that leaves the determination of the criteria for an *ex ante* exemption from the levy for private copying to the conclusion of agreements, or "free bargaining", governed by private law, in particular the "application protocols" of SIAE; and

(2) Article 71 sexies-septies-octies of the Italian Copyright Law, read in conjunction with the Decree of 30 December 2009 and the instructions on reimbursement given by the SIAE, in the part that limits the reimbursement when media and devices are acquired for purposes clearly unrelated to private copying (i.e. for professional use) only to final users and not to manufacturers of the media and devices.

In essence, the CJEU ruled that a national framework that leaves the exemption from payment of the private copying levy for devices and media intended for use clearly unrelated to private copying to the free negotiation of agreements between a collecting society and those liable to pay compensation, or their trade associations, is not consistent with Article 5.2 *b* of Directive 2001/29. According to the Court, the national framework at stake (the Italian Copyright Law and the Decree) does not contain generally applicable exemptions, since it only promotes exemption agreements between SIAE and the producers/distributors, and therefore is not consistent with the principle of equal treatment.

On the other hand, the Italian legal framework is also inconsistent with EU laws because the reimbursement procedure, which was drawn up by the SIAE and is included in the SIAE's 'instructions' available on the Internet, provides that reimbursement may only be requested by a final user who is not a natural person; the reimbursement may not, however, be requested by a producer or importer of the media and devices and, taking into consideration this exclusion, there is no fair compensation system, as required by EU laws.

It is worth noting that the evaluation of the impact of the CJEU ruling on the Italian private copying levy system must also take account of the decision of the Italian Council of State. An interim decision was adopted by the Council of State on 18 February 2015 and a final decision is expected in the next few months, save that MIBACT may choose to propose some amendments to the Decree earlier, in order to meet the requirements set forth by the CJEU.

**2. The legitimacy of the procedure for adoption of the Decree of 30 December 2009**

The Italian Council of State found the Decree to have been lawfully adopted, taking into consideration two factors: (1) the respect of the legislature's exclusive power; (2) the absence of a preliminary opinion before adoption of the Decree by the same Council of State.

Regarding the first of these factors, the Council stated that the private copying levy, even if based on the compensation for the harm suffered by the right-holders for the making of private copies (see CJEU judgment of 21 October 2010, *Padawan case*, C 467/08), can be considered an "economic obligation imposed by law" according to Article 23 of the Italian Constitution. In such a case the legislature's exclusive power to introduce the economic obligation cannot be considered absolute; the main requisites of the economic obligation must be regulated by law but administrative measures can also be adopted, provided there is no abuse of discretion, for regulating certain aspects or elements of the private copying levy. The Council found that the introduction of the obligation to pay the private copying levy and the main requisites for payment are attributable to the Italian Copyright Law and that there had been no abuse of discretion by

MIBACT in determining certain aspects of the private copying levy system in the Decree. This included the delegation of authority to SIAE, and the distinction between devices and media used for reproduction purposes only and so-called "multifunctional" devices and media, for which the amount of the private copying levy is determined on the basis of the respective capacity to make copies.

Regarding the second factor, the Council stated that the Decree of 30 December 2009 is not of a regulatory nature and must be considered a general administrative measure, since it does not regulate abstract cases with the intention of innovating the legal system but has instead implemented the provisions of the Italian Copyright Law, introducing rules directed to a limited number of operators (manufacturers and distributors of devices for private copying) already identified by law. According to the above, the MIBACT shouldn't need a preliminary opinion before adoption of the Decree by the Council of State. The nature of general administrative measures supports the possibility of retroactive application of the Decree in the case of amendments adopted by the MIBACT (considering that, according the CJEU, mechanisms of reimbursement compliant with EU laws should also be applied retroactively).

**3. The legitimacy of the rules on private copying levy**

The Council of State addressed the main argument raised by the claimants (i.e. the unlawfulness of the inclusion in the Decree of multifunctional devices and media) by reference to the case law of the CJEU. On the basis of the *Padawan* case, the Council found that "*in order to determine the level of that compensation, account must be taken – as a 'valuable criterion' – of the 'possible harm' suffered by the author as a result of the act of reproduction concerned, although prejudice which is 'minimal' does not give rise to a payment obligation. The private copying exception must therefore include a system 'to compensate for the prejudice to right-holders*". The possible harm is represented by the act attributable to manufactures and distributors of making available to users the devices and media capable of private reproductions (even if no private copy is actually realised). Therefore, payment of private copying levy on multifunctional devices and media should be considered legitimate, since the private copying levy applies to any device or media capable of reproductions, and multifunctional devices and media have such capability. Not even the argument that such devices and media have limited or residual capability for reproduction can exclude application of the payment, since this argument does not impact their fulfilment of the requirement for "possible harm". In any event, each single private copy can be considered to cause only very limited harm but, if we consider the sum of all the possible private copies that a single device can realise, this excludes the possibility of minimal prejudice for the right-holders.

Regarding the level of private copying levy, the Council of State determined that the Decree applies to all devices or media capable of private copies and legitimately differentiates the amount of private copying levy attributable to those devices dedicated to private reproduction and that attributable to those devices with hybrid functions. The Council also found that, following a neutral technical approach, it is legitimate for the MIBACT to introduce in the Decree a residual and omni-comprehensive group including any other device with an embedded memory capable of private reproductions. The appropriate criterion for distinguishing different groups of devices and media is their capability for reproduction, rather than a percentage of the final price, because a private copying levy based on the final price could be unfair and discriminatory in the case of devices sold at different prices but capable of the same number of reproductions.

In addition, the Council of State did not consider that the following were sufficient arguments in

favour of the invalidity of the Decree: *(i)* the fact that many copyright works (especially those distributed on the Internet) may already be licensed for reproduction and there is no harm to those right-holders already remunerated; *(ii)* there is a risk of double payment since some devices (e.g. PCs) must be used together with other devices (e.g. a CD burner) for making private copies and both devices are subject to private copying levy; and *(iii)* private copies of infringing contents should not be taken into account in determining the private copying levy. The Council rejected all these arguments on the basis that in order to justify the legitimacy of the degree, it is sufficient that there is a presumption that the devices and media capable of private reproductions are destined to be used for making copies of lawful works for which a specific license fee has not already been paid to the right-holders, and there is no explicit provision that incorporates private copies of infringing works within the scope of the Decree. In any event, there are some doubts linked with the exclusion from the scope of the Decree of private copies made via distributed memory (e.g. via cloud services) that cannot be considered as memory embedded into devices.

**4. The respect of principles of European law**

The Italian Council of State also clarified that the attribution to SIAE of a monopoly in the collection of private copying levy does not determine *per se* an abusive dominant position since SIAE is just a collecting society acting on behalf of various entities (e.g. authors, performers, phonogram and videogram producers) to which the private copying levy has to be distributed and there is no concrete evidence that such a monopoly has resulted in Italy having a significantly higher level of private copying levy than other Member States. In any case the level of private copying levy is determined in advance by MIBACT in the Decree and SIAE cannot unilaterally alter such level.

On the other hand, the private copying levy system does not, in the Council's opinion, impact on the principle of freedom of movements of goods in the European Union because the Member States are authorised by EU laws (namely by Article 5.2 b of Directive 2001/29/EC) to adopt the private copying levy. In addition, the introduction of the private copying levy system does not affect the transition of devices and media capable of private reproductions across Member States, since the private copying levy is applied without distinction to all devices distributed in Italy (i.e. it is irrelevant whether they are produced in Italy or introduced into Italy from another Member State).

**5. Conclusions**

On the basis of a combined reading of CJEU case C-110/15 and the interim decision of the Italian Council of State of 18 February 2015, we can conclude that the private copying levy system in Italy will remain substantially safe even if it will require some adjustments in order to meet the requisites of the exclusions for professional use and there will likely be a reduction in the room for contractual autonomy that the Decree has granted to date to SIAE, in accordance with the principle of equal treatment invoked by the CJEU. We should consider whether such adjustments could impact and question those agreements already stipulated by SIAE that could result in them not being aligned with the new set of requisites established for the exclusions from private copying levy. This point, together with the introduction of an *ex post* procedure for reimbursement dedicated to professional users according to the CJEU ruling, could also be managed via a review of the Decree and its implementation procedure by MIBACT and SIAE, also taking into consideration what the Italian Council of State has pointed out on the general administrative nature of measures of the Decree (which supports, in the Council's opinion, retroactive application of

possible amendments).

Save for these procedural aspects, it is not likely that following the CJEU ruling in case C-110/15, major adjustments will be introduced into the Decree, either through a final ruling of the Italian Council of State or via a review of the Decree adopted by MIBACT. In any case, it does not seem likely that such an adjustment could impact the substantive provisions of the Decree, especially the core provisions on the type of devices and media (including multifunctional ones) subject to the private copying levy and on the level of the private copying levy. This is mainly the result of the low degree of harmonisation introduced by Article 5.2 *b* of Directive 2001/29/EC that still allows a variety of national approaches in this area of private copying levy.

We should also consider whether there will be some impact on this "state of the art" resulting from the introduction of new technologies for making copies via cloud services. The Italian Council of State has pointed out, *inter alia*, that the compliance of the Italian legal framework on private copying levy with EU laws should also be evaluated with reference to private copying in distributed memories and that the Court of Turin has recently referred to the CJEU (case C-265/16, *VCast Vs RTI*) some questions regarding the lawfulness of cloud computing services for the remote video recording of private copies without authorisation of the right-holders. It cannot be ruled out that a higher level of harmonisation at EU level in the area of private copying levy could be promoted by new CJEU rulings.

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