

copyrightWORLD



Law and business for copyright specialists

October 2003 | Issue 134

Operation filestopper

Australian record companies sue

Threat and response

Tactics for online enforcement

Deutschland gets digital

Germany implements the Directive

Find
the
key

Unlock the value of Europe's Copyright Directive

Find the key

Unlock the value of Europe's Copyright Directive

Geoff Griffith and Damien Challamel, of Freshfields Bruckhaus Deringer in London and Paris, chart the progress of implementation – and suggest strategies to achieve the objectives without the wait

The Council Directive of 22 May 2001¹ on the harmonisation of certain aspects of copyright and related rights in the information society was due to be implemented in all EU member states by 22 December 2002.

The United Kingdom is one of several member states to have failed to meet this deadline. In fact, only Greece and Denmark implemented the Directive within the required 18-month period. At the time of writing, Italy, Austria and Germany have so far done so since the deadline.

On 14 July 2003, the European Commission

announced it had decided to send a "reasoned opinion" to the remaining 11 member states that had failed to meet the implementation date.²

If a member state fails to give a satisfactory reply within the deadline (usually two months), the Commission can refer the matter to the European Court of Justice (ECJ). If the state then fails to comply with the ECJ's judgment, the state may be liable to pay a fine or penalty.³

These sanctions may operate as a spur to encourage member states to implement European legislation such as the Directive in a timely manner. They do not, however,

compensate private entities (both individuals and corporations) which have been disadvantaged by the state's failure to grant the additional rights required by the Directive. Can these private right holders rely on the provisions of the Directive even though a member state has failed to implement it in time? In this article, we consider this question in the United Kingdom and France, although the analysis should also apply in other member states.

Implementation status

The Directive is intended to harmonise the principal rights of authors and other rights by updating copyright to keep pace with the technology now available in a digital environment. It is also designed to be the vehicle by which the EU and its member states implement the two 1996 WIPO treaties, the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (known as the "Internet treaties"), which contain agreed changes to copyright law to adapt it to the internet, e-commerce and digital technology. The European Commission regards this as making implementation all the more urgent.

The UK Patent Office published a Consultation Paper on Implementation on 7 August 2002.⁴ This proposed to make amendments to the Copyright, Designs and Patents Act 1988 (CDPA) necessary to implement the Directive by Statutory Instrument (SI).⁵

The consultation period for the proposed amendments closed on 31 October and the Patent Office then embarked upon an analysis of almost 300 responses that it received. The volume of replies, and the

In summary

- ❖ The deadline for implementation of the EU Directive on the harmonisation of certain aspects of copyright and related rights in the information society was 22 December 2002. Only Greece and Denmark met the deadline, and Italy, Austria and Germany have become compliant since. The United Kingdom and France are among the remaining member nations yet to implement the Directive
- ❖ The authors ask whether private right holders can rely on the provisions of the Directive even though a member state has failed to implement it in time. The analysis details the situation in the United Kingdom and France, but should also apply in other member states
- ❖ The possibility of enforcing or relying upon directives that have not been implemented (or implemented incorrectly) derives from three different doctrines - Direct Effect, Indirect Effect, and State Liability - which have been developed by the ECJ
- ❖ In the UK, rights holders should now be able to argue for current defences to infringement to be given a narrower interpretation, increasing their potential licence revenue, while copyright owners across Europe may wish to put pressure on member states by seeking compensation for the continuing failure to implement protection against the circumvention of copy-protection measures

inclusion with some of those replies of detailed arguments and drafting suggestions, has delayed revision and publication of the draft regulations.

The target date for publication of revised regulations has been twice delayed and, despite the Office's commitment to finalise these as soon as possible, implementation in the UK may not take place for some months yet.

In France, the Ministry in charge of drafting the bill is the Ministry of Culture. A "proposed" draft bill was circulated in December 2002. It was issued following the works and consultation process held before the *Conseil Supérieur de la Propriété Littéraire et Artistique*,⁶ an advisory board working along the Ministry of Culture.

The Government proposes to refer the draft bill to Parliament in September 2003. Given the Parliament's schedule, however, it is very likely that this target will not be met.

Who wins – and how?

Rights holders who should be particularly interested in seeing the Directive's provisions implemented include:

- rights holders, who stand to benefit from more complete copyright protection across new media and digital technologies;
- rights holders and collecting societies, who should benefit from increased licence revenue resulting from the standardisation (and, in several member states, restriction) of current defences to copyright infringement; and
- rights holders and content distributors who make material available commercially on the internet, protected by encryption or other technological means.

Despite the failure of EU states such as the UK and France to implement the Directive on time, it may be possible for these entities to rely on provisions of the Directive to their advantage, and even recover compensation by using doctrines of European law in the meantime.

The possibility of enforcing or relying upon directives that have not been implemented (or implemented incorrectly) derives from three different doctrines which have been developed by the ECJ. Described in turn below, these are the doctrines of Direct Effect, Indirect Effect, and State Liability. These will only apply to the Directives' mandatory provisions identified in table 1.

The list of permitted exceptions to the rights of communication to the public and the reproduction rights in Articles 2 and 3 are optional only. However, the list is stated to be an exhaustive one, so any current exceptions provided by national laws of a member state that are not included in the list will not be permitted by the directive.

Direct effect

In a series of cases, the ECJ held that a directive may have direct effect provided:

The possibility of enforcing or relying upon directives that have not been implemented (or implemented incorrectly) derives from three different doctrines which have been developed by the ECJ

- the directive has not (or has been improperly) been implemented and the time limit for its implementation has expired;
- the provision at issue is clear and precise; and
- the provision relied on is unconditional⁸.

However, because article 189 of the EC Treaty provides that directives must be implemented into national law by each member state, the ECJ held that directives may have a direct effect only when individuals or corporations are seeking to enforce the directive at issue against a member state.

The direct effect given to a directive is therefore only "vertical", allowing the directive to be invoked against a member state (or the state's administrative agencies and organs) and does not give individuals rights that can be enforced "horizontally" against other private individuals or corporations. The relevance of the European distinction between "vertical" and "horizontal" effects has been confirmed and applied in both French¹⁰ and UK¹¹ courts.

In practice, this means that copyright owners will not be in a position to enforce mandatory provisions of the Directive directly against potential infringers using this doctrine.

The Directive does not confer any specific rights against the state or state agencies (unlike other intellectual property directives such as that concerning trademarks, which require the state to protect rights through registration). The direct effect doctrine is therefore not likely to be relevant to the Directive in most cases.

A possible exception is in criminal infringement proceedings. Article 5 of the

Table 1: Mandatory Provisions of the Copyright Directive

- ⚙ Article 2 – Exclusive right to authorise or prohibit temporary or permanent reproduction by any means and in any form
- ⚙ Article 3 – Exclusive right of communication to the public of copyright works and other subject matter by wire or wireless means
- ⚙ Article 4 – Exclusive right to permit distribution to the public of copyright works by sale or otherwise
- ⚙ Article 5(1) – Exception from reproduction right for temporary acts of reproduction that are transient or incidental and necessary to enable network transmission or incidental use of a work or other subject matter
- ⚙ Article 6(1) – Protection against circumvention of effective technological anti-copying measures
- ⚙ Article 6(2) – Protection against commercial dealings with devices designed to circumvent technological anti-copying measures
- ⚙ Article 7 – Protection against removal or alteration of rights management information (RMI) and dealings with material from which RMI has been removed without authority
- ⚙ Article 8 – Sanctions and remedies
- ⚙ Article 9 – Continued application of other legal provisions
- ⚙ Article 10 – Application over time
- ⚙ Article 11 – Technical adaptations to other directives
- ⚙ Article 13 – Implementation

Directive provides a mandatory exception directly aimed at exonerating the temporary acts of reproduction made by ISPs that take place in the course of routing, caching, browsing and streaming.

Under current UK and French law, these acts are all potentially infringements of copyright as neither national law does not contain any exemptions for the activities of ISPs.

In French law, all copyright infringements technically have both a criminal and civil character. If criminal proceedings were ever brought against an ISP for infringement, the State would be the prosecuting party and accordingly an ISP could invoke the doctrine of direct effect as a defence against the proceedings, to the extent they involved acts covered by Article 5.1.

French Courts¹² have also held that when applying their own national criminal laws, French judges must take into account the possible direct effect of directives and, accordingly, "*disregard criminal national provisions when these latter violate the EC Treaty or any legal provisions applying it*"

In the present case, Article 5.1 should prevail to the extent that the conditions of the doctrine discussed in section 1 above are fulfilled. It would not however be possible for to invoke Article 5.1 in civil proceedings between individuals, since the doctrine has no horizontal effect.

Indirect effect

The second European doctrine likely to give effect to the Directive is that of indirect effect. The limitations of the direct effect described above have been overcome by the ECJ to some extent in a series of case based on Article 5 of the EC Treaty, which provides that:

Member states shall take all appropriate measures, whether general or particular; to ensure fulfilment of the obligations arising out of this Treaty or resulting from action taken by the institutions of the Community. They shall facilitate the achievement of the Community's tasks.

They shall abstain from any measure which could jeopardize the attainment of the objectives of this Treaty.

In order to give effect to this provision, the ECJ held that national courts must interpret their national laws in the light of the provisions and purposes of any relevant directives.

This doctrine has been developed and applied in several leading cases¹³ both in the ECJ and national courts in the UK¹⁴ and France.¹⁵

The doctrine requires the relevant national court, in interpreting legislation (whether or

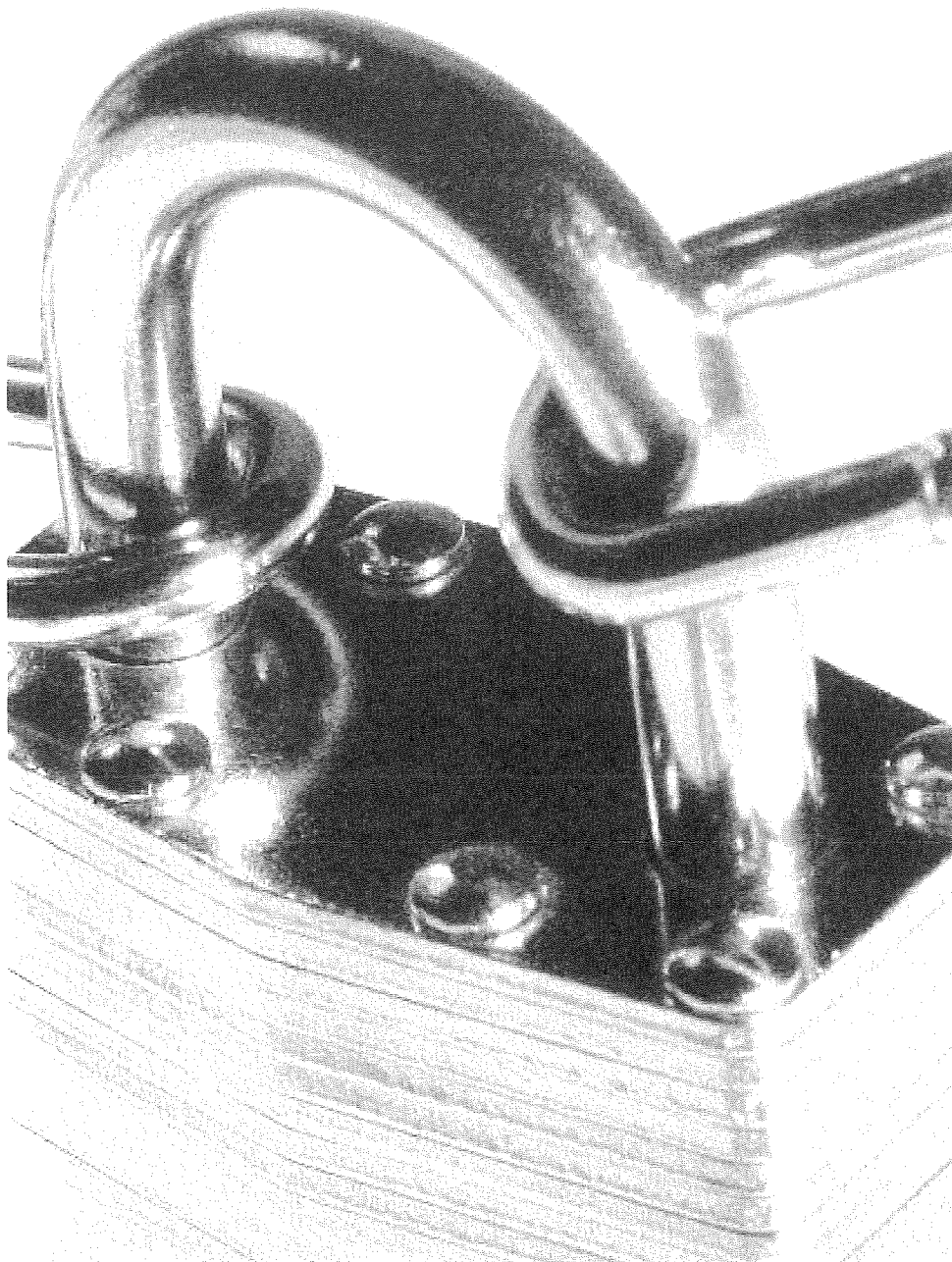
not the legislation was enacted prior to or after the directive) to apply the interpretation that is more consistent with the relevant directive and to disregard national rules that would come to a different result "in so far as it is given discretion to do so under national law",¹⁶ and in accordance with the general EC principles of legal certainty and non-retroactivity.

There are however limitations on the operation of the doctrine. It cannot be applied to authorise a national court to ignore an express requirement of national law contravening the directive sought to be relied upon.¹⁷ For the doctrine to operate, there must also be national legislation that covers the

The result would be that all UK businesses that copy copyright material for training purposes, even where this is for internal staff development only, would be infringing copyright without a licence from the owner of copyright material

same ground as the relevant directive so that the court has something to interpret. The doctrine does not require the courts to create new national rules where there is nothing to interpret, merely to interpret existing legislation consistently with directives so far as this is possible.

In the case of the Directive, the doctrine of indirect effect would be relevant if, for example, national laws were inconsistent with the Directive by providing broader copyright exceptions than the exhaustive ones permitted by Article 5, or by providing to the copyright holders lesser rights than the ones prescribed by Articles 2, 3 and 4 of the Directive.



Individuals in infringement and other proceedings could seek to have courts apply and interpret national copyright legislation consistently with the requirements of the Directive where it is possible to do so.

Indirect Effect in practice

There are currently some exceptions to copyright infringement in the CDPA that fall outside the exhaustive list of permitted exceptions in the Directive. Among the most significant of these are the various fair dealing exceptions contained in Chapter III of the CDPA.

The CDPA currently permits "fair dealing" (the making of a single copy of a short extract of a copyright work) for the purposes of research or private study (Section 29(1)). The wording of section 29 is wide enough to permit copying where research is undertaken by a commercial entity or on a commercial basis¹⁸ (except in the case of databases, where

research for a commercial purpose is expressly excluded).¹⁹

Article 2(2)(b) of the Directive permits exceptions to the reproduction right for reproductions made "by a natural person for private use and ends", but these must be "neither directly nor indirectly commercial" and fair compensation must be paid. The reference to natural persons indicates that no use made for the benefit of a corporation could ever benefit from the exception.

The Article would also prevent any business, whether incorporated or otherwise, making copies in the course of its commercial activities without a licence from the copyright owner, unless the individual making the copy could show that it was made for purely private purposes.

Article 3(a) of the Directive permits exceptions to the reproduction right and communication to the public rights conferred

by the Directive for "teaching or scientific research" where the source is acknowledged, but again only if the purpose of the copying is non-commercial. There is also an exception permitted by Article 3(c) for reproduction by educational establishments, but only for copying that is not for "direct or indirect economic or commercial advantage".

A copyright owner could now invoke the principle of indirect effect and argue that section 29(1) of the CDPA should be interpreted more narrowly, in accordance with the Directive, so that all copying undertaken for research with a purpose that is indirectly commercial would infringe copyright unless licensed by the copyright owner.

Section 32 of the CDPA currently permits copying of a copyright work in the course of instruction or preparation for instruction (provided that it is not done by a reprographic process such as photocopying – the exception is thus a limited one).

This section is widely enough worded to permit copying by non-educational businesses for commercial purposes. However, invoking the principle of indirect effect, a copyright owner could argue that section 32 should now be interpreted in accordance with the Directive. The result would be that all UK businesses that copy copyright material for training purposes, even where this is for internal staff development only, would be infringing copyright without a licence from the owner of copyright material.

Scope of exceptions

The Directive has significantly narrowed the scope of the exceptions to copyright infringement that have previously been available to commercial users of copyright material in the UK.

The wording in which these exceptions is expressed in the CDPA is capable of bearing the narrower interpretation required by the Directive, rather than the traditional wider interpretation permitting certain acts of copying done for commercial purposes. Because of the principle of indirect effect, both copyright owners and users of copyright material should be aware that copyright could already be enforced in the UK in a manner consistent with the Directive without having to wait for amendments to the CDPA to be implemented.

This means that copyright owners in the UK (and collective agencies representing them) already have a wider justification for requiring that businesses take out licences permitting copying that would otherwise infringe copyright.

In the UK, the Copyright Licensing Agency (CLA) is the collective body that grants licences to users of copyright material for most books and journals. It will now be open

to the CLA to seek licence fees from any business in the UK that makes copies for the purpose of training or research in the course of its commercial activities, even where these activities are internal and not for direct commercial gain.

The main limitation of the CLA licence is that it only covers photocopying of hard copy published works in books and journals and does not allow any digital use or digital storage of material.

No collective agency yet exists in the UK that can grant licences for use of digital material of material downloaded from the internet. In the light of the broad exclusive rights of reproduction and communication to the public that copyright owners can now exercise in all media under the Directive, and the narrower exceptions that allow use of these materials, users in the UK (and throughout the EU) will need to be increasingly vigilant to protect themselves against the risk of copyright infringement when using electronic materials downloaded from the internet.

In contrast to the UK, there appears to be no scope for the indirect effect doctrine to give effect to the Directive in France, as the current exceptions to copyright infringement under French law do not exceed those permitted in the Directive.

State liability

Should a member state fail to implement mandatory provisions of a directive, the ECJ held in the *Francovich* case²⁰ that individuals can sue the relevant government for any losses the claimant can show it has suffered as a result of that failure.

The ECJ turned again to Article 5 of the EC Treaty as justification for providing liability for member states and redress for individuals aggrieved by non-implementation of Directives.

The *Francovich* case has been developed in further cases²¹ culminating in the *Dillenkofer*²² case. The doctrine has been applied by both the French²³ and UK²⁴ courts. It can serve as a useful alternative where the principles of direct effect and indirect effect are not available, such as where a Directive confers rights on an individual but there is no corresponding national law that can be interpreted to give effect to the right.

The three conditions laid down as the requirements for liability of state members:

- the directive must confer individual rights;
- a manifest and serious breach of the rights identified on the basis of the provision of that directive must be present;
- there must be a causal link between non-implementation and the damage suffered by

those claiming compensation.

The ECJ ruled in *Dillenkofer* that failure to take any measure to transpose a directive in order to achieve the result it prescribes within the period laid down for that purpose constitutes per se a serious breach of Community law.

However, the ECJ's harmonization of the state liability principle has not extended beyond recognising the existence of liability for the state's failure in breach of EC law and the basic liability conditions. The extent of the compensation due to an aggrieved individual will be determined by the domestic

It is already open to copyright owners to rely upon some of the additional rights provided for in the Copyright Directive without waiting for the various member states to implement them into national law

legal system of each member state, subject to accordance with general EC principles of equivalence and effectiveness.²⁵ The compensation is required to be commensurate with the loss or damage sustained.

In recognition of the prevalence of home recording of copyright material and the impracticability of preventing it, Section 70 of the CDPA provides that "time shift" copying of a broadcast or cable programme (allowing it to be viewed or listened to at a more convenient time) for private and domestic use does not infringe copyright. Under the Directive such an exception is permissible in accordance with Article 5(2)(b), but only where right holders receive fair compensation. As UK law does not compensate right holders at all for the permitted copying section 70 would appear to go beyond the permitted scope of the Directive's exceptions.

It would be open to right holders to invoke the doctrine of direct liability and sue the UK

government for the failure to give the required compensation. There would be practical difficulties in doing so, however; principles of causation would require the copyright owners (in practice, collecting agencies) to prove the extent of the home recording involved, and demonstrate an entitlement to a specific amount in missing compensation appropriate to cover it.

The International Federation of the Phonographic Industry recently estimated²⁶ that the global sales of pirate music CDs exceeded more than 1 billion units during 2002. Articles 6, 7 and 8 of the Directive require member states to give right holders specific protection against circumvention of technological measures, dealings in circumvention devices and the removal or alteration of rights management information (RMI).

The Directive leaves the nature of the protection required open, but Article 8(2) requires member states to permit rights holders to bring an action for damages in respect of any infringing activity (which appears to include activities covered by Articles 6, 7 and 8). These provisions are intended to provide a useful additional weapon against the widespread and increasing piracy of digital material.

In the opinion of the authors, the two first conditions for operation of the direct liability doctrine in the *Francovich* and *Dillenkofer* cases are likely to be met: Articles 6, 7 and 8 of the Directive confer individual rights to the right holders and the failure to take any measure to implement the Directive could be considered as a manifest and serious breach of the requirements of the Directive.

The right holders may however face great difficulties in proving the necessary causal link between the non-implementation of the Articles and the damage suffered.

The claimant would need to prove acts of actual circumvention or dealings with relevant devices or pirated works extensive enough to establish a viable claim for compensation. The claimant would also face the hurdle of having to establish an amount of damages to which it would have been entitled if the Directive had been implemented.

For these reasons the state liability doctrine may become something of a weapon of last resort in practice. However, it might have some usefulness as a source of leverage in the lobbying process in various member states as the state governments consider how to react to the challenges faced by the increasing ease and prevalence of piracy in the digital environment.

Conclusion

It is already open to copyright owners to rely upon some of the additional rights provided for in the Copyright Directive without

waiting for the various member states to implement them into national law.

Rights holders should now be able to argue for current defences to infringement in the UK to be given a narrower interpretation, increasing their potential licence revenue.

ISPs have the benefit of protection from infringement where they are merely a technical conduit for infringing material.

Copyright owners may also wish to put pressure on member states by seeking compensation for the continuing failure to implement protection against the circumvention of copy-protection measures and the removal or alteration of RMI.

These options exist now, and for copyright owners in the EU the opportunity to test the strength of the new rights in the battle to maintain control of their works and revenues in the digital environment is already there for the taking.

Notes

- 1 2001/29/EC
- 2 under Article 226 of the EC Treaty. EU press release IP/03/1005
- 3 Under Article 228(2) of the EC Treaty.
- 4 Available at www.patent.gov.uk/about/consultations/eccopyright/summary.htm.
- 5 Using the powers under the European Communities Act 1972, section 2(2).
- 6 Available at <http://www.culture.fr/culture/cspla/travaux.htm>.
- 7 *Publico Ministero v Ratti* (148/78), [1980] 1 CMLR 96
- 8 *Franz Grad v V. Finanzamt Traunstein* (9/70), [1971] CMLR 1; *Marshall V. Southampton AHA* (152/84), [1986] CMLR 688
- 9 *Van Duyn v Home Office* (41/74), [1974] CMLR 347
- 10 *Cour de cassation, SCI Fernavi v Société Geere*, 27 February 1996 Bull. civ.
- 11 *Marshall*, above, fn 9;
- 12 *Cour de cassation, Ch.crim*, 17 October 1994, Bull. n°332 and *Cour de cassation, Ch.crim* 10 April 1995 [Bull. n° 152].
- 13 *Von Colson v Land Nordrhein-Westfalen* (14/83), [1986] 2 CMLR 430; *Marleasing*, fn 13 above.
- 14 *Webb v EMO Air Cargo (UK) Ltd* [1992] 4 All ER 929 (HL).
- 15 *Cour de cassation Juste & Dame v Dame* 9 July 1996 [Bull. civ. I N°304] and *Conseil d'Etat* 24 April 1992 [RJDA 8-9/92 n°884]
- 16 *Von Colson* above; see also *Marleasing*.
- 17 *Webb v EMO Air Cargo*, note 15 above; *Wagner Miret v Fondon de Garantia Salarial* [1995] 2 CMLR 49. This would also contravene the principle of legal certainty, one of the EC principles guiding the principle of indirect effect.
- 18 See *Hansard*, House of Lords, col 1153, 23 February 1988; cf *De Garis v Neville Jeffress Pidler Pty Ltd* (1990) 18 IPR 292, where a narrower view was taken of the scope of the research exception in Australia.
- 19 By section 29(5).
- 20 *Francovich and Boniface v Italian State* (6/90 and 9/90), [1992] IRLR 84.
- 21 *Brasserie du Pêcheur SA v Federal Republic of Germany, R v Secretary of state for transport*, ex parte *Factortame Ltd* and others (46/93 and C-48/93), [1996] CMLR 889; *R v HM Treasury*, ex parte *British Telecommunications* (392/93) [1996] CMLR 217; *R v Ministry of Agriculture, Fisheries and food*, ex parte *Hedley Lomas (Ireland)* (5/94), [1996] CMLR 391;
- 22 *Dillenkofer and others v Federal Republic of Germany* (178, 179 and 188-190/94) [1996] CMLR 469.
- 23 *Sté Jacques Dangeville and Cabinet Revert et Badelon, Conseil d'Etat* 30 October 1996 [RFD adm 1997, 1059 and 1062]; *Arizona Tobacco Products GmbH Exports K.G. and Philip Morris France S.A., Conseil d'Etat* 28 February 1992 RJF4/92 n°579
- 24 For example, *Marshall v Southampton and South-West Hampshire Area Health Authority* [1993] 3 CMLR 293; *R. v Secretary of State for Transport*, Ex parte *Factortame Ltd. and Others* (No. 5), [2000] 1 A.C. 524, [1999] 3 C.M.L.R. 597.
- 25 *Factortame III* and *Brasserie du Pêcheur*, note 22 above.
- 26 <http://www.ifpi.org/site-content/library/piracy2003.pdf>

About the authors

Geoff Griffith (left) is a senior associate in Freshfields Bruckhaus Deringer's London office, specialising in IP/IT law. He has particular experience in advising on trademark, copyright and IT licensing issues.

Damien Challamel (right) is a senior associate in the Paris office of Freshfields Bruckhaus Deringer and specialises in IP/IT law. He has particular experience in IP litigation and advising on trademark, copyright and IT issues.

