

Exclusive Territorial Licensing of Content Rights After the EU Premier League Judgments

BY JENINE HULSMANN

ONE OF THE DEFINING FEATURES of antitrust law in the European Union is the drive to create a single market within the EU. This has resulted in a variety of practices and measures being prohibited on the grounds that they are deemed to create impediments to trade between the Member States of the EU.

For the distribution of most goods and services, the impact of this single market imperative is relatively well defined and understood. For the distribution of copyright works, however, it has been less clear how far a rights holder may go in limiting the flow of content between Member States to maximize the value of this content. The linguistic and cultural diversity of the EU means that buyers and consumers may value a copyright work very differently from one territory to another, so that efficient exploitation of a work will require measures to limit the flow of content from low-value territories to those in which the work can command a higher price. Typically, these include contractual restrictions in the licensing arrangements, such as territorial exclusivity, as well as the active enforcement of national copyright laws.

A recent series of judgments of the High Court of England and Wales (High Court) and the European Court of Justice (ECJ) in actions brought by the Football Association Premier League (FAPL)—the leading professional league competition for football (soccer) clubs in England—has clarified the extent to which, consistent with EU antitrust, free movement,¹ and intellectual property laws, restrictions may be placed on the distribution and viewing of copyright works in the EU when those works are broadcast by satellite.

The cases confirm that, as a matter of European law, exclusive territorial licenses are permitted, regardless of the way in which content is distributed. However, they also highlight that in relation to satellite broadcast services, an absolute prohibition on the cross-border supply of satellite decoder cards (whether in national legislation or contract) will not be permitted under EU free movement or antitrust rules.

Instead, it appears that rights holders will be able to prohibit the active marketing and sales of such services,² but not passive sales in response to unsolicited requests from customers³ (subject to appropriate remuneration being paid to rights holders). This may involve some changes to the drafting of existing contractual provisions.

The impact of these cases outside the field of satellite broadcasting is currently unclear. Given the specific legislative framework for satellite broadcasting within the EU, the cases have no direct application to other broadcasting platforms or the Internet. However, there will be debate in the future as to whether this approach is the appropriate blueprint for the future harmonization of copyright on other broadcast platforms.

Facts of the *FAPL v. QC Leisure* Case

The rights of copyright holders in England and Wales are set out in the Copyright, Design and Patents Act 1988 (CDPA). Certain aspects of national copyright law have been harmonized across the EU by, inter alia, the Copyright Directive,⁴ the Satellite Broadcasting Directive,⁵ and the Conditional Access Directive,⁶ in accordance with the founding treaties of the EU and in particular the Treaty on the Functioning of the European Union (TFEU).⁷ However, copyright remains largely national. As such, to understand the judgments in *FAPL v. QC Leisure*, it is necessary to consider the way in which EU and English law have been applied to the facts of the case. In fact, the judgments relate to a number of different cases,⁸ each having a similar fact pattern, which in broad terms was as follows:

- a pub landlord in the UK purchased a satellite decoder card from a dealer and paid for a domestic (i.e. non-commercial) subscription to a pay television service;
- the decoder card allowed him or her to access pay television service provided by a Greek⁹ satellite broadcaster (using a false name and address in Greece);
- the Greek satellite broadcaster had a copyright license from the FAPL (which is subject to the Satellite Broadcasting Directive);
- the copyright license from the FAPL contained provisions

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that: (1) required the Greek satellite broadcaster to encrypt its broadcast signal; and (2) prohibited the Greek satellite broadcaster from authorizing or enabling any equipment that could be used to decrypt the signal so as to permit any person to view the transmission outside Greece;

- the pub landlord used the Greek decoder card and pay television service to allow customers in his or her pub to view Premier League soccer matches in the UK; and
- the price paid by the pub landlord for the Greek decoder card and subscription was substantially lower than the cost of a commercial subscription from the UK broadcaster that is licensed by FAPL.

The FAPL (or its agents) brought a number of claims against the pub landlord and/or the supplier of the Greek decoder cards in the English courts (the defendants).¹⁰ In broad terms,¹¹ the claims were that the defendants infringed the FAPL's copyright:

- by showing or playing the work in public contrary to Section 19 CDPA;
- by communicating the works to the public contrary to Section 20 CDPA;
- by creating copies of the works within the satellite decoder or television screen contrary to Section 17 CDPA; and/or
- by supply or using an illicit decoder card contrary to Section 298 CDPA.¹²

The FAPL claimed copyright in a large number of works falling into three categories:

- film (including, for example, opening sequence film, previous highlights film, match highlights film, match film (via action replays), clean live feed film, world feed film);
- artistic works, comprising various graphics, devices, and logos; and
- sound recordings of the Premier League anthem and the anthem as a musical work.

The existence of the copyright, and the FAPL's title to it, was largely accepted, although there were disputes regarding which of the works were actually broadcast as a matter of fact in each case.

In defending the claims, the Defendants argued that:

- there was no infringement of the CDPA based on a proper interpretation, taking into account EU copyright legislation; and
- the CDPA cannot be used to prohibit cross-border trade in decoder cards as this would be contrary to EU free movement and antitrust rules.

The defendants argued that the court should refer a number of questions on the interpretation of EU law to the ECJ for a preliminary ruling.¹³ The references were made by the English courts in June and July 2008. The procedure for a preliminary ruling is a lengthy one, and the ECJ handed down its judgment on October 4, 2011.¹⁴

Following this preliminary ruling on points of EU law, the cases were then returned to the English courts for a judgment on the facts. On February 3, 2012, the High Court handed down its judgment in *FAPL v. QC Leisure*. The High Court

held that the defendants had infringed the copyright of the FAPL by showing certain artistic works (e.g., the Premier League anthem) in public, but that—in line with the ECJ ruling—the Defendants had not created unlawful copies of the works within the satellite decoder or television screen and had not supplied or used an illicit decoder card.

The cases will now be transferred to the Patents County Court for an inquiry as to damages or an account as to profits. At the time of writing, it is unclear whether the FAPL will appeal to the English Court of Appeal and ultimately the Supreme Court.

Issues in the Case

Showing the Program to the Public. The question was whether by showing the Premier League matches in the pub, there was a breach by the landlord of the FAPL's copyright in the broadcast or anything included in the broadcast (e.g., film, the anthem, or graphics). Section 19 CDPA provides that:

- (1) The performance of the work in public is an act restricted by the copyright in a literary, dramatic or musical work.
- (2) "performance," in relation to a work—
 - (a) includes delivery in the case of lectures, addresses, speeches, and sermons, and
 - (b) in general, includes any mode of visual or acoustic presentation, including presentation by means of a sound recording, film or broadcast of the work.
- (3) The playing or showing of the work in public is an act restricted by the copyright in a sound recording, film or broadcast.
- (4) Where copyright in a work is infringed by its being performed, played or shown in public by means of apparatus for receiving visual images or sounds conveyed by electronic means, the person by whom the visual images or sounds are sent, and in the case of a performance the performers, shall not be regarded as responsible for the infringement.

It was common ground that there is copyright under English law in the broadcast of the relevant Premier League matches, as well as in certain works incorporated into the broadcast (e.g. film, anthem, and graphics).¹⁵ There is, however, a specific exemption in Section 72(1) CDPA which provides that:

The showing or playing in public of a broadcast to an audience who have not paid for admission to the place where the broadcast is to be seen or heard does not infringe any copyright in:

- (a) the broadcast;
- (b) any sound recording (except so far as it is an excepted sound recording) included in it; or
- (c) any film included in it.

As customers do not typically pay for admission to a pub, showing the Premier League match in the pub could not infringe the copyright in the broadcast or any film included in it.¹⁶ However, the High Court concluded that showing the matches did infringe copyright in the Premier League anthem (both as a sound recording and musical work). The defendants have offered to undertake not to play the Premier League anthem out loud. The High Court has stated that it is inclined to accept such an undertaking in lieu of an injunction.¹⁷ As a result of the judgment, it is likely that the Premier League will, in future, include additional copyright works (e.g., logos and music) in the broadcast to make it more difficult for pub landlords to show matches without infringing copyright.

Communication to the Public by Transmission of the Broadcast Works. The issue was whether transmitting the work from the pub's satellite dish to the public bar area and displaying the works on the pub's television screen and playing the sound through the television speakers amounted to a "communication to the public" that was separate from the satellite broadcast itself and that breached the FAPL's copyright under Section 20 CDPA. This section provides that:

- (1) The communication to the public of the work is an act restricted by the copyright in:
 - (a) a literary, dramatic, musical or artistic work,
 - (b) a sound recording or film, or
 - (c) a broadcast.
- (2) References . . . to communication to the public are to communication to the public by electronic transmission, and in relation to a work include:
 - (a) the broadcasting of the work;
 - (b) the making available to the public of the work by electronic transmission in such a way that members of the public may access it from a place and at a time individually chosen by them.

This issue of whether the transmission of works via a television screen and speakers to customers present in a pub is a "communication to the public" was referred to the ECJ. The ECJ concluded that it was a communication to the public (separate from the satellite broadcast) on the basis that:

- "communication" should be interpreted broadly as referring to any transmission of the broadcast works, irrespective of the technical means or process used;
- a pub landlord effects a communication when he or she intentionally transmits broadcast works via a television screen and speakers to the customers present in that establishment;
- the customers present in a pub constitute a "new" public, that is a public which was not taken into account by the authors of the protected works when they authorized the use of the protected works by their communication to

the original public (who are not present at the place where the communication originates); and

- the communication to the public in question is of a profit-making nature.¹⁸

On the basis of the ECJ judgment, the High Court concluded that the defendants had infringed FAPL's copyright contrary to Section 20 CDPA by communicating its works to a new public.¹⁹ The court then considered whether the exemption in Section 72(1) CDPA applied and concluded that it did. The showing or playing of a broadcast in a public house to members of the public who have not paid for admission does not therefore infringe any copyright in any film included in the broadcast.²⁰

However, as noted above, the High Court concluded that showing the matches infringed the copyright in the Premier League anthem (both as a sound recording and musical work). This also amounted to a breach of Section 20 CDPA. The High Court stated that, with respect to this breach, it was inclined to accept the same undertaking in lieu of an injunction as was offered with respect to the breach of Section 19 CDPA (as discussed above).²¹

Creation of Transient Copies in the Memory of the Decoder and/or Television. The question was whether the reproduction of each frame of the video stream within the memory of the pub's decoder equipment and television screen was a reproduction contrary to Section 17 CDPA. This provides that:

- (1) The copying of the work is an act restricted by the copyright in every description of copyright work; and references . . . to copying and copies shall be construed as follows.
- (2) Copying in relation to a literary, dramatic, musical or artistic work means reproducing the work in any material form. This includes storing the work in any medium by electronic means.
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- (4) Copying in relation to a film or broadcast includes making a photograph of the whole or any substantial part of any image forming part of the film or broadcast.
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- (6) Copying in relation to any description of work includes the making of copies which are transient or are incidental to some other use of the work.

This issue was referred to the ECJ. The ECJ concluded that the copyright holder's exclusive right to authorize reproductions extends to transient fragments of the works within the memory of a satellite decoder and on a television screen in certain circumstances.²²

However, the ECJ also held that such reproductions fulfill the conditions laid down in Article 5(1) of the Copyright Directive (implemented in the UK by Section 28A CDPA) and may therefore be carried out without the authorization of the copyright holders.²³ Section 28A CDPA provides that:

Copyright . . . in a dramatic, musical or artistic work. . . . a sound recording or a film, is not infringed by the making of a temporary copy which is transient or incidental, which is an integral and essential part of a technological process and the sole purpose of which is to enable:

- (a) a transmission of the work in a network between third parties by an intermediary; or
 - (b) a lawful use of the work;
- and which has no independent economic significance.

Possession of Illicit Decoder Cards. Here, the issue was whether by possessing a foreign decoder for commercial purposes the pub landlord was in breach of provisions designed to prevent “pirate” or “illicit” devices being used to access pay television services. The defendants argued that Greek decoders imported into the UK are not illicit devices for the purposes of the Conditional Access Directive and that any restrictions under English law on the import of such decoders would contravene EU free movement rules.

The English courts referred the interpretation of the Conditional Access Directive and the issue of whether Section 298 CDPA breaches EU free movement rules to the ECJ. The ECJ considered each issue in turn.

APPLICATION OF THE CONDITIONAL ACCESS DIRECTIVE. The Conditional Access Directive is implemented in the UK by means of Section 298 CDPA. The section must therefore be interpreted in a manner that is consistent with the Conditional Access Directive. Unfortunately, the wording of Section 298 does not mirror that of the Conditional Access Directive. The English court, therefore, looked directly at the wording of the Directive.

Article 4 of the Conditional Access Directive requires Member States to prohibit the manufacture, importation, distribution, sale, rental or possession for commercial purposes of “illicit devices,” defined as “equipment or software which is *designed or adapted* to give access to an encrypted broadcast service in an intelligible form without the authorization of the service provider.”²⁴ The question of what constitutes an illicit device for the purposes of the Conditional Access Directive was referred to the ECJ.

The ECJ concluded that the Greek decoder cards were not “illicit” devices under the Conditional Access Directive as the devices had been manufactured legitimately and placed on the market in Greece with the authorization of the service provider. The ECJ said that the wording of the Directive referred only to equipment that had been manufactured, manipulated, adapted, or readjusted without the authorization of a service provider, and did not cover the use of foreign decoding devices (albeit procured by the provision of a false name and address) which were supplied by the service provider but used in breach of a contractual limitation.²⁵

In this case, the devices had been manufactured legitimately and placed on the market in Greece with the authorization of the service provider; they did not allow free access

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to protected services without the consent of providers of those services; and they did not enable or facilitate the circumvention of a technological measure designed to protect the remuneration of those services (as the Greek service had been paid for). As such, the ECJ concluded that the decoders in question were not illicit devices.

COMPATIBILITY OF NATIONAL LAW WITH EU FREE MOVEMENT RULES. The ECJ also held that EU Member States can adopt national legislation which goes further than the Conditional Access Directive in protecting conditional access systems, provided that such legislation is compatible with the EU free movement rules.²⁶ As such, the question was whether the provisions of English law were, in fact, compatible with the EU free movement rules.

Under Section 298 CDPA, the FAPL has certain rights and remedies against a person who imports, distributes, and installs for commercial purposes “any apparatus designed or adapted to enable or assist persons to access programs or other transmissions or to circumvent conditional access technology related to the programs or other transmissions *when they are not entitled to do so*” (emphasis added). As such, Section 298 CDPA may apply to foreign decoder cards that are imported into the UK in breach of a contractual limitation. The rights of the FAPL in this context are the same rights as a copyright owner has with respect to an infringement of copyright.²⁷

The ECJ was asked to consider whether national legislation that prohibits the import, sale, and use of foreign decoding devices used to access encrypted satellite broadcasting services from other Member States amounts to a restriction on the freedom to provide services under Article 56 TFEU.²⁸ Under EU law, restrictions by Member States on the freedom to provide services within the EU are prohibited if they impede the cross-border provision of services from one Member State to another. This is the case even if the restrictions apply to all service providers.

The ECJ concluded that Section 298 CDPA (taken together with the contractual provisions of the FAPL licenses) prohibits foreign decoders that give access to satellite broadcasting services from another Member State from being imported into, sold, and used in the UK. The ECJ said that since:

- (i) access to the satellite broadcast service requires possession of a decoder; and
- (ii) the supply of such decoder is subject to the contractual limitation that it can only be used in the Member State of broadcast,

Section 298 CDPA has the effect of preventing persons resident outside the Member State of broadcast from gaining access to those satellite services. The ECJ recognized that Section 298 CDPA only prevents trade in services because of the territorial restrictions in the FAPL licenses, but as the legislation confers legal protection on these restrictions, the legislation itself restricts the freedom to provide services. As a result, the ECJ held that Section 298 CDPA constitutes a restriction on the freedom to provide services and is prohibited by EU law unless it can be objectively justified.

The FAPL sought to justify the restriction in Section 298 CDPA on two grounds. The first justification asserted by the FAPL was that the restriction was necessary to protect intellectual property rights (IPR) and to ensure that rights holders are appropriately remunerated.

The ECJ agreed that, in principle, a restriction on the cross-border supply of decoder cards could be justified by the overriding public interest in the protection of IPR. However, the FAPL needed to establish that it had such IPR, the protection of which could justify a restriction on the freedom to provide services. In this respect, it is important to note (as the ECJ did) that this case relates only to satellite broadcasting.²⁹ This is because the rights of the copyright holder in relation to satellite broadcasts within the EU are subject to the special rules set out in the Satellite Broadcasting Directive (which do not apply to other platforms).

Under the Satellite Broadcasting Directive:

- the author has the exclusive right to authorize communication to the public by means of a satellite broadcast (Article 2); and
- the place where the communication to the public takes place is only that EU Member State where, under the control of the broadcaster, the signals are introduced into an uninterrupted chain of communication leading to the satellite and down towards the earth (Article 1(2)).

What this means in practice is that the rights holder cannot claim breach of copyright with respect to the satellite broadcast if it authorizes a Greek broadcaster to play out and uplink its program to a satellite from Greece and the signal can be received in the UK. As a result of the Satellite Broadcasting Directive, the only “communication to the public” occurs in Greece. The fact that there is satellite overspill to the UK does not, of itself, give rise to a communication to the public in the UK which needs to be separately authorized by the rights holder.

This background is assumed by the ECJ to be understood and is, therefore, not covered in detail in the judgment.³⁰ For this reason, the ECJ did not consider further whether there

was any copyright in the satellite broadcast that required protection. Instead, the ECJ moved on to consider whether the FAPL had copyright in something other than the broadcast (i.e., the sporting event itself) that could require protection. Unsurprisingly, the ECJ concluded that there is no copyright under the Copyright Directive in the sporting event as it is not an artistic or creative work.³¹ The position is the same under English law; sporting events are not protected by copyright as an artistic or dramatic performance (although a broadcast, film or sound recording of a sporting event is a work protected by copyright).

The ECJ went on to say that a Member State is entitled to protect sporting events by adopting specific national legislation or by recognizing protection conferred on those events by agreements concluded between the person having the right to authorize the broadcast of the event and the broadcaster.³² However, this protection should not go beyond what is necessary to protect the rights at issue.

In this respect, the ECJ said that the purpose of intellectual property protection is to ensure that a rights holder is able to commercially exploit the protected subject matter by the grant of licenses in return for payment of *appropriate* remuneration. It is not to guarantee the rights holder concerned the opportunity to demand the highest possible remuneration. To be appropriate, remuneration must be reasonable in relation to parameters such as the actual audience, the potential audience and the language version.³³

The ECJ noted that:

- the FAPL is being remunerated for the broadcasting from Greece, which is where the act of broadcasting is deemed to take place under the Satellite Broadcasting Directive;
- there is nothing to prevent the FAPL from asking, at the time the rights are auctioned, for an amount which takes account of the actual audience and potential audience both in the Member State of broadcast and in any other Member State in which the broadcasts are received; and
- reception of a satellite broadcast requires a decoder so it is possible to determine with a very high degree of precision the total number of viewers which form part of the actual and potential audience (i.e. the number of viewers residing within and outside the Member State of broadcast).

The ECJ accepted that the amount of the appropriate remuneration may reflect the particular character of the broadcasts concerned and may, in particular, include a premium to reflect territorial exclusivity. However, the ECJ is clear that it is not appropriate for the FAPL to demand that broadcasters pay a premium to be granted *absolute* territorial exclusivity, so as to result in artificial price differences between partitioned national markets within the EU. Payment of such a premium goes beyond what is necessary to ensure appropriate remuneration for the FAPL as rights holder.

As such, the ECJ judgment suggests that national legislation cannot be used to prohibit *all* cross-border trade in decoder devices. For the reasons set out below, this approach

appears to allow a distinction to be drawn between active sales (that is, transactions in which a seller in one Member State takes affirmative steps to reach and sell to customers in a second Member State)³⁴ and passive sales (transactions in which a customer in one Member State reaches out to a seller in a second Member State).³⁵ The ECJ judgment suggests that national legislation may prohibit active cross-border trade in decoder devices completely, but must permit passive cross-border trade in decoder devices to some degree. Such a distinction is well-established in the context of EU antitrust rules (see below).

It is clear that the ECJ, in considering the extent to which a national law could restrict trade in decoder cards to protect the rights of organizers of sporting events, was influenced by the fact that the position in relation to satellite broadcasting is a special one. The copyright in satellite broadcasts has been subject to the single market provisions of the Satellite Broad-

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casting Directive since January 1, 1995. As a result, there would be a new and potentially harmful re-partitioning of the market if Member States were to introduce new rights for sports organizers that cut across the Satellite Broadcasting Directive.

There are no indications that the ECJ will take the same approach with respect to other broadcasting platforms. So, for example, the ECJ distinguished the *Coditel I*³⁶ case, where cable companies communicated a work to the public without having an authorization from the rights holder in the Member State of the place of origin of that communication and without having paid remuneration to them. Moreover, the ECJ appears to have placed a lot of weight on the fact that, in the case of satellite broadcasting, the remuneration paid can take account of the actual *and* potential audience in the other Member States.

The second justification on which the FAPL sought to rely was the objective of encouraging the public to attend soccer stadiums, which the FAPL submitted was achieved by prohibiting the broadcasting of matches in the UK on Saturday afternoons. The ECJ also rejected this ground. It said that achievement of this objective could be ensured in other ways that did not have such an adverse effect on the free movement of services.

APPLICATION OF EU ANTITRUST LAW. As noted above, Section 298 CDPA prevents cross-border supply of services because of the territorial restriction clauses in the FAPL licenses. The defendants therefore argued that the clauses in the FAPL licenses that prevent the circulation of decoder cards outside the licensee's territory violate EU antitrust rules (particularly Article 101 TFEU) and therefore are void. This issue was referred by the English courts to the ECJ.

The ECJ judgment clearly states that exclusive national licenses of copyright material are consistent with EU antitrust rules:

As regards licence agreements in respect of intellectual property rights, it is apparent from the Commission's case-law that the mere fact that the right holder has granted to a sole licensee the exclusive right to broadcast protected subject-matter from a Member State, and consequently to prohibit its transmission by others, during a specified period of time is not sufficient to justify the finding that such an agreement has an anti-competitive object (see to this effect, Case 262/81 *Coditel and Others* ("Coditel II") [1982] ECR 3381).³⁷

The ECJ judgment should be read in the context of the Satellite Broadcasting Directive. As noted above, the Satellite Broadcasting Directive provides that the place where the communication to the public takes place is only that Member State where the signals are introduced into an uninterrupted chain of communication leading to the satellite and down towards the earth. The ECJ does, however, note that even in the context of the Satellite Broadcasting Directive, a rights 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.³⁸

The terms of the FAPL licenses to the Greek satellite broadcaster contain certain contractual provisions that:

- required the Greek satellite broadcaster to encrypt its broadcast signal; and
- prohibited the Greek satellite broadcaster from authorizing or enabling *any* equipment that could be used to decrypt the signal so as to permit *any* person to view the transmission outside Greece.³⁹

At paragraph 142 of the judgment, the ECJ objected to these provisions on the basis that:

Such clauses prohibit the broadcasters from effecting *any* cross-border provision of services that relates to those matches, which enables each broadcaster to be granted *absolute* territorial exclusivity in the area covered by its licence and, thus, *all* competition between broadcaster in the field of those services to be eliminated. (emphasis added)

This is consistent with the way in which the ECJ has used antitrust law in order to establish a single European market in other cases. It is well established as a matter of EU law that agreements that are aimed at partitioning markets along national borders or making the inter-penetration of national markets more difficult will be regarded, in principle, as agreements whose object is to restrict competition. The ECJ

held that such case law is fully applicable to the cross-border provision of broadcasting services.

The ECJ considered that the FAPL's license agreements not only allocated territories exclusively but also contained additional provisions prohibiting the supply by broadcasters of decoder cards to people outside their assigned territory, which prevented the broadcasters from effecting any cross-border provision of services relating to that content. The ECJ stated that license agreements containing such provisions grant each broadcaster *absolute* territorial exclusivity, with the result that all cross-border competition between broadcasters for that content is eliminated.

Therefore, the ECJ ruled that the clauses of those exclusive license agreements have an anticompetitive object, constituting a restriction of competition prohibited by Article 101(1) TFEU. The ECJ went on to say that such agreement could not be exempted under Article 101(3) because the absolute territorial restriction goes beyond what is necessary to protect the intellectual property at issue. (See the EU free movement analysis above).⁴⁰

In this case, it appears to be the *absolute*⁴¹ nature of the territorial restriction that gave rise to a concern in the context of the Satellite Broadcasting Directive. The ECJ left open the possibility that a clause which prohibits only active but not passive sales (either at all or for a period of time) would be acceptable.

Based on the approach taken by the European Commission in relation to goods and services and other forms of intellectual property rights, it appears that such an approach would address the concerns identified.⁴² In the context of goods and services, for example, EU antitrust law provides that where a distributor or licensee has been granted an exclusive territory, restrictions on active sales are permissible, while restrictions on passive sales would amount to absolute territorial protection and would not be permissible.

Similarly, in relation to technology transfer agreements, guidance from the Commission acknowledges that exclusive licenses may be necessary to induce the licensee to invest in the licensed technology and to bring the products to market in a timely manner.⁴³ The Commission has stated that it will intervene only rarely with respect to exclusive licensing in agreements between non-competitors, irrespective of the territorial scope of the license, provided that passive sales are permitted. It even allows restrictions on passive sales in certain circumstances, i.e., in licenses of patents and know-how between non-competitors, where the criteria of its technology transfer block exemption are met.⁴⁴ It is difficult, therefore, to conceive of a situation in which an antitrust agency could permit exclusive national territories for goods, services, and other intellectual property rights, subject to allowing certain passive sales, but refuse to do so in relation to copyright.

On the basis of the ECJ judgment, the High Court is proposing in *FAPL v. QC Leisure* to grant a declaration that certain clauses in the FAPL license with the Greek satellite broadcaster, Netmed, constitute a restriction on competi-

tion prohibited by Article 101 TFEU. The clauses would be void to the extent that they prohibited Netmed from supplying for use in the UK satellite decoder cards that are capable of permitting any person to view the relevant transmissions in an intelligible form. It is, however, proposed that the declaration will be stated to be without prejudice to any rights of the FAPL with respect to copyright infringement.⁴⁵

The effect of this declaration on the FAPL licenses will depend, in part, on the severability clauses contained in the agreements. If the relevant provisions are severable as a matter of English law, then the licenses may continue in force.

Implications for Rights Holders

The key implications of the ECJ judgment for rights holders are as follows:

- national licenses continue to be permitted within the EU;
- to the extent that those licenses relate to satellite broadcast services, care will need to be taken in relation to the drafting of provisions restricting the ability of the broadcaster to respond to passive requests for access to the services from other EU Member States; and
- to the extent that satellite broadcasters choose to respond to such passive requests (which they are not compelled to do), an appropriate price adjustment mechanism is permissible.

There is likely to be a period where clauses evolve (as we see further cases and possibly guidance from the European Commission or investigations by antitrust agencies in the EU) and, as such, clauses such as those dealing with termination, severability, and the circumstances in which the agreement may be re-negotiated following a regulatory change are likely to be scrutinized carefully by parties to a license agreement.

As noted above, the judgment of the ECJ is limited to satellite broadcasting and must be read in the context of the Satellite Broadcasting Directive. While this judgment does not apply directly to other broadcasting platforms or the Internet, there will be debate in the future as to whether this approach is the appropriate blueprint for the future harmonization of copyright on other broadcast platforms. ■

¹ EU law seeks to guarantee the free movement of goods, capital, services, and people—the EU's "four freedoms"—within the internal market of the EU's twenty-seven Member States. To that end, the Treaty on the Functioning of the European Union (TFEU) prohibits Member States from introducing measures that restrict these freedoms. For the purposes of this article, the relevant provisions are Article 56 TFEU, which prohibits restrictions on the free circulation of services within the EU, and Articles 34 and 35 TFEU, which prohibit quantitative restrictions on the import and export of goods, and measures having "equivalent effect."

² For the purposes of EU antitrust law, "active" sales mean actively approaching individual customers by, for instance, direct mail, including the sending of unsolicited e-mails, or visits; or actively approaching a specific customer group or customers in a specific territory through advertisement in media, on the Internet or other promotions specifically targeted at that customer group or targeted at customers in that territory. Advertisement or promotion

- that is only attractive for the buyer if it (also) reaches a specific group of customers or customers in a specific territory, is considered active selling to that customer group or customers in that territory.
- ³ For the purposes of EU antitrust law, “passive” sales mean responding to unsolicited requests from individual customers, including delivery of goods or services to such customers. General advertising or promotion that reaches customers in other distributors’ (exclusive) territories or customer groups but which is a reasonable way to reach customers outside those territories or customer groups, for instance to reach customers in one’s own territory, are considered passive selling. General advertising or promotion is considered a reasonable way to reach such customers if it would be attractive for the buyer to undertake these investments even if they would not reach customers in other distributors’ (exclusive) territories or customer groups.
- ⁴ Directive 2001/29 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, 2001 O.J. (L 167) 10 [hereinafter Copyright Directive].
- ⁵ Council Directive 93/83 of 27 September 1993 on the Coordination of Certain Rules Concerning Copyright and Rights Related to Copyright Applicable to Satellite Broadcasting and Cable Retransmission, 1993 O.J. (L 248) 15 [hereinafter Satellite Broadcasting Directive].
- ⁶ Directive 98/84 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, 1998 O.J. (L 320) 54 [hereinafter Conditional Access Directive].
- ⁷ Consolidated Version of the Treaty on the Functioning of the European Union, Sept. 5, 2008, 2008 O.J. (C 115) 47 [hereinafter TFEU]. As of December 1, 2009, the Treaty of Lisbon became effective, renumbering the articles in the Treaty Establishing the European Community and renaming that Treaty the TFEU.
- ⁸ See *infra* note 10.
- ⁹ In some cases, the broadcaster was from the Middle East and North Africa. This article does not consider these cases further.
- ¹⁰ *FAPL v. QC Leisure*, [2008] EWHC (Ch) 1411; [2012] EWHC (Ch) 108 relates to three joined cases before the Chancery Division of the High Court of England and Wales, which (among other things) hears claims relating to intellectual property. *Karen Murphy v. Media Protection Servs. Ltd.*, [2008] EWHC (Admin) 1666; [2012] EWHC (Admin) 466 is a criminal case that was originally started in the Portsmouth Magistrates Court and was appealed to the Portsmouth Crown Court and then to the Administrative Court (which is part of the Queen’s Bench Division of the High Court).
- ¹¹ There are a number of differences between the two cases, which we have not dealt with in detail for the purposes of this article.
- ¹² In some cases the relevant provision was Section 297 CDPA, which is not dealt with in detail for the purposes of this article.
- ¹³ Under Article 267 TFEU, national courts may refer questions regarding the interpretation of EU law to the ECJ for a preliminary ruling. This not an appeal process, as the ECJ will not decide the case on the facts.
- ¹⁴ Joined Cases C-403/08, *FAPL Ltd & others v. QC Leisure and others*, and C-429/08, *Karen Murphy v. Media Protection Servs. Ltd.*, 1 C.M.L.R. 29 (2012) [hereinafter Case C-403/08].
- ¹⁵ *FAPL v. QC Leisure*, [2008] EWHC (Ch) 1411, [178]–[185]; see also *id.* ¶ 150.
- ¹⁶ *FAPL v. QC Leisure*, [2008] EWHC (Ch) 1411, [263]–[282].
- ¹⁷ *FAPL v. QC Leisure*, [2012] EWHC (Ch) 108, [95].
- ¹⁸ Case C-403/08, *supra* note 14, ¶ 207. See also Case C-306/05, *Sociedad General de Autores y Editores de Espana v. Rafael Hoteles SA*, 2006 E.C.R. I-11519.
- ¹⁹ *FAPL v. QC Leisure*, [2012] EWHC (Ch) 108, [57].
- ²⁰ *Id.* at [78].
- ²¹ *Id.* at [95].
- ²² Case C-403/08, *supra* note 14, ¶ 159.
- ²³ *Id.* ¶ 182.
- ²⁴ Conditional Access Directive, *supra* note 6, art. 2(e) 9 (emphasis added).
- ²⁵ Case C-403/08, *supra* note 14, ¶¶ 62–72.
- ²⁶ *Id.* ¶¶ 73–74.
- ²⁷ *Id.* ¶ 53.
- ²⁸ There is a discussion in the judgment as to whether the case relates to a free movement of goods (i.e., the decoder card) or a free movement of services (i.e., the encrypted satellite broadcast services). The ECJ concluded that the case relates to the free movement of services, as the free movement of goods aspect is entirely secondary (i.e., the decoders are only an instrument enabling subscribers to obtain the encrypted broadcasting services). See *id.* ¶¶ 77–84.
- ²⁹ Case C-403/08, *supra* note 14, ¶ 57.
- ³⁰ *Id.* ¶ 57.
- ³¹ *Id.* ¶¶ 96–99.
- ³² *Id.* ¶¶ 96–99.
- ³³ *Id.* ¶¶ 107–110.
- ³⁴ See *supra* note 2.
- ³⁵ See *supra* note 3.
- ³⁶ Case 62/79, *Coditel and Others*, [1980] E.C.R. 0881.
- ³⁷ In *Coditel II*, the ECJ ruled that “the mere fact that the owner of the copyright in a film has granted to a sole licensee the exclusive right to exhibit that film in the territory of a Member State and, consequently, to prohibit, during a specified period, its showing by others, is not sufficient to justify the finding that such a contract must be regarded as the purpose, the means or the result of an agreement, decision or concerted practice prohibited by the Treaty.” Case 262/81, *Coditel and others*, [1982] E.C.R. 3381.
- ³⁸ Case C-403/08, *supra* note 14, ¶ 138.
- ³⁹ Pursuant to Clause 12.1(b)(i) of the FAPL license, NetMed undertook that all of its transmissions capable of reception outside Greece “shall be securely encrypted and shall not be receivable by any person outside [Greece] in unencrypted form and that no device (including but not limited to any “smart card” and/or any decoding equipment which is necessary to decode or encrypt any such Transmission) . . . shall be knowingly authorised or enabled by or with the authority of the Licensee and/or any Permitted Sub-Licensee and/or any distributor, agent or employee of the Licensee or any Permitted Sub-Licensee so as to permit any person to view any such Transmission outside [Greece] in an intelligible form.” See *FAPL v. QC Leisure*, [2008] EWHC (Ch) 1411, [35].
- ⁴⁰ A related implication of this is that, outside the field of satellite broadcasting, where a rights holder is entitled to require separate authorization for any communication of the copyright work to consumers outside the licensee’s assigned territory, a restriction on both active and passive sales would be permissible, as it goes no further than is required to protect the scope of the relevant intellectual property rights.
- ⁴¹ The ECJ has made the distinction between exclusive territorial protection and absolute exclusive territorial protection in a number of cases and has made clear that only absolute exclusive territorial protection is prohibited under Article 101 TFEU. See e.g., *Joined Cases 56 & 58/64, Établissements Consten, S.A.R.L. v. Comm’n*, 1966 E.C.R. 299; *Case 56/65, Société Technique Minière v. Maschinenbau Ulm GmbH*, 1996 E.C.R. 235; *Case 258/78, Nungesser v. Comm’n*, 1982 ECR 2015.
- ⁴² See the Commission’s Guidelines on Vertical Restraints, 2010 O.J. (C 130) 1.
- ⁴³ See also the Commission Guidelines on the Application of Article [101 TFEU] to Technology Transfer Agreements, 2004 O.J. (C 101) 2.
- ⁴⁴ Commission Regulation 772/2004 of 27 April 2004 on the Application of Article 101(3) TFEU to Technology Transfer Agreements, 2004 O.J. (L 123) 11.
- ⁴⁵ In related proceedings, the ECJ’s judgment also led the High Court to overturn the criminal convictions of the landlord of a pub in Portsmouth, England, who had been convicted of two offenses under Section 297(1) of the CDPA to the effect that she “dishonestly received a programme included in a broadcasting service provided from a place in the UK with intent to avoid payment of any charge applicable to the reception of the programme.” *Karen Murphy v. Media Protection Servs. Ltd.*, [2012] EWHC (Admin) 466.