

BRUSSELS FEBRUARY 8, 2011

[www.clearygottlieb.com](http://www.clearygottlieb.com)

## Advocate General Casts Doubt On Football Broadcasting Rules

On February 3, 2011, Advocate General (“AG”) Kokott advised the Court of Justice of the European Union (“CJ”) in two pending cases that she considers it unlawful for an EU Member State to prohibit the use of TV decoders made available lawfully for domestic use in another Member State. The AG’s Opinion is not a judgment; it is a reasoned argument prepared for the benefit of the CJ. The CJ is not bound to follow the opinion of the AG but has historically done so in the majority of cases. If followed by the CJ, the AG’s Opinion could have potentially far-reaching consequences for content and technology licensing and indeed for service contracts generally in the EEA, and for the application of EU rules on competition and intellectual property:

- **The AG’s Opinion Risks Undermining The Territorially-Defined Content Licensing Model.** The AG’s extension of the principle of copyright exhaustion from goods to services casts doubt on the long-term sustainability of the territorially-defined broadcast and content licensing model, which has been widely adopted across the EU and upheld by the CJ and European Commission in successive cases since the 1980s.
- **The AG’s Opinion Could Impede IPR Owners’ Ability To Control Use of Licensed IPRs.** The implications of the AG’s Opinion are not limited to the area of broadcasting. By extending the principle of exhaustion to cover services and ignoring the territorial definition of the specific subject matter of national intellectual property rights, the AG’s Opinion calls into question the ability of other IPR owners, such as software developers and content owners, to control the redistribution of licensed content. This approach is inconsistent with Article 3(3) of the Copyright Directive and past case law, as applied most recently in the iTunes case. If upheld, this could chill innovation and content development. The AG recognises this in the Opinion, stating that “*the question at issue has considerable importance for the internal market beyond the scope of the cases*

*in the main proceeding*” and noting in particular the territorial restrictions that may apply to e-books.<sup>1</sup>

This Alert Memo summarizes the background to the case, sets out the principal aspects of the AG’s Opinion, and offers some thoughts on its wider implications.

## **I. BACKGROUND**

In accordance with the terms of the decision in Case COMP/38.173 - *The Football Association Premier League*, the Football Association Premier League Ltd (the “FAPL”) collectively licenses the right to broadcast English Premier League matches on behalf of the League teams. Broadcasters tender for, and are awarded, the exclusive right to broadcast matches in an agreed territory, typically on a national basis. The satellite signals transmitted by broadcasters are encrypted. This means the content can be watched only by subscribers with a decoder purchased from the licensee in that Member State. The territorial licensing arrangements also seek to restrict the circulation of decoders outside the territory of each licensee, since it is thought that the broadcaster cannot grant rights (to decrypt and view broadcasts outside the licensed territory) to its subscribers that the broadcaster itself did not receive from the content licensor. Some decoders are nevertheless exported.

In the present case a publican from Portsmouth, U.K., is being prosecuted for breach of U.K. copyright law for using a Greek decoder to screen English football broadcast by a Greek satellite broadcaster, NOVA, in her pub. At the same time, the FAPL has brought several civil-law actions concerning the use of foreign decoders against other parties. The High Court has referred a number of questions to the CJ on the compatibility with EU law of the FAPL’s exclusive territorial licensing arrangements.

## **II. THE OPINION**

The AG’s Opinion considers the application of a number of different areas of EU Law. The most important aspects of the Opinion are outlined below.

**Restriction Of The Freedom To Provide Services.** The AG considered that the case concerned a restriction on the use of a decoder card to gain access to encrypted programmes, rather than the trade in decoder cards itself. The AG therefore examined the restrictions in the context of the freedom to provide services throughout the EU, as

---

<sup>1</sup> Opinion, paragraph 187. In January 2011, the U.K. Office of Fair Trading initiated an investigation into arrangements between publishers and retailers for the sale of e-books.

contained in the Treaty on the Functioning of the European Union (the “TFEU”), rather than in the context of the free movement of goods. More specifically, the AG considered whether national rules preventing the use of foreign decoders constituted an infringement of this fundamental freedom. The AG concluded that such provisions not only prevent the utilisation of services from one Member State to another, but have also the effect of “*partitioning the Internal Market*” into separate national markets, and are therefore a *prima facie* restriction of the freedom to provide services.

**The Protection Of Industrial And Commercial Property Does Not Justify the Restriction.** Having concluded that there was a restriction of the freedom to provide services, the AG considered whether there was any legal justification for the restriction. More specifically, the AG analysed whether the restriction was justified by the need to protect industrial or commercial property. The AG addressed this issue on three fronts.

- **The Extension Of The Principle Of Copyright Exhaustion To Services.** The AG applied the principle of exhaustion (*i.e.*, the principle under copyright law that once a licensee sells a good that embodies the right-holder’s copyright, the licensor’s rights in that product are exhausted) to support her view that the territorial restriction was not justified. The AG determined that even though the FAPL purported to license only (territorially defined) Greek copyrights to NOVA (and not U.K. copyrights, which were licensed to another broadcaster), the FAPL could not rely on U.K. copyright to prevent the use of a NOVA card in the U.K. The FAPL accepted that exhaustion applied to copyright embodied in goods, but argued that it had no application in services. Although the AG acknowledged the distinction between goods and services, she considered that certain services can be resold like goods (*e.g.*, as in the present case through the distribution of the decoder) and that in those cases, the exhaustion principles applying to goods should be extended to the services in question, even though a subscription contract does not transfer title to a physical object. The AG’s reliance on the decoder as the physical embodiment of the subject matter of the rights in question appears open to challenge, since it can be argued that a license does not exhaust the *droit de destination*<sup>2</sup> of copyright and that NOVA cannot grant the ultimate subscriber any rights that NOVA did not receive from the FAPL. The Copyright Directive provides that the question of exhaustion does

---

<sup>2</sup> The “*droit de destination*” is a concept derived from civil law, referring to the right to control the circulation and use of copies of the protected work.

not arise in the case of services, in particular “access rights” to ephemeral content distributed online (e.g., digital recorded music files) that are not embodied in a good capable of being physically traded.<sup>3</sup> Rights to view encrypted satellite broadcast have traditionally been treated in the same way, i.e., as intangible access rights not subject to exhaustion.

- Second, the AG distinguished *Coditel*, which for thirty years has stood for the proposition that territorial licensing of media rights is an accepted part of EU law. In *Coditel*, a film was licensed for broadcast on German TV, which was then re-broadcast on Belgian cable TV. The claimant had acquired the rights to show the film in Belgian cinemas and therefore objected to the unauthorised broadcast of the same film on Belgian TV. In *Coditel*, the CJ held that the license to the German broadcaster extended only to German broadcast rights, and did not permit additional broadcast in other Member States. Territorial restrictions on licensing were thus thought to be permissible. The AG’s reading of *Coditel* is narrower, focusing on the fact that the German broadcast into Belgium in *Coditel* was unremunerated and therefore undermined the value of the Belgian cinema rights for the licensor. In other words, the territorial restrictions in *Coditel* were necessary to protect different sets of rights (free-to-air TV vs. cinematic exhibition), even though the same content was at issue. Against this characterization the AG distinguished *Coditel* from the present circumstances, which she argued involved the same set of rights (pay TV satellite broadcast rights) licensed territorially for purely economic reasons. The AG reasoned that since FAPL collected fees through the Greek broadcaster (through the purchase of a Greek decoder), FAPL had no right to object that it had not been remunerated for the consumption of its copyrighted content *via* a Greek decoder in the U.K. The AG concluded that partitioning the market for the reception of satellite broadcasts is not necessary to protect the underlying subject matter.
- Finally, AG Kokott was not persuaded by the argument that the implications of this approach could be to make access to content unaffordable in poorer Member States. In her view, it was for the right-holder to decide what price to charge in order to exploit their rights most profitably. The AG also suggested

---

<sup>3</sup> Directive 2001/29/EC on the harmonization of certain aspects of copyright and related rights in the information society, OJ L 167, June 22, 2001, Article 3(3).

that different language versions of football commentary might in any event be broadcast at lower prices.

**Close Periods Do Not Justify A Restriction Of The Freedom To Provide Services.** “Close periods” are time windows during which no domestic football matches may be transmitted (*e.g.*, for FAPL games, matches beginning at 3:00 pm on Saturdays).<sup>4</sup> The rationale for this close period is that it will provide an incentive for spectators to attend live matches, protecting an important source of revenue for clubs in all domestic football leagues. The AG considered whether such close periods justified a restriction of the freedom to provide services. Although the AG acknowledged that such a system required a degree of territorial allocation, the AG was sceptical as to whether close periods were sufficiently capable of encouraging attendance and participation in local matches. The AG referred to France, Germany, Italy, Spain and Northern Ireland, where close periods are not used, notwithstanding the popularity of televised football. It would, therefore, be for the parties to demonstrate to the High Court that the specific restriction could be justified on this basis.

**Broadcasters May Place Restrictions On The Communication Of Their Works For Commercial Purposes.** The AG considered the significance of contractual provisions restricting the deployment of decoders to purely private domestic use (as opposed to commercial use, that is, the screening of matches in bars and restaurants, for which a higher subscription charge may be payable). The AG found that such agreements could have effects only as between the contracting parties (*i.e.*, the subscriber and broadcaster) and not with respect to third parties, including purchasers of decoders that did not have a contractual relationship with either party. The AG did not exclude the possibility of national rules allowing right-holders to prevent the exploitation of their material in this way. In addition, the courts may have to review whether and to what extent the use of the decoder card requires the existence of a subscription agreement between the user and the broadcaster and whether the terms of such an agreement could restrict commercial use.

**Territorial Exclusivity May Breach Competition Laws.** The AG briefly considered whether the territorial restrictions in broadcasting licences were capable of infringing competition law. In doing so, the AG noted that the European Court has frequently found that agreements aimed at partitioning the internal market according to national borders or preventing parallel exports have as their object the restriction of competition within the meaning of Article 101(1) TFEU. Licences that provide absolute

---

<sup>4</sup> These matches may nevertheless be broadcast in countries other than the U.K.

territorial protection for a broadcaster are therefore likely to be unlawful unless the parties can demonstrate that the restrictions are objectively justified. The AG did not carry out the analysis of whether the restrictions were objectively justified but noted that those considerations concerning justification of industrial and commercial property would apply equally to an analysis of whether a breach of competition law is objectively justified. Notably, the AG did not make reference to the commitments that the FAPL gave to the European Commission in 2006.

**The AG Considered The Application Of Directives 98/84, 2001/29, and 92/83 EC.** The AG examined whether a Member State could prohibit the use of foreign decoders on the basis that they were “*illicit devices*”, within the meaning of Directive 98/84. On this question, the AG stated that in order to be “*illicit*” a device must have been unlawfully modified or manufactured. A decoder does not become an “*illicit device*” just because it is sold or used outside the exclusive territory of the broadcaster. The AG also considered whether screening football matches in a pub was an unlawful “*communication*” of copyright material within the meaning of Directive 2001/29. The AG found that screening a TV broadcast constituted a “*reproduction*” of copyright material. However, in her view, it does not constitute a “*communication*” of that material unless there is an element of re-transmission.<sup>5</sup> Lastly, the AG stated that for the purposes of Directive 93/83 the right to broadcast copyright material by satellite necessarily included the grant of a right to receive and watch that broadcast abroad.

### III. IMPLICATIONS

AG Kokott’s Opinion is consistent with rulings in other sectors where parallel trade in goods has been actively encouraged by the Commission (*e.g.*, in the pharmaceuticals sector). The significance of the AG’s Opinion in this case is that it extends these rules to services and licenses of territorially defined IPR. The CJ will have to decide whether a license exhausts the *droit de destination* of copyright even absent transfer of title to a physical object, and whether a user of a NOVA decoder card in the U.K. can purport to have received the right to decrypt a broadcast in the U.K., when NOVA itself only received a license under Greek copyright from the FAPL.

---

<sup>5</sup> “*Retransmission*” refers to the simultaneous, unaltered and unabridged retransmission for reception by the public of a TV or radio transmission intended for the public and originating from another Member State. Retransmission may take place by wire or over the air, including by satellite. See, *e.g.*, Council Directive 93/83/EEC of September 27, 1993, on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission

As explained above, the CJ is not bound to follow the opinion of the AG but it has historically done so in the majority of cases. If the AG's Opinion is followed, it would become unlawful to prevent a consumer from using a decoder purchased legitimately anywhere in the EU to view content broadcast in another Member State. Consumers in the U.K. could therefore legally use a decoder purchased in, or imported from, Greece to view broadcasts by the exclusive licensee of Premier League football matches in Greece, which may be obtainable at lower cost than a subscription to a U.K. pay TV service carrying the same content. By exposing the exclusive licensee to (at least passive) competition from exclusive licensees in other Member States, this could have the effect of reducing the value to the FAPL's exclusive licensees of their broadcast rights, by undermining the licensees' ability to monetize their rights through subscription fees and advertising revenues.

If adopted by the CJ, this has the potential to prejudice the long-term sustainability of the territorially defined broadcast licensing model, which has been adopted widely across the EU with respect to a range of TV content, including sports, movies and TV series. The practical implications of such a ruling would ultimately depend on a number of factors, including the difference in price between decoder cards for each exclusive licensee's pay TV service, consumers' awareness of the opportunity for commercial arbitrage, and the willingness of consumers to switch to viewing content broadcast in a different Member State, particularly where the language of broadcast is different to that of the consumer's home State. If parallel trade in decoder cards increases, this could ultimately accelerate the development of a pan-European system for the licensing of sports (and potentially other video content) broadcast rights. At the same time, the application of exhaustion rules to services could have far reaching implications in other economic sectors, including in relation to content and technology licenses.<sup>6</sup>

\*\*\*

If you have any questions, please feel free to contact any of your regular contacts at the firm or any of our partners and counsel listed under Antitrust and Competition under the "Practices" section of our website at <http://www.clearygottlieb.com>

---

CLEARY GOTTLIEB STEEN & HAMILTON LLP

<sup>6</sup> For instance, on February 3, 2011, the German Supreme Court submitted a request for a preliminary ruling to the CJ in a case between Oracle and UsedSoft, a purchaser of unused software licenses. The German Supreme Court has asked the ECJ to determine whether under EU law, in particular Article 4 of Directive 2009/24/EC on the legal protection of computer programmes, a second hand buyer of software can be deemed a "lawful acquirer" of the software and is therefore free to resell the software without the authorization of the original right-holder. The question of exhaustion may have implications for this case and others.

**NEW YORK**

One Liberty Plaza  
New York, NY 10006-1470  
1 212 225 2000  
1 212 225 3999 Fax

**WASHINGTON**

2000 Pennsylvania Avenue, NW  
Washington, DC 20006-1801  
1 202 974 1500  
1 202 974 1999 Fax

**PARIS**

12, rue de Tilsitt  
75008 Paris, France  
33 1 40 74 68 00  
33 1 40 74 68 88 Fax

**BRUSSELS**

Rue de la Loi 57  
1040 Brussels, Belgium  
32 2 287 2000  
32 2 231 1661 Fax

**LONDON**

City Place House  
55 Basinghall Street  
London EC2V 5EH, England  
44 20 7614 2200  
44 20 7600 1698 Fax

**MOSCOW**

Cleary Gottlieb Steen & Hamilton LLP  
CGS&H Limited Liability Company  
Paveletskaya Square 2/3  
Moscow, Russia 115054  
7 495 660 8500  
7 495 660 8505 Fax

**FRANKFURT**

Main Tower  
Neue Mainzer Strasse 52  
60311 Frankfurt am Main, Germany  
49 69 97103 0  
49 69 97103 199 Fax

**COLOGNE**

Theodor-Heuss-Ring 9  
50688 Cologne, Germany  
49 221 80040 0  
49 221 80040 199 Fax

**ROME**

Piazza di Spagna 15  
00187 Rome, Italy  
39 06 69 52 21  
39 06 69 20 06 65 Fax

**MILAN**

Via San Paolo 7  
20121 Milan, Italy  
39 02 72 60 81  
39 02 86 98 44 40 Fax

**HONG KONG**

Bank of China Tower  
One Garden Road  
Hong Kong  
852 2521 4122  
852 2845 9026 Fax

**BEIJING**

Twin Towers – West  
12 B Jianguomen Wai Da Jie  
Chaoyang District  
Beijing 100022, China  
86 10 5920 1000  
86 10 5879 3902 Fax