THE "PAY-TV" CASE: AN ATTEMPT TO REFORM EU COPYRIGHT LAW THROUGH COMPETITION ENFORCEMENT?

Marco Lo Bue[1]

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1. INTRODUCTION

When the debate comes to the interplay between intellectual property and competition law, everyone's thoughts are likely to head to the long-lasting debate around the licensing of standard-essential patents ("SEPs") or to the abusive conducts of patentees in the pharmaceutical sector and their "pay for delay" strategies directed to expand the temporal scope of their exclusive rights.

Nonetheless, one of the most interesting investigations currently carried out by the European Commission at the intersection between IP and antitrust does not involve patents, but it is about copyright law.[2] In this case, better known as "*Cross-border access to pay-TV*" ("the *Pay-tv* case"), the Commission has to assess whether some clauses contained in the licensing agreements between the major US film producers and certain European pay-tv broadcasters are anticompetitive. More specifically, the provisions under exam grant to each licensee territorial exclusivity on a country-by-country basis and restrict the licensee's ability to accept unsolicited requests for its pay-TV services from consumers located in other Member States outside the territorial scope of the license. This provision is viewed by the Commission as a restriction of passive sales and, therefore, as an hardcore restriction of competition law.

The final decision, which will be adopted soon, is going to have a significant impact not only on the copyright industry but on the entire case law of the European Commission, regarding vertical agreements and restriction of passive sales. However, the approach followed by the Commission so far raises some concerns on the consistency of the investigation for the following reasons:

i) the Commission seems to have misread the CJEU's case law on which its allegations are grounded;

ii) the way the Commission has interpreted the parties' conducts from an antitrust perspective does not take into account the applicable copyright regulatory framework;

iii) the fact that the Commission has accepted the commitments submitted by one of the US film studios involved in the investigation implies that the conducts under exam are not anticompetitive by-object.

[1] Lawyer.

[2] See European Commission, AT.40023, *Cross-border access to pay-TV*.

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2. Background

2.1 The legislative framework applicable to the case

In general, article 101(1) of the Treaty on the Functioning of the European Union ("TFEU") prohibit all the agreements between undertakings which have as their object or effect the prevention, restriction or distortion of competition within the internal market. This applies both to horizontal and vertical agreements.

The latters are further regulated by the so called "Block Exemption Regulation", which grants a safe harbour from antitrust public enforcement - under article 101(3) TFEU - to vertical agreements fulfilling certain conditions.[3] More in detail, the Block Exemption Regulation exempts from the application of article 101(1) TFEU vertical agreements on condition that the market shares held by both the supplier and the buyer on their respective relevant market do not exceed 30%.

Having said that, the Regulation identifies some hardcore restrictions which do not enjoy the exemption, including the award of "absolute territorial protection" to licensees. In this regard, it has to be clarified that while plain territorial exclusivity is generally exempted, the grant of such privilege entails an hardcore restriction when the contract prevents the licensee not only from active sales outside its assigned area but also from those sales made in response to unsolicited requests from individual customers (so called "passive sales").[4] The idea of the EU Legislator is to avoid that partitioning the market in accordance with national borders eliminates all competition between resellers.

Moving to the relevant copyright law provisions which come at stake in this proceedings, the right of communication to the public of online content is regulated by the Information Society Directive ("InfoSoc Directive").[5] According to this Directive, the owner of the contents has the exclusive right to authorise or prohibit any communication to the public of its works, by wire or wireless means.[6] As copyright law has not experienced full harmonisation in the EU so far, its applicability has remained national in scope and each country has its own rules. The territoriality of copyright is a fundamental principle arising from the Berne Convention and recognised under EU law as a consequence of the fact that all EU Member States have signed the Berne Convention and compliance with its dispositions is now obligatory before accession.[7] Worthy to note, the right of

[3] European Commission, Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices, article 2 ("Block Exemption Regulation").

[4] *Id.* at article 4(b).

[5] Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ L 167 , 22/06/2001 P. 10 - 19, ("Infosoc Directive").

[6] *Id.* at recital 23.

[7] The territoriality of copyright and related rights was declared by Article 5 of the Berne Convention. The

communication to the public is not subject to exhaustion. This means that unlike the cases where intellectual property is incorporated in a material medium (i.e.: a cd-rom), every on-line service is an act which should be subject to authorisation when covered by copyright.

Conversely, satellite broadcasting is regulated by the Satellite and Cable Directive ("SatCab Directive"), which applies the "country of origin" principle.[8] According to article 1(2)(b), rights are acquired for the EU country where, under the control and responsibility of the broadcasting organisation, the uplink (which sends the programme signal to the satellite for its communication to the public) takes place. Under this principle, rights cleared in one country allow the broadcasting organisations to broadcast to the entire territory of the EU.

2.2 The investigation launched by the Commission

On 13 January 2014, the European Commission opened formal antitrust proceedings to examine certain provisions in licensing agreements between several major US film producers (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal, Paramount Pictures) and the largest European pay-tv broadcasters. In July 2015 the Commission refined the investigation and delivered formal antitrust charges to the US film producers and Sky UK over the use of contractual clause that may have limited content distribution across the EU.

The provisions under exam grant to the pay-tv broadcasters territorial exclusivity on a Country-by-Country basis in the EU and impose to them a restriction on passive sales outside their exclusive territory. This applies with regard to transmission both via satellite and online.

More in detail, these clauses:

i) prohibit or limit the licensee from making its retail pay-tv services available in response to unsolicited requests from consumers residing or located in the European Economic Area ("EEA") but outside the territory of the Member State for which the licensee has an exclusive licence ("licensee's obligation");

ii) require the licensor to prohibit or limit licensees located within the EEA from making their retail pay-tv services available in response to unsolicited requests from consumers residing or located in the territories where other exclusive licensees have been appointed ("licensor's obligation").

Therefore, the aim of the investigation was to assess whether these contractual clauses prevent broadcasters from providing their services across borders, for example by refusing potential subscribers from other Member States or blocking cross-border access to their services. In the Commission's view, this conduct would amount to a vertical

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CJEU confirmed it as a core principle of the EU copyright law. In this regard see CJEU, *Lagardère Active Broadcast*, 14 July 2005 (C-192/04), paragraph 46.

[8] Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, OJ L 248, 6.10.1993, p. 15–21 ("SatCab Directive").

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anticompetitive agreement in breach of art. 101 TFEU as interpreted under the Guidelines on Vertical Restraints.[9]

During the investigation, one of the US film studios involved in the proceedings, Paramount, submitted a set of commitments in order to meet the Commission's concerns. More specifically, Paramount committed itself not to enter into, renew or extend a contract which restricts passive sales by licensees and obliges Paramount to enforce this provision.

With regard to the existing contracts still in force between Paramount and Sky UK - until their expiry date - Paramount committed itself not to initiate proceedings before a court or tribunal against passive sales made by licensees.

2.3 The commitments submitted by Paramount

On 26 July 2016, the Commission accepted Paramount's commitments. In its remarks on the contractual clauses under exam, the Commission explained that granting to a sole licensee the exclusive right to broadcast in a particular Member State does not give rise in itself to antitrust concerns. In this respect, the Commission did not question the right of the copyright-holder to protect and exploit commercially the protected subject-matter throughout licensing in exchange for payment of royalties. However, when licensor and licensee agree that the latter has to drop unsolicited requests from consumers located outside the territorial scope of the license, that conduct will amount to a restriction of cross-border passive sales and is deemed to be an hardcore restriction under the block exemption regulation, as it provides the broadcaster with absolute territorial protection.[10] In the view of the Commission, such an interpretation does not harm the economic rationale of copyright, which consists in providing authors of protected contents with an exclusive right of exploitation. Indeed, the Copyright Directive recognizes the right-holder's right to demand not the highest possible remuneration, but only "appropriate remuneration", to be determined on the basis of actual and potential audience.[11] This concept of "appropriate remuneration", according to the Commission, is not supposed to include the premium for absolute territorial protection.

3. Analysis

3.1 The Commission seems to have misread CJEU's case law

In assessing Paramount's conduct and undertakings, the Commission expressly used

[9] European Commission, Guidelines on Vertical Restraints, 19 May 2010, OJ C 130/01.

[10] See Block Exemption Regulation, paragraph 51.

[11] See InfoSoc Directive, paragraph 10. With regard to the criteria used to determine the remuneration, reference is made by the Commission to CJEU, *Football Association Premier League and Other* (*"Premier League"*), 4 October 2011 (Joined Cases C-403/08 and C-429/08) paragraph. 110.

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as a reference *Consten-Grundig*.[12] In this case, Grundig, a German manufacturer of consumer electronics, intended to distribute its goods in France and appointed Consten as the sole distributor, providing it with absolute territorial protection. In order to understand how the Commission interpreted this judgment, it is important to mention that, for the purpose of distribution of Grundig products, Consten was authorized to register in France, in its own name, the trademark GINT (Grundig International) which was carried on all appliances manufactured by Grundig. In return, Consten undertook to transfer to Grundig, as soon as it would have ceased to be the sole distributor, the ownership of the above mark with all the rights attached to it, or to cancel its registration. In its final decision on the case, the CJEU asserted that an agreement between producer and distributor which might tend to restore the national divisions in trade between Member States might be such as to frustrate the most fundamental objectives of the Community.[13]

Now, in its statement of objections in the pay-tv case, the Commission considers the trademark assignment occurred in Grundig and the copyright licensing agreements at stake today equivalent situations as to their impact on competition. Indeed, the Commission stresses the fact that Grundig provided Consten with absolute territorial protection by means of an authorisation to register the "GINT" trademark in Consten's own name, as well as US film studios provided European broadcasters with absolute territorial protection by means of a copyright license agreement occurred under national copyright law. In other words, the Commission tries to assimilate the two cases using intellectual property rights as a highest common denominator.

However, the strategy studied by the Commission seems to be weak, as it is inconsistent with *Coditel II*, where the CJEU ruled in response to the Belgian *Cour de Cassation*'s question on whether EU competition law allowed a *"company which is the proprietor of the rights of exploitation of a cinematographic film"* to grant to a company in another Member State an exclusive right to show that film in that State for a specified period.[14]

In its ruling, the CJEU answered in the affirmative, explaining that, in general, quantitative restrictions on imports and exports between Member States are allowed, on an exceptional basis, under article 36 of the Treaty (today TFEU) in order to protect industrial and commercial property.[15] This holds particularly true for the cinematographic industry, since *"the film belongs to the category of literary and artistic works made available to the public by performances which may be infinitely repeated and the commercial*

[12] CJEU, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission ("Consten-Grundig")*, 13 July 1966 (Joined Cases 56/64 and 58/64).

[13] *Id.* at paragraph 8.

[14] CJEU, *Coditel v Cine-Vog ("Coditel II")*, 6 October 1982 (C-262/81), paragraph 8.

[15] *Id.* at paragraph 10.

exploitation of which comes under the movement of services".[16]

As is clear from the above, the legal matters at issue in *Coditel II* are different from the ones discussed in *Consten-Grundig*. Indeed, while *Consten-Grundig* has to do with the distribution of physical goods (i.e.: electronics goods), *Coditel II* deals with intangible property, namely the film producer's right to make his movie available to the public.

Hence, in light of the different outcomes delivered by the CJEU in *Consten-Grundig* and *Coditel II*, it appears that absolute territorial protection cannot be granted with regard to physical goods which are not covered by copyright, while it is allowed in respect of immaterial works covered by copyright. This conclusion is justified by the circumstance that *"the right of the owner of the copyright in a film and his capacity of require fees for any showing of that film is part of the essential function of copyright"*.[17] In other words, in absence of absolute territorial protection the licensee would not be able to enjoy its right and prevent third parties from broadcasting the film in its territory, so losing the remuneration that, as stated above, is the essential function of copyright.

Therefore, the characteristics of the cinematographic industry and, in particular, the repeatability of the performance seem to justify the grant of absolute territorial protection for a certain period to the licensees under EU competition law.

The Commission, however, does not seem to have taken this conclusion in due account in the pay-tv case.

The Commission's arguments in the pay tv case widely rely also on the CJEU's decision in *Premier League*, which is a controversial reference too. Indeed, in *Premier League*, the question raised by the referring court was whether the clauses of an exclusive licence agreement concluded between an IP holder and a broadcaster obliging the latter not to supply decoding devices giving access to the protected subject-matter outside the territory covered by the licence agreement constituted a restriction on competition under Article 101 TFEU.[18] In *Premier League*, therefore, the issue at stake was different from the one under discussion in the on-going pay-tv case. Indeed, the actual grant of exclusive licences for the broadcasting of Premier League matches was not called into question, as the legal issue concerned only the additional obligations designed to ensure compliance with the territorial limitations, namely the obligation on the broadcasters not to supply decoding devices outside their exclusive territory.[19]

In its decision, the CJEU concluded that the IP-holder cannot prevent the broadcaster from supplying decoding devices enabling access to the protected subject-matter with a view to their use outside the territory covered by that licence agreement. However, it expressly

[16] *Id.* at paragraph 11.

[17] *Id.* at paragraph 12.

[18] See *supra,* footnote 10, CJEU, *Premier League,* paragraph 134.

[19] *Id.* at paragraph 141.

confirmed *Coditel II*'s conclusion according to which granting absolute territorial protection in respect of IP rights during a specified period is not anti-competitive per se.[20]

In conclusion, it seems that the Commission, in the *Pay-tv* case, relied on precedents which do not match with the features of the film industry. Indeed, *Consten-Grundig* dealt with the distribution of physical goods with an irrelevant reference to trademark law while *Premier League* concerned the broadcasters' obligation not to supply decoding devices (no IP rights) outside their exclusive territory. On the other side, *Coditel II* appears applicable to the vertical agreements existing between US film studios and European broadcasters, as the judgment dealt with the film producer's right to make its movies available to the public, but its conclusions - according to which the clause of a licensing agreement granting absolute territorial protection on a Country-by-Country basis was legal under competition law - were overlooked by the Commission.

3.2 The Commission's legal reasoning appears inconsistent with the EU copyright regulatory framework

When dealing with copyright-related issues, competition authorities have to take into account the applicable copyright regulatory framework. In the *Pay-tv* case, the licensing agreements signed by US film studios and European broadcasters regarded two categories of services, online pay-tv and satellite pay-tv, which are covered by different sets of legislation illustrated above. In both cases, however, the right licensed out by the studios was the right of communication to the public.

For what concerns the Communication to the public of online contents, as this field of copyright law has not experienced full harmonisation in the EU so far, its applicability has remained national in scope and each country has its own rules. As a consequence, online content providers generally acquire licenses from the right holders on a national basis in order to offer their services in compliance with copyright law in every single country. Therefore, the rule to apply to the diffusion of online contents is "one Member State, one license", and under the current regulatory framework there is no chance for the licensee to broadcast the contents licensed outside the geographic scope of the license itself.

Worthy to note, the right of communication to the public is not subject to exhaustion. This means that unlike the cases where intellectual property is incorporated in a material medium (i.e.: a cd-rom), every on-line service is an act which should be subject to authorisation when covered by copyright.

Having said that, in light of the above regulatory framework applicable to the communication to the public of online contents, the copyright holders are free to partition the market by licensing out their rights to exclusive licensees on a country-by-country basis. Therefore, even if the US film

[20] *Id.* at paragraph 143. Indeed, as allowed by Article 1(2)(b) of the Satellite Broadcasting Directive, a right holder may in principle grant to a sole licensee the exclusive right to broadcast protected subject-matter by satellite, during a specified period, from a single Member State of broadcast or from a number of Member States.

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studios were not to contractually prevent each licensee from accepting unsolicited requests for its pay-TV services from consumers located in other Member States, the exclusive licensees located therein might have brought an action for copyright infringement.

Conversely, satellite broadcasting is regulated by the Satellite and Cable Directive ("SatCab"), which applies the "country of origin" principle. Under this principle, rights cleared in one country allow the broadcasting organisations to broadcast to the entire territory of the EU. In other words, a broadcasting organisation will need to acquire licences only from right holders in the Member State of origin of the satellite signal. According to recital 17 of the Directive, licensing fees will have to be assessed on the basis of all aspects of the broadcast, such as the actual audience, the potential audience and the language version.

Therefore, differently from the online world, a European single market for satellite broadcasting already exists and only the law of the country of origin applies. As a consequence, EU copyright law already allows licensing agreements on an EU-wide basis under the "country of origin" principle, irrespective of the application of competition law. Any breach of copyright rules can be enforced by means of civil lawsuits.

Hence, the reasons of the investigation launched by the European Commission might be found elsewhere than within the borders of competition policy. In this regard, it has to be recalled that one of the main political goals pursued by the Commission from the begin of its mandate has been the reform of copyright rules, in order to eliminate national barriers with regard to the access to online contents and to fight against geo-blocking.

In this regard, the Commission submitted in September 2016 a proposal for a Regulation envisioning an extension to online broadcasts of the "country of origin" principle applied to satellite and cable broadcasters.[21] However, this plan has bumped into movie producers' traditional business model which is based on licensing copyright on a national basis. Following this model, distributors pay producers upfront in exchange for an exclusive right to distribute the film in a specific territory during a certain period. This model allows producers to dispose of enough cash in advance for shooting purpose and for making the business profitable. Should the possibility to license on a territorial basis be eliminated, not only the majors, but especially independent producers would struggle, with cultural diversity being severely harmed. Indeed, broadcasters would have to pay enormous sums to get EU-wide licenses for the most marketable movies, remaining with fewer resources than today to finance independent film-makers. This is particularly true for the European market, which is more fragmented in terms of language, culture and local preferences, leading to higher costs along the distribution chain.

[21] Proposal for a Regulation of the European Parliament and of the Council laying down rules on the exercise of copyright and related rights applicable to certain online transmissions of broadcasting organisations and retransmissions of television and radio programmes, COM/2016/0594 - 2016/0284 (COD).

Producers fought fiercely to have the reform rejected, or at least limited in scope, and finally made it. On December 2017, the EU Parliament watered down the initial proposal and decided that the "country of origin" principle in relation to right clearance for online services should apply only to news and current affairs programs.

Nevertheless, a final decision from the Commission on the *Pay-tv* case is yet to come. In principle, one might expect a non-infringement decision or one which exempts absolute territorial protection in light of the efficiencies arising from territorial licensing (both for the distribution-chain and consumers). However, in consideration of the time and efforts dedicated to this investigation and of the political objectives still pursued by the Commission, a manoeuvre which turns upside-down the negative outcome of the copyright reform cannot be excluded.

The *Pay-tv* case might still result in an attempt to overcome geo-blocking and the territoriality of copyright by means of an antitrust investigation which aims to outlaw "copyright-compliant" licenses for the transmission of online contents assigned on a national basis. However, the Commission seems to forget that the right of communication to the public is not subject to exhaustion and that the copyright of contents broadcasted on the internet remains upon their owner also after the transmission.[22][23]

It remains to be seen whether the Commission will succeed in limiting the scope of copyright on online contents through competition law, but this would be a new development since the CJEU's has always stated that EU competition law can only limit the exercise of IP rights, not their existence, while in this case the Commission seems to question the existence itself of the right of communication to the public.[24]

3.3 The consequence of the acceptance by the Commission of Paramount's commitments

The weakness of the on-going investigation is showed also by the circumstance that the Commission accepted the commitments submitted by Paramount, one of the US film studios involved in the investigation. Since under Regulation 1/2003 EC commitment decisions are not appropriate in cases where the Commission intends to impose a fine, the acceptance of Paramount's commitments implies that the conducts under exam are not considered serious breaches of competition law by the Commission.

This circumstance leads the audience to envisage an outcome for the pay-tv investigation similar to the one occurred in two past cases regarding standard-essential patents

22 See https://www.reuters.com/article/us-eu-copyright/sports-sector-wins-reprieve-in-eu-copyright-reform-idUSKBN1E92H8.

23 See InfoSoc Directive, art. 3.

24 See Ioannis Lianos, Competition Law and Intellectual Property (IP) Rights: Analysis, Cases and Materials (October 30, 2016). Chapter 13 in Ioannis Lianos & Valentine Korah with Paolo Siciliani, Competition Law (Hart Pub. 2017 Forthcoming). Available at SSRN: https://ssrn.com/abstract=2863814 or http://dx.doi.org/10.2139/ssrn.2863814

dating back to 2014, when the Commission accepted the commitments presented by Samsung and refrained from issuing a fine against Motorola in the parallel proceedings, limiting itself to declaring an infringement.[25]

Having said that, a decision from the Commission which declares the vertical agreements at issue today illegal under art. 101(1) TFEU would remain inconsistent with the above-described copyright regulatory framework. In this regard, it needs to be stressed preliminary that a broadcaster is unlikely to breach the copyright exclusively assigned to other licensees in other territories, since this move would undermine its position before the licensor in view of the future auctions. However, assuming that a broadcaster is willing to run the risk and respond to unsolicited requests coming from other territories, exclusive licensees in those territories will probably bring an action for breach of copyright, irrespective of how the Commission interprets article 101(1) in this case.

4. CONCLUSIONS

The Commission is trying to overcome geo-blocking and the territoriality of copyright by means of an antitrust investigation which aims to outlaw "copyright-compliant" licenses for the transmission of online contents assigned on a national basis.

This approach was confirmed also by the recent Commission's Final report on the E-commerce Sector Inquiry, where it pointed out that *"exclusive licensing on a territorial basis does not raise a competition concern in and of itself. However, when coupled with contractual restrictions on cross-border passive sales, it might be detrimental to competition"*.

Nevertheless, the Commission in the final report seems to soften its language, as it expressly points out that any assessment of these licensing practices under EU competition rules would have to take into account the characteristics of the content industry, the legal and economic context of the licensing practice and the characteristics of the relevant product and geographic markets. It does not seem to me that these features have been considered by the Commission from what can be read in the few official documents made public in relation to the investigation. However, there is still time for the Commission to avoid making an obvious mistake. The reform of EU copyright law cannot be made by means of antitrust enforcement.

[25] See EU Commission, Samsung – Enforcement of UMTS Standard Essential Patents, 39939, 29 April 2014; EU Commission, Motorola - Enforcement of GPRS standard essential patents, 39985, 29 April 2014. On this ruling, see Marco Lo Bue, The Commission Decisions on Samsung and Motorola: The Antitrust Effects of Licensing 'SEPs' (July 1, 2015). Italian Antitrust Review. Vol. 2, No. 1 (2015). Available at SSRN: https://ssrn.com/abstract=2630045.