

## Developments

### Copyright Licensing Revisited

By Astrid Janssen\*

#### A. Introduction

On 29 September 2008, the United Kingdom High Court of Justice referred to the European Court of Justice of the European Union (ECJ) for a preliminary ruling in *Karen Murphy v. Media Protection Services Limited*.<sup>1</sup> This referral concerned the use of foreign decoder cards in the United Kingdom in order to gain access to encrypted satellite transmissions of live English Premier League football matches. Karen Murphy, a pub owner in Southsea, had allegedly been using the much cheaper Greek satellite decoder card to receive and screen live Premier League matches in public.<sup>2</sup>

The legal issues that came up in this case relate to the interpretation of the boundaries between the ability of right holders to prevent cross-border access to their broadcasts and the viewers' interest in using decoder cards which enable them to receive broadcasts outside the territory covered by the right holder's license. In this respect, the two main questions addressed by the ECJ are whether a clause contained in an exclusive license agreement with a broadcaster which required the broadcaster to prevent its satellite decoding cards from being used outside the licensed territory, impeded the free movement provisions or effective competition. Next to this, the ECJ also considered whether the reception and subsequent screening of those broadcasts is subject to restriction under European copyright law.

The ECJ answered the first two questions in the affirmative and thereby has broken new ground with regard to the current business practices in the broadcasting sector, implying that premium content right holders could move beyond a purely national approach

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<sup>1</sup> Case C-429/08, *Karen Murphy v. Media Protection Services Ltd.*, Judgment of 4 October 2011, not yet reported [hereinafter "Karen Murphy"].

<sup>2</sup> A similar reference was made in the case C-403/08, *FA Premier League v. QC Leisure*, Judgment of 4 October 2011, not yet reported, which was initiated by FAPL, along with Nova, and concerned three actions directed against the British parallel traders in satellite decoder cards and against the pub owners. Case C-429/08 and C-403/08 have been joined for the purposes of the written proceedings, oral proceedings and the judgment because they have the same subject matter.

towards licensing on an EU-wide scale. As such, the ECJ also legalizes the “grey market,” a position which has been advocated by the European Commission (Commission) for a long time. Interestingly, the ECJ also gives a broad interpretation to the concept of communication to the public, offering at least some comfort to the right holders concerned. The judgment seems to be in line with the European copyright framework and puts into perspective the well-known *Coditel I* decision, which is the only precedent with regard to the legal issues raised.<sup>3</sup>

In this case note I demonstrate that the ECJ's approach rightly fills in an existing lacuna in European law.

## B. Relevant Facts

Sports broadcast rights are generally packaged for sale on a territory-by-territory basis. In the above case BSkyB is the only broadcaster officially licensed by the Football Association Premier League (FAPL) to broadcast live Premier League football matches in the UK. On behalf of the FAPL, each Premier League football match is filmed and modified to create what is known as “the World Feed,” in which the FAPL owns various copyrights. The exclusive right to broadcast the World Feed live is granted to foreign broadcasters for three years on the basis of an open competitive tender procedure pursuant to separate licensing deals with FAPL. The terms of foreign broadcasters’ licenses include the obligation for the foreign broadcasters not to supply decoder cards enabling access to live sports matches with a view to their use outside their licensed territory.

Due to the nature of broadcasts (satellite or otherwise) it is almost inevitable that such broadcasts will be accessible in other territories with the use of broadcasters’ decoder cards. These decoder cards enable paying customers, such as Karen Murphy, to receive encrypted signals via satellite.<sup>4</sup> As such, a “grey” market has developed, where lawful subscriptions are obtained by means of letterbox addresses. The Commission has acknowledged that this is neither a “black market,” given that the subscriptions are paid for, nor a “white market,” since certain broadcasting rights obtained by broadcasters are only valid within the territory of the country in question.<sup>5</sup>

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<sup>3</sup> Case C-62/79, *Coditel SA v. Cine Vog Films*, 1980 E.C.R. I-881 [*hereinafter* “*Coditel I*”].

<sup>4</sup> The Greek decoder cards are available in the UK through sales points. It seems that once acquired, these cards are activated through a system whereby the purchasers of the cards are identified as being resident in Greece. A subscription account in Greece is needed for the activation of the cards.

<sup>5</sup> Second Report from the Commission on the implementation of Directive 98/84/EC of the European Parliament and of the Council of 20 November 1998 on the legal protection of services based on, or consisting of, conditional access, 30 September 2011, COM (2008) 593 final, 4-9. The Commission explicitly mentions that sanctions used in order to combat this “grey market” are unlawful, since the sanctions established under the Directive can only

The FAPL claims that territorial restrictions placed on the licensees are necessary to support a sales model that recognizes varying consumer demand. Without such territorial restrictions the return to right holders would be jeopardized as a result of the reduction in value of cross-border availability of content licensed in another local market. The FAPL therefore asserts that pursuant to the *Coditel I* decision it was allowed to exercise its exclusive rights in order to prevent the use of cheaper decoder cards from other Member States.

Advocate General Kokott (AG) expressed in her Opinion of 3 February 2011 that FAPL could not, however, prevent the use of Greek decoding cards for accessing its broadcast because, by receiving royalty payments for those decoding cards, FAPL's rights had been exhausted.<sup>6</sup> With this reasoning, the AG surprisingly – in view of the *Coditel* decision – extended the principle of exhaustion of rights of goods to services.<sup>7</sup> It is also interesting to note that the FAPL could not object to the screening of Premier League matches in a pub, according to the AG. The AG found that the transmission of copyright works by satellite, free of charge, to a public present at the place where the communication originates (on the screen) did not constitute a communication to the public.<sup>8</sup>

### C. The ECJ's Reasoning

The ECJ firstly considered the questions in relation to the reception of encrypted broadcasts from other Member States, and secondly addressed the questions that came up with regard to the use of the broadcasts once they are received.

#### *I. Free Movement of Services*

The ECJ recognized that the principle of free movement of services not only applies to providers of services, but also to recipients. Those recipients of encrypted services are *de*

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concern actions related to the use of illicit devices. They cannot therefore, apply to other actions, such as the use of lawful devices without respect for territorial restrictions.

<sup>6</sup> Opinion of Advocate General Kokott in joined cases C-403/08 and C-429/08, *FA Premier League v. QC leisure*, Opinion of 3 February 2011, not yet reported, at para. 192.

<sup>7</sup> In *Coditel I* the ECJ held that the doctrine of exhaustion does not apply to the right to perform or show a copyright work in public where the specific subject matter of the right allows the owner to control each and every use, since it is through charging for each use that the essential function of the right is achieved (see *Coditel I*, paras. 12-13).

<sup>8</sup> Opinion of Advocate General Kokott in joined cases C-403/08 and C-429/08, *FA Premier League v. QC leisure*, at paras. 144-147.

*facto* completely deprived of the right to receive broadcasting services originating in other Member States, according to the ECJ. This restriction on the freedom to provide services can only be justified by overriding reasons relating to the public interest that consist of the protection of intellectual property rights. The question therefore, is whether the Premier League matches benefit from copyright protection. In the ECJ's opinion, whereas the opening sequence, the Premier League anthem, pre-recorded films and graphics enjoy copyright protection, the Premier League matches themselves do not constitute works within the meaning of the Copyright Directive.<sup>9</sup> Nevertheless, the ECJ pointed out that national legislation that confers protection on sporting events,<sup>10</sup> by virtue of protection of intellectual property, could also justify the restriction provided that it is suitable and necessary.<sup>11</sup>

The ECJ acknowledged that the specific subject matter of an intellectual property right is to ensure the commercial exploitation of the protected work by the grant of licenses in return for payment of remuneration. In the ECJ's opinion, FAPL should receive remuneration that is reasonable in relation to the actual and potential audience (both in the Member State of broadcast and in any other Member State where the broadcast is received) and the language version. Importantly, the ECJ noted that due to the use of decoding devices, FAPL could precisely determine the actual and potential audience on which the license income will be based.<sup>12</sup>

The ECJ subsequently dismissed the justification put forward by FAPL that its license income would be jeopardized because of the reduction in value of its rights due to the loss of territorial exclusivity. Without using the exhaustion doctrine, as the AG did, the ECJ reasoned that although a premium may be paid for the territorial exclusivity of the licenses, this should never result in artificial price differences between the partitioned markets that are irreconcilable with the completion of the internal market. In this connection, the premium that is paid to FAPL in order to guarantee absolute territorial exclusivity goes beyond what is necessary in order to ensure appropriate remuneration.<sup>13</sup>

The ECJ also emphasized that *Coditel I* cannot be relied upon by FAPL and others in support of their arguments because the circumstances differed substantially. In *Coditel I*, the Belgium cable television broadcasting company Coditel communicated a work to the public

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<sup>9</sup> Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001, on the harmonization of certain aspects of copyright and related rights in the information society, 2001 O.J. (L 167) 10.

<sup>10</sup> Some countries do recognize a recorded sports event as a work under national copyright law.

<sup>11</sup> See Karen Murphy, *supra* note 1, at paras. 85-105.

<sup>12</sup> *Id.* at paras. 106-113.

<sup>13</sup> *Id.* at paras. 114-116.

without having an authorization in Germany, where the communication originated, from the right holder Cine Vog and without having paid any remuneration to Cine Vog. By contrast, the Greek broadcaster was authorized by the FAPL to communicate the broadcast to the public and had also paid remuneration.<sup>14</sup>

The ECJ thus held that the clause contained in an exclusive license agreement that prevents broadcasters from supplying decoder cards to non-residents is contrary to Article 56 of the Treaty on the Functioning of the European Union (TFEU).<sup>15</sup>

### *II. Competition*

The ECJ recalled that the actual grant of an exclusive license to broadcast sport matches, and consequently to prohibit their transmission by others, would not be anticompetitive per se. However, where the exercise of those rights results in partitioning national markets or makes the interpenetration of markets more difficult, the agreement will be caught by Article 101 of the TFEU, unless there are other circumstances within the economic and legal context that justify this finding.<sup>16</sup> The ECJ held that the clause prohibiting broadcasters from effecting any cross-border provision of services, which effectively grants each broadcaster absolute territorial exclusivity, and also eliminates competition between Member States.<sup>17</sup>

Since no justifying circumstance within the economic and legal context had been put forward by FAPL, and because the requirements in Article 101(3) of the TFEU had also not been met, the ECJ ruled that the contractual clause constitutes a restriction on competition prohibited by Article 101 of the TFEU.<sup>18</sup>

### *III. Reproduction and Communication to the Public*

In its second part of the lengthy judgment, the ECJ considered whether the reception of the broadcasts containing Premier League matches and the associated works (the opening sequence, the Premier League anthem, pre-recorded films and graphics) qualifies as an act of reproduction that can be prohibited by the right holder. The ECJ confirmed that acts of

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<sup>14</sup> *Id.* at paras. 119-120.

<sup>15</sup> *Id.* at para. 117.

<sup>16</sup> See also Case C-262/81, *Coditel SA v. Cine Vog Films SA*, 1982 E.C.R. I-3381, at para. 15.

<sup>17</sup> See Karen Murphy, *supra* note 1, at paras. 135-142.

<sup>18</sup> *Id.* at paras. 143-146.

reproduction are performed in the memory of a satellite decoder card and on a television screen. However, in the ECJ's opinion, those acts do not need the authorization of the copyright holder concerned since they are temporary and do not have an independent economic significance.<sup>19</sup>

The ECJ subsequently addressed the question whether the showing of Premier League matches and associated works by pub owners in public requires FAPL's authorization. Contrary to the Opinion of the AG, the ECJ found that the public was not present at the place where the communication originated, the football stadium, and also considered relevant that the communication to the public was of a profit-making nature. Interestingly, the ECJ noted that the customers present at the pub constituted an additional public, which was not considered by the authors when they authorized the broadcasting of their works. The ECJ therefore held that the transmission of broadcasts to customers present in a pub constitutes a communication to the public which the right holder can object to, thus giving a broad interpretation to the concept of communication to the public.<sup>20</sup>

#### **D. Comments**

Like the AG's Opinion, this judgment has received a great deal of media attention, since it threatens the well-established practice of licensing broadcasts protected by copyright on an absolute territorial basis. Critics have argued that this approach taken by the AG and subsequently the ECJ, although with a slightly different reasoning, is not in line with the *Coditel I* decision and exhaustion rule.

##### *1. Exhaustion Doctrine Not Applicable*

Remarkably, the ECJ did not draw a parallel with the exhaustion doctrine in relation to the freedom of goods as the AG did in order to support her conclusion that the restriction to the free movement of services is not justified. The exhaustion doctrine essentially ensures that the right holder cannot invoke its exclusive right of distribution in order to prevent the free movement of goods within the internal market after having exercised it. An extension of this doctrine to copyright protected services would indeed be contrary to the Copyright Directive and its equivalent in international copyright law.<sup>21</sup> It follows from this Directive that only the distribution right is subject to exhaustion, and not the other exploitation

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<sup>19</sup> *Id.* at paras. 153-182.

<sup>20</sup> *Id.* at paras. 183-207.

<sup>21</sup> See Directive 2001/29/EC art. 3-4, 2001 O.J. (L167) 10; WIPO Copyright Treaty art. 6-7, Dec. 20, 1996.

rights, such as the right of communication or making available to the public.<sup>22</sup> This distribution right only applies to distribution through sale or otherwise of the original work or copies, which includes acts that entail a transfer of ownership of a tangible object.<sup>23</sup> In the case of provision of a service there is normally no object in which ownership is transferred, and the question of exhaustion therefore does not arise. The Copyright Directive thus clearly distinguishes between the distribution of copyright works which have been subject to fixation of physical media, and copyright works which are made available by means of a communication to the public, whether in the form of a broadcast, downloading or streaming.

Third parties, such as pub owners, therefore do need the authorization of the right holder concerned in order to communicate the copyright-protected work to the public even if the right holder already has communicated or made available this work within the EU. Otherwise, the right holder would not receive a fair or proportionate reward for his rights because the work would be communicated to a “new” audience, for which the right holder has not been properly rewarded.<sup>24</sup> The Court used this concept of the specific subject matter of the copyright for balancing the interest of the copyright holders against those of free movement provisions. In this respect, it is settled case law that the existence of an intellectual property right is not affected by the free movement provisions, although the exercise of such rights, associated with its specific subject matter, could constitute a disguised restriction.<sup>25</sup> Such a restriction on the free movement of services may be justified for the purpose of protecting this specific subject matter as long as they do not go beyond what is necessary.

## *II. Coditel Decision*

In this connection, the ECJ reasoned in *Coditel I* that the geographical limits were necessary for the right holder Cine Vog in order to receive a fair or proportionate reward for its exclusive rights, which would have been dependent on the number of actual or potential showings of the film in a cinema and the authorization of the television showing with a

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<sup>22</sup> Rental and lending rights cannot be exhausted either. See Council Directive 92/100/ECC art. 1, Nov. 19, 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, 1992 O.J. (L346) 61; Case C-158/86, Warner Brothers v. Christiansen, 1988 E.C.R. I-2605; Case C-61/97, Egmont Film, 1998 E.C.R. I-5171; Case C-200/96, Metronome v. Music Point, 1998 E.C.R. I-1953.

<sup>23</sup> Case C-456/06, Peek & Cloppenburg KG v. Cassina SpA, 2008 E.C.R. I-02731, at para. 36.

<sup>24</sup> See Cases C-431/09 and C-432/09, Airfield NV v. Sabam, Judgment of 13 October 2011, not yet reported, at paras. 75-77.

<sup>25</sup> Case 87/70, Deutsche Grammophon, 1971 E.C.R. I-487, at para. 6. See also Case C-51/75, EME Records, 1976 E.C.R. I-811, at para. 27; Case 258/78, Nungesser, 1982 E.C.R. I-2015, at para. 28; Case 102/77, Hoffmann-la Roche, 1978 E.C.R. I-1139, at para. 6; Case 58/80, Dansk supermarket, 1981 E.C.R. I-181, at para. 11.

certain delay.<sup>26</sup> This retransmission of the film on Belgian television would nowadays also be regarded as an unauthorized communication to the public for which the right holder should have been rewarded.<sup>27</sup> By contrast, in the case at hand the partitioning of the internal market is not intended to protect any other form of exploitation of the sporting events as the AG rightly noted.<sup>28</sup> More importantly, the actual and potential audience can be easily taken into account due to the use of decoding cards so that the right holder is already appropriately rewarded when it licenses its rights. Moreover, the difference here is not that a broadcaster picks up the signal and transmits it to a “new” public in a country outside the licensed territory, but a viewer that has made the requisite payment in order to receive the encrypted broadcast service. Whereas in *Coditel I* the restriction was necessary in order to exercise the exclusive right associated with its specific subject matter, the ECJ now rightly argued that the exercise of the exclusive rights creates artificial barriers to trade between Member States that cannot be justified.

### *III. Legalization of the Grey Market*

Since *Coditel I* – where television was organized in the Member States on the basis of legal broadcasting monopolies – the broadcasting market has changed considerably: Territorial barriers no longer coincide with technical barriers, since the satellite footprint encompasses several Member States. This was acknowledged with the incorporation of the country-of-origin principle in the Satellite and Cable Directive, which established the concept that a given national copyright contained in an exclusive license is to be extended to the Community’s territory in its entirety. As such, broadcaster B does not need a different license to broadcast in country A, since B has already obtained one in the country where the signal was transmitted into the air. Although parties remain free to contractually agree on the use of decoding devices in order to avoid reception by the general public, right holders cannot prevent the reception of those program-carrying signals in countries for which the broadcast is not intended. After all, the reception and subsequent decryption of a broadcast service is not covered by the right of communication or making available to the public, nor does it qualify as an act of reproduction, and cannot therefore be prevented by the right holder.

The Commission has also highlighted for many years the problem of the grey market that existed due to the practice of licensing broadcasting rights on an absolute territorial basis.

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<sup>26</sup> See *Coditel I*, at para. 13.

<sup>27</sup> The exclusive right of cable retransmission has now been codified in Council Directive art. 8, 27 Sept. 1993, 93/83/EEC on the coordination of certain rules concerning copyright applicable to satellite broadcasting and cable retransmission 1993 O.J. (L248) 15.

<sup>28</sup> Opinion of Advocate General Kokott in joined cases C-403/08 and C-429/08, *FA Premier League v. QC leisure*, at para. 197.

On numerous occasions it has called upon right holders to provide non-resident subscribers access to broadcast services with subtitles or commentaries in their own language, while underlining the importance of cross-border provision of broadcasting services through satellites in cultural and social terms.<sup>29</sup> According to the Commission, this would require a flexible approach to the sale of broadcasting rights and, consequently, legalization of the grey market.<sup>30</sup> The broadcasters did not respond to this request, because they also generate income from the grey market.<sup>31</sup> Hence, it seems that the grey market does not threaten the exclusivity of the content acquired by broadcasters, since this market mainly exists due to cultural and linguistic diversity across Europe.

### E. Implications

Whereas the Commission has been hinting at the development of different alternative contractual solutions and licensing mechanisms for almost a decade, the ECJ has now followed this approach and finally confirmed the message contained in the Satellite and Cable Directive.<sup>32</sup> It thus seems that we are moving beyond a purely national approach towards licensing on an EU-wide scale.<sup>33</sup> As such, this judgment may change the current licensing practice in relation to premium content transmitted by satellite pay TV services. Besides premium content transmitted by satellite, the judgment may also impact business models used in order to disseminate on-line services, on which geographical restrictions are placed in order to prevent access by foreign users.

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<sup>29</sup> See the Communication from the Commission on the application of the general principles of free movement and goods and services, articles 28 and 49 EC, concerning the use of satellite dishes, COM (2001) 351 final, available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2001:0351:FIN:EN:PDF> (last accessed: 23 December 2011).

<sup>30</sup> See the Second Report from the Commission on the implementation of Directive 98/84/EC of the European Parliament and of the Council of 20 November 1998 on the legal protection of services based on, or consisting of, conditional access, COM (2008) 593 final, available at: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!DocNumber&lg=en&type\\_doc=COMfinal&an\\_doc=2008&nu\\_doc=593](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=en&type_doc=COMfinal&an_doc=2008&nu_doc=593) (last accessed: 23 December 2011).

<sup>31</sup> In this context, the broadcaster BSkyB has decided not to join FAPL's action before the British courts, although it the main victim of the contested practice. Most likely, the losses caused by the defendants are incomparable to BSkyB's gains from the hundreds of thousands of "grey" individual subscriptions acquired throughout Europe.

<sup>32</sup> The Commission had already admitted in its report on the implementation of the Cable and Satellite Directive that the application by Member States was not in line with the country-of-origin principle. *Report from the European Commission on the application of Council Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission*, COM (2002) 430 final.

<sup>33</sup> In this context, Michel Barnier, EU commissioner for the internal market, has expressed that the judgment will not *oblige* right holders to grant single pan-EU licenses. Association of Commercial Television in Europe (ACT), "Creation, Consumers and Competitiveness" annual conference in Brussels, 9 November 2011.

While the judgment did not expressly prohibit FAPL from continuing to sell its rights on an exclusive territorial basis and charging different prices accordingly, guaranteeing absolute territorial exclusivity has become more difficult, which could lead to a reduction in the value of FAPL's rights. If the FAPL were to choose to sell its rights on a pan-European basis, this would most likely lead to more expensive licenses and fewer broadcasters being able to acquire those rights. Therefore, it seems more plausible that FAPL will continue to sell its right on a country-by-country basis, while charging different prices based on the numbers of decoding cards used, as the ECJ proposed. FAPL could also follow the AG's suggestion and include different language versions of the commentary in order to legitimately price discriminate along national borders. Whichever way you look at it, it is to be expected that subscription prices will go up for Greek customers. The objective of the Commission that non-residents should be able to receive premium content in their own native language has thus been achieved, even though the price to be paid for it may be very high.

And has Karen Murphy reached her goal? Unfortunately, the English pub owner may still need the authorization of the FAPL in order to screen the live sporting matches so as not to infringe FAPL's copyrights in the matches. For the moment, until the existing Premier League contracts end, it is only the viewers that can benefit by legitimately using foreign decoder cards in order to watch football matches more cheaply.