

From: [REDACTED]
To: [CopyrightConsultation](#)
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Date: 27 July 2016 19:43:51
Attachments: [2008_cia_submission_on_proposed_changes_to_copyright_exceptions_apr08.pdf](#)
[20120323-CLLS-IPLA-Law-Society-Response-to-UK-Consultation-on-Copyright---2-.pdf](#)
[701.pdf](#)
[DACS-response-Transitional-arrangements-for-the-repeal-of-section-52-CDPA-December-2015.pdf](#)
[ERR committee response Nov 2012.pdf](#)
[UK_Music_unpublishedworks_FINAL.pdf](#)
[unfair_terms_in_consumer_contracts_appendices_A-D.pdf](#)

Dear Sirs,

With regards to your consultation <https://www.gov.uk/government/consultations/changes-to-schedule-1-cdpa-and-duration-of-copyright-regulations> , if not previously considered, I submit and enclose the attached for consideration.

Sent from Samsung tablet

CLA Submission to IPO Consultation on Proposed Changes to Copyright Exceptions

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Also attached:

CLA Schools Scanning Licence
CLA Further Education Licence
CLA Higher Education Licence

1. Introduction

- 1.1 The Copyright Licensing Agency Ltd (“CLA”) welcomes the IPO consultation on taking forward the Gowers Review on Intellectual Property, and acknowledges the thoughtful and detailed work that has gone into identifying the issues in the Consultation Document.
- 1.2 CLA is a member of the British Copyright Council (“BCC”) and of the Alliance Against IP Theft (“AAIP”) and has the benefit of having read and contributed to their submissions. This submission focuses on those matters that bear most directly upon CLA’s activities in providing collective licensing solutions in the world of hard copy and digital publishing of books, journals, magazines and other periodicals. Although we make some comments on the broader implications to copyright on some of the recommendations, these are dealt with more fully in the BCC and AAIP submissions with which CLA is happy to associate itself.
- 1.3 CLA was founded in 1983 by the Authors Licensing Collecting Society Limited and the Publishers Licensing Society Limited who themselves represent, directly or indirectly, authors and publishers of most of the books, journals, magazines and other periodicals published in the UK. Artistic works such as photographs, illustrations, etc. appearing within those works are covered by virtue of an agency agreement between CLA and the Design & Artists Copyright Society Ltd; a network of repertoire exchange agreements with similar organisations throughout the world means that CLA’s collective licences cover the overwhelming majority of UK publications as well as a huge number of titles from overseas. Further details of CLA’s collective licensing activities and the benefits it brings to users and to copyright owners and creators are contained in CLA’s original submission on Gowers at http://www.cla.co.uk/assets/139/gowers_review2.pdf.
- 1.4 The cultural value of the copyright industries to the UK needs to be fully appreciated. The UK’s rich history of creating and producing literary and dramatic works is unparalleled anywhere else in the world, and of course the English language is the predominant international language for business, education and entertainment. The economic and financial importance of the copyright “industries” is also highly significant; this includes both the core copyright industries of publishing, involving the creation, distribution and sale of copyright products and services, and copyright-dependent industries whose existence depends upon the core copyright industries (for example manufacturers of hardware on which copyright content is made available, transmitted and consumed).

2. General

2.1 Exceptions and the 3 Step Test

The first point to make is that all copyright exceptions should be subject to, and comply with, the Berne 3 Step Test. The Government’s general view is that the way any exceptions are framed means that the conditions of the 3 Step Test are necessarily complied with and that therefore there is no need to state specifically that exceptions are subject to the Berne 3 Step Test. This can only be so if the exceptions are interpreted in practice, and in any judicial decision, so as to accord with the Berne 3 Step Test. This produces an unnecessary area of doubt allowing the possibility of dispute that would be removed were all exceptions to be stated categorically to be subject to this test. In the case of *Fraser Woodward Ltd vs BBC* [2005] EWHC 472(Ch) the judgement included compliance with the Berne 3 Step Test as being one of the factors relevant to the understanding of what constitutes “fair dealing”. CLA does not think that such an important matter should be left open as a matter of judicial interpretation to resolve a dispute between parties, but should be stated clearly in the legislation that gives rise to the exceptions in the first place.

- 2.2 The application of the 3 Step Test to the particular recommendations is covered below, but it is worth commenting in general terms on the description and analysis of the 3 Step Test

contained in page 14 in the section on the extension to Educational Exceptions (Recommendation 2) of the Consultation Document. Whilst this does seem to support rightsholders view that the test should be interpreted so as not to damage rightsholders economic as well as rightsholders other interests, CLA would note:-

- i) “certain special cases”: this seems to be equated with the exception only applying in “clearly defined cases” as opposed to the more normal understanding of the word special, i.e. “peculiar” or “restricted”. Whilst it is true by definition that an exception for education can only apply to a limited number of beneficiaries and activities (i.e. pupils or students in education), it is hard to see the many millions of students and pupils as constituting a “special” class as envisaged by the Berne Convention.
- ii) “no conflict with normal exploitation of the work” and “does not unreasonably prejudice the legitimate interest of the rightsholder”: CLA welcomes the Government’s view in recognising that collective licensing, and indeed other forms of secondary licensing, are part of the rightsholder’s normal exploitation of the work and one of the author’s legitimate rights that could be unreasonably prejudiced by an exception which obviated the need for a licence. However, it is important also to bear in mind the possible impact on primary sales of wider exceptions. It is almost impossible to prove a direct nexus between a lost sale of a book or a journal and the application of a liberal interpretation of a statutory exception, but it must be true at a general level that this can be the case. The committees in existence prior to the 1988 Act which led to the formation of CLA (e.g. De Freitas Committee, the Wolfenden Committee) all recognised the potential impact of photocopiers on sales of educational texts. The same is true, or possibly even more so, in the digital age.

2.3 **Technological Protection Measures (“TPMs”)**

The Consultation Document asks some general questions as to whether the beneficiaries of exceptions should be able to make use of the remedy in the Copyright, Designs and Patent Act 1988 (“CDPA”) where TPMs prevent the exercise of permitted acts. There is an argument that section 296ZE of the CDPA, which was introduced by secondary legislation (the Copyright and Related Rights Regulations 2003) incorrectly effected a fundamental change in copyright law which went beyond the scope of implementing the Copyright Directive, by introducing new rights. The fair dealing and other exceptions had traditionally only provided a defence against an action for copyright infringement without necessarily confirming them as a right. The distinction between the two may not have mattered hugely in practice in the analogue era when the subject of a sale was a physical product such as a book which by definition could only be physically possessed at any one time by only one person. But when the subject matter of the sale is a digital product, such as a literary work sold on a CD-Rom or available online via subscription or a music CD, the possibilities for this to be shared unlawfully, e.g. by file sharing amongst peer groups, increase dramatically. Casting the exceptions as a “right” that then have to be allowed or enabled by the rightsholders causes significant problems in practice – with, it is suggested, little commensurate benefit to users.

- 2.4 It is only right and appropriate that TPMs should be allowed to enable rightsholders to protect their legitimate interests. The authors’ exclusive right of authorising reproduction of these works under Article 9 of Berne must be prejudiced if such TPMs have to be disabled to allow the exercise of a so-called right. Even if it is accepted that the exceptions to copyright do more than provide a defence against an action for infringement and should be regarded as a right, the lack of legal certainty as to the extent and practical application of these provisions make it hard to see how this could operate smoothly. How can a rightsholder provide for a limited disabling of TPMs to accommodate an exception of an unknown extent, whilst preventing unlawful use? The potential for vast abuse (whether through organised piracy or by a multitude of individual acts of file sharing) surely outweighs any perceived benefit to users whose legitimate interest in obtaining access to the information or work in question can, and indeed are, met either through the ability to purchase the product or service directly or through collective licensing schemes.

- 2.5 It follows that CLA believes that any expansion of copyright exceptions as proposed in the Consultation Document should not be accompanied by an extension of s. 296ZE CDPA which appears not to have worked or have been needed at a practical level, and serves only to introduce confusion.

2.6 **Performers Rights**

- 2.6.1 The Consultation Document asks whether – in terms of exceptions – the corresponding provisions of the CDPA relating to Performers Rights should be amended. This, of course, could only relate to some of the recommendations (e.g. it is hard to see how performers rights could be affected by an amendment to s. 36 which deals specifically with reprography) and this does not directly affect CLA. We think the key to this is in the correct framing of exceptions with, in the field of artistic and literary works, a clear application of the Berne 3 Step Test.
- 2.6.2 Article 15 of the Rome Convention dealing with Performers Rights allows Contracting States to provide for exceptions for private use, short excerpts in connection with the reporting of current events and used solely for the purpose of teaching or scientific research. It provides also that Contracting States may provide for the same kinds of limitations to the protection of performers, producers of phonograms and broadcasting organisations in domestic laws as it provides in connection with the protection of copyright in literary and artistic works. This would also therefore suggest the application of the principles of the Berne 3 Step Test to any such limitations. Any extension of the exceptions to Performers Rights, as with the proposed exceptions affecting literary and artistic works, must be confined so as not to endanger primary sales or prevent the collection of a reasonable remuneration via collective licensing for secondary uses.

3. **Recommendation 2 – Extension to Educational Exceptions to Include Distance Learning**

- 3.1 Clearly it is the proposed extension to s. 36 that is most relevant to CLA, although it is conceivable that any extension to s. 35 to include on-demand communications within its ambit might affect some activities of CLA's rightsholders. Conventional hard-copy publishing, involving the production and sale of a physical copy of a work, is now complemented to a great extent by electronic products available on CD, as is preferred by schools, or online either as an outright purchase on a subscription or pay per view basis.

3.2 **Extension of s. 35 to include on-demand services in broadcast exception**

- 3.2.1 It is our view that in general the broadcasting exceptions should not be amended so as to include on-demand services within it. The rationale for the current exception is not that it is thought important that educational establishments should be able to obtain access to broadcasts for free, but rather that they should be able to obtain access at all. The communication/making available of a broadcast cannot be grounded in a typical contract for the sale and purchase of a physical product, but must be dealt with by way of a licence. It would therefore be difficult or impossible for educational establishments to access broadcasts lawfully under, e.g. the standard TV licence unless a separate licensing scheme was established.
- 3.2.1 The legislature recognised that such access should not be free by allowing for the displacement of the exceptions by certified licensing schemes which can charge an appropriate fee. But the problem of access to on-demand services does not arise at all since they are, by definition, available "on demand". There would only be a case of statutory intervention if the market failed to provide licensing models that allowed multiple receipts/viewing of a single broadcast and there is no evidence that this is the case. Extending s. 35 could risk jeopardising the continuance of such services or the launch of new ones.

- 3.2.3 CLA disagrees, therefore, that s. 35 should not be defined “by media” but rather by intent, category of views and activity as specified in paragraph 46 of the Consultation Document. On the contrary CLA think s. 35 should continue to be defined by “media” and focus on “broadcasts” as it currently does, albeit possibly amended to incorporate broadcasts that may be accessed by a viewer at a time of their own choosing where this facility is made available. This is essentially similar to the “time-shifting” provisions in intent.
- 3.2.4 The other issues surrounding s. 35 mentioned in the Consultation Document are repeated in considering the proposed extension to s. 36 and are dealt with in our submission on that below.

4. Section 36 – Extension to include Virtual Learning Environments (“VLEs”) and Distance Learners

- 4.1 CLA, in conjunction with representative bodies within the various educational sectors, has worked to develop licensing solutions allowing educational establishments to scan hard copy material and to disseminate the digital copy thus created to their students or pupils for educational purposes. It should be noted at the outset that this is slightly wider than the problem that Gowers focussed on in terms of distance learners and VLEs in that before these or other transmission methods can be employed, the original digital copy needs to be created in the first place. This, of course, requires the copyright owner’s permission since it involves copying and indeed transferring a hard copy into a digital product. This digital product has a greater value to the user, but equally presents a greater threat to rightsholders if not done with consent or properly licensed (our comments on the proposed format shifting section below at paragraph 5 are relevant here).
- 4.2 CLA launched a basic scanning licence to the Further Education sector in 2003 and a licence for Universities and other Higher Education Institutions (“HEIs”) was negotiated with UUK/GuildHE in 2006 to allow extracts to be scanned to produce digital copies to be used in courses of study. Finally, CLA has launched (with effect from 1st April 2008) a schools scanning licence which will also allow digital copies to be created by schools and transmitted electronically to their pupils. All of these licences address the issue of delivery to distance learners and are drafted so as to be “technology neutral” therefore allowing presentation through VLEs, PowerPoints, etc. A copy of each of these three core licences is attached. It might be thought therefore that expanding s. 36 is providing a solution to a problem that for the most part does not exist.
- 4.3 CLA is in the process of broadening its repertoire so it is likely that in the near future only those copyright owners (whether UK or overseas) who have specifically excluded their works would not be encompassed by a CLA licence covering scanning and electronic transmission.
- 4.4 **Consultation Document Questions**

Q1: What impact would the expansion of the educational exceptions have? What cost or benefits would accrue to rightsholders and users of copyright works?

CLA answer: The expansion would certainly clarify the rights of users as regards any repertoire not covered by CLA or other licensing schemes. This would clearly be a benefit to users, but it should be recognised that their legitimate needs are being met through voluntary licensing solutions. The additional cost to users of the scanning/digitisation rights is generally quite modest given the greater utility that is offered. The trial scanning licence for HEIs placed a figure of 50p on the scanning right, albeit this was negotiated in the absence of any hard data as to the use and value of scanning by HEIs and this rate is currently part of the renegotiation for the renewal of the licence which expires in August 2008. The increase proposed, for this year, for schools with the addition of scanning rights is 5% plus RPI. As was the case with the HE licence, this is being offered obviously in advance of any data as to

the volume or value of scanning to schools and the rate may have to be reviewed in the future.

For CLA's rightsholders, assuming of course that, as envisaged by the Consultation Document, any expansion of the exception would be subject to a licensing scheme, the benefit would depend upon the rate that can be charged for the additional use of copyright works, which is ultimately subject to the control of the Copyright Tribunal. Although not the subject of this Consultation, it should be noted that the recent reports on the Copyright Tribunal from the IPO and the DIUS Select Committee found that there is a need for reform to restore faith in it on the part of rightsholders. It must be remembered that any analysis of the risks and benefits to rightsholders of an extension to copyright exceptions is crucially dependent on the fairness and operation of the Copyright Tribunal to which collecting societies and their rightsholders are subject.

The risk to those copyright owners not represented by CLA or other licensing schemes is in the lack of remuneration for the use of their work under the exception and the risk to primary sales. A risk that applies to all rightsholders is abuse of the section in that whatever limits are imposed, it can be difficult to monitor or enforce in practice and can lead to instances of excess copying which may significantly increase the threat to primary sales.

Q8: Should limits be placed on the form of communication used by educational establishments to communicate extracts to distance learners?

CLA Answer: There should certainly be geographical limits to any proposed expansion of this exception. The exception should make it clear that it would only apply to communication to members of the educational establishment within the UK and that sharing between institutions is not permitted. It should be clear that distance learners based overseas should not be covered by this exception which should be aimed at ensuring that UK students and pupils are able to access learning materials provided by their educational institution. This may include genuine distance learning students (probably in the tertiary education sector, but might include those living in remote locations) or those with a learning disability. Overseas distance learning students are generally taking a commercially operated course – but whether or not the course is operated on a commercial basis, it should not benefit from a UK exception. It should also be the case that the exception, as now and in addition to being limited to applying to “educational establishments” for “the purposes of instruction” again should not apply to those operating on a commercial, for profit basis wherever they are based.

Generally technical limits on the communication would appear to be ineffective and probably unnecessary (see below).

Q9 & 10. Should the expanded exception be limited to communication inside a VLE? Should communication by e-mail outside a VLE be permitted?

CLA Answer: Any attempt to limit communication to a VLE may quickly become outdated as technology and the services and products available change. Indeed it would be hard to settle on a clear definition of a Virtual Learning Environment that met all current needs let alone unanticipated future needs. CLA believe that any such exception should be technology neutral as is the case with the current suite of CLA licences so that, for instance, communication by e-mail might be permitted. The key here is the security of the transmission, as to which see below.

Q11. Do you agree that access should be subject to security measures, such as a requirement to enter a secure password in order to access the recording? What other security measure might be appropriate?

CLA Answer: Yes; we would refer to the definition of “Secure Network” in CLA licences which has been built upon similar definitions agreed in standard licences in both the educational and corporate sectors. The key elements of this are that:-

- i) there is a network, which may be a standalone network or a virtual network within the Internet. Generally e-mail traffic on, e.g. personal e-mail accounts, should not be permitted;
- ii) the network is only accessible to individuals who are approved by the licensee for access;
- iii) such individuals must authenticate their identity at the time of log-in and periodically thereafter generally by the use of passwords;
- iv) such log-in and authentication to be in accordance with current best practice (thereby 'future-proofing' to some extent);
- v) and whose conduct is subject to regulation by the educational institution.

The latter point is particularly important. It is vital that the educational institutions seeking to benefit from an exception should accept the responsibility of alerting their students to the existence of copyright. They must endeavour to control conduct so that it complies with the limits of any statutory exception just as under any licence they are required to endeavour to ensure compliance with licensing terms. This could include the use of appropriate student disciplinary measures for breach of those conditions; for instance password sharing or "trafficking" can easily break security and lead to widespread infringement. CLA would expect institutions benefiting from such an exception to withdraw access immediately and consider other disciplinary measures available to them.

Q12 & 13. Who should be able to access extracts made available by an educational establishment in a VLE? Is the reference to "teachers and pupils at an educational establishment and other persons directly connected with the activities of the establishment" in section 34 sufficient or too widely cast? What level of responsibility should an educational establishment have for maintaining the security of a password-protected VLE?

CLA Answer: CLA believe that the exception should be limited to staff, students and pupils. The phrase "other persons directly connected with the activities of the establishment" in s. 34 is there for a different purpose and would lead to uncertainty as to who was covered and for what purpose. You will note that CLA licences may extend the category of persons to whom copies can be made, and currently there is a wider category of persons for paper copies than for digital copies, again depending on access to a "Secure Network". But an extension of the exception beyond those directly involved in the giving and receiving of instruction would be unwarranted and should be left as a matter for licensing as appropriate and by agreement between the rightsholders and their agents, the collecting societies, and the various user groups.

Q14. How should onward communication beyond a secure environment be prevented?

CLA Answer: It is very difficult to see how such communication can actually be prevented – as opposed to being prohibited. Inevitably there will be those who seek to abuse exceptions and/or licensed permissions, but any attempt at a technical solution, e.g. by trying to limit it by something called a VLE, is likely to fail while possibly causing greater disruption to the law abiding majority. CLA think the best approach is to ensure that educational establishments accept the burden of raising copyright awareness amongst their staff and students and to be vigorous in monitoring usage of the learning materials and applying, where appropriate, disciplinary measures. Another part of the answer to this, again not the subject of this Consultation, is to ensure the correct legislative regime for enforcement of copyright by providing effective, dissuasive and proportionate remedies as envisaged by the Copyright and Enforcement Directives, including a right for collecting societies and other intellectual property right management bodies to have a right of action (a Representative Action) in accordance with the Enforcement Directive.

Q15. Should Section 36 be expanded to included classes of work other than short extracts from published literary, dramatic and musical works? If so, what classes of work should be included?

CLA Answer: CLA think the answer to this lies again in understanding the need to ensure that educational institutions can have access to learning materials rather than they should have access at no cost. The current s. 36 exception for reprographic copies limited to 1% of a work per quarter should be seen less as a “right” for schools, colleges and universities, but more as a statutory safety net to ensure some access is possible should rightsholders not deliver licensing solutions. CLA are not convinced that there is any particular need for the exception to be extended in the way described because of a lack of potential access. CLA would point out that CLA licences do include artistic works so far as they occur within a book, journal, magazine or other periodical. CLA would be willing to work with other collecting societies towards delivering a solution to any genuine requirement for licensing of multimedia works.

Q16. What consequences would such an amendment have on rightsholders?

CLA Answer: As stated above, CLA are not convinced of the need for this expansion and would be concerned that it could have adverse effects on the development and launch of products designed to meet any such need as arises. Any limits that could be set (see below) would necessarily be open to abuse, thus exacerbating the problem. It must be remembered that it is in the interest of authors, visual creators and publishers to produce works relevant to the needs and demands of schools, colleges and universities at a fair price. Generally once the demand is established, the market will ensure there is a supply to match it.

Q18. If the exception is expanded to other works, what limits should be placed on the size of extracts? Would the application of existing limits to other works be desirable or practical?

CLA Answer: Numerical limits in the current s. 36 applying to reprographic works are generally well understood and capable of some form of measurements, although even this can be problematic. It is hard to see how such numerical limits could be imposed on other classes of work (how do you measure 1% of a painting?) which might suggest a solution of a generalised description such as “small portion” or “insubstantial”. But apart from the uncertainty that this would undoubtedly generate, it would increase the possibilities of abuse. At best, teachers and others trying to comply with the law would struggle to understand what it meant and when they were operating within appropriate limits, and at worst it could allow the use/abuse of extracts of such a size as to damage primary sales.

4.5 **Other Issues**

4.5.1 “Dealt with”:

this definition is less problematic for s. 36 than for s.35 which currently specifically prohibits communication from within the premises of educational establishment to any person situated outside those premises. For s. 35 any inclusion of distance learners within the exception necessarily requires that to be revised. The current definition in s. 36 however contains no such restriction and is, for most purposes, serviceable in that it prohibits any sale or letting for hire. The final limb of the definition in s. 36 (Communication to the public) does require some revision, but this could be addressed by a cross reference to those who are able to access extracts (teachers, students and pupils as above) and confirmation that communication to them by the educational institution for educational purposes and as part of their educational studies does not equal “communication to the public”. If the mechanism of a “Secure Network” is used as described above, then some of the problems envisaged in paragraph 72 (page 13) of the Consultation Document would simply not arise. The simple answer to the question of whether transmission to an incorrect e-mail address would produce an infringing copy is that technically it would. It is of course entirely

unlikely that a single instance of transmission to an incorrect e-mail address would be likely to result in any action or liability.

4.5.2 European Law and 3 Step Test:

this is covered in the introduction to this submission.

4.5.3 Digital Rights Management ("DRM"):

s. 296ZE would, without more, apply by default to any extension to copyright exceptions, including the education specific exceptions of s. 35 and s. 36. Our views on the legal basis and practical effect of this section were covered in the Introduction. In addition, s. 296ZE is dealing with the application of effective technological measures to a copyright work and is therefore necessarily dealing only with electronic products, whereas the problem identified by the Gowers Review relates primarily to hard copy works that could be photocopied and distributed by hand to a class – see for instance paragraph 5 (page 2) of the Consultation Document referring to the purpose of s. 36 to allow “educational establishments to copy (usually by photocopier)” and also to paragraph 60 (page 12) of the Consultation Document stating the current exception is “aimed at permitting teachers to prepare ad hoc hard copy “handouts” for their pupils”.

It is true that the definition “reprographic process” in s. 178 of the CDPA includes reference to works “held in electronic form” and therefore “any copying by electronic means”. But this again touches on the fundamental difference between a sale of a physical hard copy product (which does not require a separate licence to be granted to allow use of the original acquired) and the sale of an electronic product which can only be handled by means of a licence. Electronic products, whether sold online or offline, will come with licence terms specifying, amongst other things, the classes of person who may access the product and where different pricing models will depend on the size and width of that class. Should any educational establishment wish to acquire a licence permitting use of interactive whiteboards to enhance the classroom learning experience or to allow extracts to be sent to distance learning students by electronic means, they can achieve this through a licence from the supplier of electronic product (and which, in accordance with s. 36 (3) would displace the statutory exception).

CLA would suggest that it would needlessly complicate a relatively straightforward expansion of the exception to include consideration of the possible application of TPMs preventing the exercise of “permitted acts” (with an underlying and contested notion that they are “rights”) and which can only apply to products sold originally in electronic form which do not present the problem which Gowers is seeking to address. It follows, therefore, that CLA believes that s. 296ZE would have to be amended to as not to apply to these exceptions.

5. Format Shifting

- 5.1 It is worth making a point of principle that we have made previously in our communications with the IPO to do with an issue of terminology. The proposed new exception relates to “format shifting” and we are most anxious to distinguish this from what we would term as “media shifting” (converting a paper copy to a digital one) and which we do not think should be the subject of an exception at all.

To quote from our letter of 28th February 2007:-

“**Format shifting**, we think, should mean shifting the same content – and in the same media – from one digital carrier to another. Digitisation however involves upgrading from paper to digital – a different medium with vastly greater utility and potential for copies to proliferate

without any recompense for rightsholders. It isn't just a copy; it is a different product. We would regard this as **media shifting**.

Documents which have been "media shifted" using such ubiquitous technology as digital cameras and scanners can even now be converted using run-of-the-mill OCR software into digital files which can be manipulated, stored as part of a database, and searched using keywords. The process is already relatively quick using readily available consumer products, the technical efficiency and speed of which can only increase. The utility of the end product is of a different order entirely from that offered by the paper version. Whilst media shifting might be permitted as an exception only for archival purposes in accordance with the Gowers recommendations, media shifting for other uses should only be permissible under licence. It should not form part of a statutory exception."

- 5.2 The Consultation Document is clear that in this phase of implementation of the Gowers Review this exception is being discussed specifically to deal with the perceived problems with recorded music, and possibly also of films. But in both the main commentary and in the Impact Analysis for the format shifting recommendation, it is seeking evidence on a possible extension of this proposed exception to cover all classes of work ("option 2"). We are concerned at the examples given on page 17 envisaging the possible scanning of artistic works and literary works which we think are unnecessary and highly dangerous. In short, CLA would ask that any proposed format shifting exception (if required at all) should be strictly limited to music and possibly films where the problem first arose, and that this should not provide an opportunity for some lateral thinking as to which other areas such an exception might conceivably apply.

None of this should be taken as meaning that CLA agrees that a format shifting exception is necessary at all – CLA is happy to associate itself with the submission of AAIP – but simply that there is definitely no case for it to apply at some point to hard copy printed publications of literary works, including artistic works. We therefore address Questions 19 – 29 on the basis that it were being proposed that a format shifting exception should apply to all classes of work.

Q19. What impact would the introduction of a format shifting exception have? What costs or benefits would accrue to rightsholders and users of copyright?

CLA Answer: Were a format shifting exception to be so drafted as to be capable of applying to printed literary works, CLA thinks that the impact is likely to be adverse and potentially highly significant, with little legitimate benefit to users of copyright. The example given at page 17 of the Consultation Document suggests it may be desirable to allow users to scan a literary work into a portable electronic reading device to read while travelling. We disagree. It would be highly undesirable to allow such activity which, contrary to the last sentence, we do not consider would be legitimate and might impinge on the potential for, or viability of, the publication and sale of an electronic product in the first place. It is hard to believe that legitimate users would actually find the process of scanning a book of hundreds, perhaps thousands, of pages on to a portable electronic reading device to be a worthwhile, cost effective or useful activity and that little extra is gained in the way of convenience in terms of carrying a portable electronic reading device (such as a laptop) instead of a relatively small and lightweight book or journal. Clearly this should be left to the market to provide devices to allow reading with a market in the sale of literary content rather than it becoming a subject of statutory exception which could render stillborn the infant e-book/reader market.

Q20. Do you agree with the conditions proposed above?

CLA Answer: In any format shifting exception, CLA would certainly agree with the conditions proposed, but would want it to be clear that it did not apply in the first place to printed literary works and that, whatever the category of work in question, it should never apply to a copy generated from the use of an exception (e.g. fair dealing) as opposed to a paid-for acquisition.

Q21-23: Are covered by what is said above.

Q24. Should the proposed format shifting exception be limited to recorded music and film or should it also apply to other works? If so, which ones?

CLA Answer: CLA believes that any format shifting exceptions, as stated above, should definitely not apply to any categories of work (other than recorded music and film if indeed even this is necessary or appropriate).

Q25. What impact would the introduction of a format shifting exception have on particular sectors of the creative industries?

CLA Answer: The impact could be potentially damaging to the existing hard copy world of publishing in that it could potentially lead to a peer file-sharing culture that could devastate original sales of literary work similar to the music industry and could prevent the launch at all of successful e-book reader products.

Q26-28. How many format shifts would be allowed? Should the exception allow additional format shifts to take account of changing technology? Should more than one copy be allowed to address the technological process of transferring content?

CLA Answer: The key to all these is in correctly defining what is a format shift as opposed to media shift, in other words allowing, for private use only, an individual to play or display on any number of digital media or carriers they own, content they have themselves purchased – and for private use only. Technology may develop different digital carriers, but the fundamental difference between an analogue (hard copy) product and digital product must be recognised by any exception.

Q29. Should the exception apply to what works and from what date should the exception apply?

CLA Answer: The difficulty of answering this question sensibly demonstrates the problem with the proposal that there should be an exception at all. If copyright law is not to be changed retrospectively, an exception could only apply to new works published after the date of any implementation of a new exception. This would necessarily imply that the work has also to be purchased after the date of the law changes, but since the change has been proposed in response to a current problem reflecting current and historic consumer behaviour, it is unlikely that consumers and users pay any attention to such distinctions. This rather suggests that the better solution would be a voluntary licensing one rather than a statutory exception. Alternatively, any format shifting exception (narrow and concise in its application as described above) could only apply to the extent that there was no licensing scheme available. In this case, it might be appropriate for the exception to apply to copies made after the date the law changes.

6. Recommendation 9 extending the exception for copying for research and private study

- 6.1 The proposed extension of this exception does not affect CLA's core activities and so we do not address specifically questions 30 to 49 of the Consultation Document. CLA would only note that any proposed expansion of copyright exceptions always needs to be measured carefully against the scale of the genuine need versus the possible risk to rightsholders. Exceptions need to be narrowly drafted clearly targeting their intended beneficiaries, as all too often they are capable of having a wider and unintended application. As noted in the introduction, all copyright exceptions should be made specifically subject to the Berne 3 Step Test and to the various requirements in the Copyright Directive for fair compensation.
- 6.2 The Consultation Document rightly notes the risk of blurring the distinction between the general "fair dealing" exceptions contained in s. 29 and s. 30 with the education-specific exceptions contained in s. 32, et seq. Since the main problem that this proposed exception is intended to address lies in the educational sphere, it might be appropriate to consider an

approach similar to s. 35 and s. 36 in that the needs of educational institutions could be met by a statutory safety net which applied in the absence of any voluntary licensing scheme. In this way the key purpose of access, as opposed to free access, would be met.

- 6.3 The Consultation Document also notes (paragraph 164, page 26) that the issue of DRM is a significant one for rightsholders in this area, and notes in paragraph 165 that the UK is obliged by EC law “to provide a DRM work around arrangement for copies required for the purposes of scientific research”. But this is only required where the member state has chosen to allow such an exception in the first place and where, in accordance with the Copyright Directive, that exception complies with the Berne 3 Step Test and provides fair compensation. Again a licensing solution that allows rightsholders to be compensated meets the requirements of the 3 Step Test enshrined in the Copyright Directive whilst the licence itself allows access, obviating the need for any statutory exception and the disapplication of DRM to allow that exception to be utilised.

7. Recommendations 10a and 10b – Amendment of Library Privilege Exceptions to Extend Permitted Acts for the Purposes of Preservation

- 7.1 Many of the issues raised here (3 Step Test, DRM and disapplication of TPMs) are covered elsewhere in this submission. Recommendation 10a, extending the scope of the current library privilege exceptions to include all classes of copyright work, does not affect CLA beyond the general principles relating to exceptions already discussed.

7.2 Recommendation 10b

“Prescribed libraries to be able to format shift works held on unstable media to preserve permanent collections in an accessible format and that museums and galleries should be added to the prescribed libraries exception”.

As recognised by the Consultation Document, it is important that this exception is limited to archiving and does not permit any subsequent dealing or exploitation. It must certainly not allow remote access, and even on-site access to archived copies must be subject to a condition that it does not substitute for primary sales. After all, archiving a paper copy in an electronic form then allows multiple simultaneous viewing that could otherwise only have been achieved through the multiple purchase of the work. Also, archive copies must be taken from legitimately purchased copies and not from legal deposit copies.

Q50. What impact would the expansion of the exception for libraries and archives have? What costs or benefits would accrue to rightsholders and users of copyright?

CLA Answer: The Consultation Document notes in paragraph 173 (page 28) that the current exception provides for prescribed conditions with which a prescribed library or archivist has to comply in order to use the exception. S. 42 (2) CDPA specifies that those conditions should include “provision for restricting the making of copies to cases where it is not reasonably practicable to purchase a copy of the item in question to fulfil that purpose”. CLA agrees that any expanded exception must also be subject to this condition. The prescribed conditions are set out in the Copyright (Librarians and Archivists) (Copying of Copyright Material) Regulations 1989 SI No. 1212 (the “Regulations”). However, no library outside the UK should be a library prescribed for the purposes of receiving a format shifted (i.e. an electronic) copy pursuant to the provisions of the Regulations and to this extent Part B of Schedule 1 of the Regulations would need to be amended or disapplied. The “prescribed conditions” should include a requirement for the library to keep records of the occasions on which it uses the benefit of this exception with an indication of the steps taken to identify whether it was reasonably practicable or not to purchase another copy of the item in question.

Further, as noted above, the ability to reproduce a paper copy of a literary work into a digital copy to which there can be multiple and simultaneous access could substitute for the purchase by a library of more than one copy and so the prescribed conditions ought not to be

limited just to “reasonably practicable” efforts to acquire another copy, but to acquire as many copies as might be required for the likely demand for access to the work in a permanent collection.

Q51. What are the consequences, for rightsholders and beneficiaries, of extending section 42 to cover all classes of works?

CLA Answer: The current exception is limited to “literary, dramatic or musical” works and the Consultation Document proposes to extend it to all classes of work “including sound recordings, films or broadcast”. It does not specify “artistic” works, which are therefore proposed to be included almost by default. This falls outside of CLA’s remit (except to the extent that the artistic work may occur within the pages of a book, magazine or journal), but we note that format shifting original paintings, photographs and illustrations raises certain practical difficulties and issues of principle that require consideration.

Q52 & Q53. Is it necessary to restrict the number of copies made for preservation purposes? If so, why, and how many copies should be permitted?

CLA Answer: It would be difficult to agree on a numerical limit, so the restriction should be, as noted in the Consultation Document, to as many copies as are required for the purposes of preservation.

Q54 & Q55. What would be the impact on rightsholders if section 42 was extended to cover museums and galleries? What types of museums and galleries should be included? What criteria should they meet to qualify?

CLA Answer: In terms of literary works, there seems no obvious reason why museums and galleries should not be added to the class of institutions capable of benefiting from this exception provided they are subject to similar or analogous conditions as are laid down for prescribed libraries.

8. Recommendation 12 – Caricature, Parody or Pastiche Exception

- 8.1 In common with many other commentators, it appears to us that there is no proven need for an exception, the extent and application of which would be clouded in uncertainty and would probably cause more problems than it could hope to solve. There seems no real evidence that the current regime acts as a disincentive to the creation of new works that might supposedly be encouraged by the introduction of such an exemption which CLA firmly opposes. Accordingly we do not answer specifically questions 56 to 60.

Appendix 1 – Impact Analysis and Call for Evidence (Recommendation 2)

Most of the points and issues covered in the partial impact assessment have been commented on in the main submission.

1. Rightsowners represented by CLA

We have commented above on the relatively modest fee increases charged or proposed to be charged by CLA to extend its licences to cover the scanning and making of digital copies and then their use in the provision of education. It is worth noting that these licences are in a trial phase and that the fees and the grant of rights may need to be revised in the light of further experience as to this use and value to the user and to the potential impact on these primary sales. It is a core value of CLA licences that they must not substitute for the original purchase of the product and that CLA licences must complement, and not compete with, the primary sales activities of their rightsholders.

It is also worth noting that the partial impact assessment is wrong in stating that rightsholders would be benefit from increased revenues as a result of any expansion of the statutory exception afforded by s. 36. S. 36 itself will not provide any revenue for rightsholders; that will come only from the issue of a licence scheme on behalf of rightsholders which, as current CLA licences show, do not depend on there being a pre-existing exception curtailed only to the extent that a licensing scheme exists. Rather one starts at the opposite end of the spectrum in that the exclusive rights of reproduction and communication afforded to the copyright owner require a user to obtain the copyright holder's licence to undertake these acts in the first place.

2. Rightsholders not represented by CLA

It follows that such rightsholders will be prejudiced by any proposed exception as their rights will be constrained by the exception and they will not automatically receive any compensation or remuneration for this use. If they wish to receive remuneration, they will be forced to contemplate joining a collective licensing scheme such as that operated by CLA or launching their own.

3. Educational establishments/education authorities

For students and teachers, the benefits listed here will, of course, only apply to those works where the rightsholders are not currently represented by CLA as the CLA licence already grants these rights for the vast number of rightsholders that it represents.

4. Call for evidence

“The percentage of extracts of published works currently used by educational establishments that are covered by licensing schemes”.

It is hard to put a percentage on this; the vast majority of the UK repertoire is covered by the CLA scheme, but there is less extensive coverage of overseas works.

“The demand for communicating extracts of published works digitally to distance learners, and for displaying such extracts on interactive whiteboards”.

According to CLA's most recent state schools sector research (QI Statistics “Schools Scanning Research Spring 2008”), the following was reported:

- 84.2% of primary schools and 75% of secondary schools replied that they used digitised copies with digital whiteboard/presentation software;
- 30.8% of primary schools and 45% of secondary schools replied that they used digitised copies with a VLE;

- 10% of primary schools and 50% of secondary schools replied that they e-mailed digitised copies to pupils.

CLA found similar findings from its November 2006 “Digital use of published material” survey of Scottish Schools (run in partnership with Learning and Teaching Scotland via the LTS website).

According to CLA's most recent FE sector research (QI Statistics “FE Scanning Questionnaire Autumn 2007”):

- 40% of respondents reported they e-mailed copies to students, and;
- 60% of respondents reported they used digitized copies within a VLE/Intranet.

For Higher Education, the predominant trend is generally towards more E Learning rather than Distance Learning per se, i.e. regardless of whether a student is studying by means of regular classroom based tuition or studying at a Distance. There is a growing demand for teaching/learning resources (whether scanned from printed books, journals and magazines or derived from e books or e journals) to be available electronically.

While there is heavy use of Virtual Learning Environments and projected display of PowerPoint presentations on screen, CLA is unaware of demand for interactive whiteboard technology in HEIs.

“The demand for distance learning generally and whether it is growing”.

All the indications are that this is growing most rapidly in the FE sector, with HE and schools following on thereafter. This is due, no doubt, in large part to the long-standing role of FE colleges in distance learning provision based originally upon the principle of community outreach, which over time, has extended more significantly to overseas-based learners. The majority of distance learning in the UK post-compulsory education sectors is delivered through the FE sector.

The expanding work of the regional National Education Network members (including the LTS Glow platform, the various Regional Broadband Consortia and C2KNI) indicates demand is increasing.

According to a recent OECD/PISA report:

- UK schools have the most computers per pupil in the world (based upon a study of 57 countries);
- more than £3 billion has been spent on computer equipment in UK state schools in the past 8 years.

As noted above, HEIs seem to attach greater strategic importance to the expansion of ‘E Learning’ and ‘Blended Learning’ than to Distance Learning. Some Learning Technologists assert that “all HE students are now, to a greater or lesser extent, Distance Learners”; reflecting this point, there is no longer a consensus within the Higher Education community about how to define “Distance Learning” as a mode of study. This makes it problematical to point to definitive trends – though it is probably accurate to say that there is an upward trend in: (a) the number of students based overseas enrolled on courses/programmes at UK HEIs; (b) the number of students studying on a part time basis.

“Which social groups make the most use of distance learning? Are certain vulnerable groups disproportionately represented?”

There is little information on this, but it is not always vulnerable groups who benefit from distance learning. For example, the DLC pilot licence in Yorkshire was developed specifically to enable delivery of distance learning to gifted learning pupils - rather than the opposite. The CLA/LTS “Digital use of published material” survey of Scottish Schools examined the pedagogical importance and benefits of the new learning technologies in some detail. It identified that the use of ICT enables “equal access for print-disabled pupils: those who cannot see the text (visually impaired), who cannot read the text (dyslexic), who cannot handle the books (physically impaired), who cannot understand the text (learning impaired).”

“What licensing schemes will be introduced as a direct result of expanding the exception, and the estimated administrative costs for those operating the licence schemes?”

CLA has already launched its scanning licence for schools.

“The impact on education outcomes”.

The government drive for personalised learning is making teachers tailor learning resources to individual pupils more than before. Schools need licences that enable them to do this using techniques such as digital ‘cut and paste’ and to make full use of the features of new technologies like digital whiteboards. CLA’s enhanced licences enable teachers to do the everyday things they need to do in order to provide the best learning experience for individual pupils, but doing so within a blanket licence framework.

The CLA/LTS survey findings included:

- Individualised programmes of study were possible, giving rapid feedback to learners;
- Interactive learning, e.g. using whiteboards, involves children fully in the teaching/learning process;
- Opportunity for very young children to access resources in a safe environment.

“The price sensitivity of smaller educational establishments to prices of licence schemes”.

All of CLA’s education licences are based upon the size of the student/pupil population of the licensee. In this respect, all such licences issued by CLA are proportional to the size (and therefore the price sensitivity) of the licensee.

In the HE and FE sectors CLA negotiates licence fees with representative bodies of the sectors (e.g. UUK and AoC). These negotiations are on the understanding that almost by definition, blanket licensing schemes are aimed at providing a simple, cost-effective solution to rights clearance for licensees and can only be offered on a cost-effective basis by CLA when there is no tailoring of the licence terms to individual needs. There is less variation in size of institution in HE than there is in FE (partly because the FE sector is approx 2.5 times the size of the HE sector in institution number terms).

There is more significant variation in size of institution within the state schools sector, but again, all Local Authority maintained schools continue to be licensed with CLA.

Response of the Intellectual Property Law Committee to HM Government consultation on copyright

The City of London Law Society (“**CLLS**”) represents approximately 14,000 City lawyers through individual and corporate membership including some of the largest international law firms in the world. These law firms advise a variety of clients from multinational companies and financial institutions to Government departments, often in relation to complex, multi-jurisdictional legal issues.

The CLLS responds to a variety of consultations on issues of importance to its members through its 18 specialist committees. This response in respect of the HM Government consultation on copyright has been prepared by the CLLS Intellectual Property Law Committee.

The CLLS is pleased to have the opportunity to comment on this consultation about copyright.

This Response has been prepared together with, and is endorsed by, the Intellectual Property Lawyers' Association (IPLA) and The Law Society's IP Working Party. The Law Society is the representative body for more than 145,000 solicitors in England and Wales that negotiates on behalf of the profession, and lobbies regulators, government and others.

We have responded to those questions where we believe that the CLLS, IPLA and The Law Society may contribute or express an informed opinion. We adopt the question numbering set out in Annex D to the Consultation document.

Orphan Works

- 1. Does the initial impact assessment capture the costs and benefits of creating a system enabling the use of individual orphan works alone, as distinct from the costs and benefits of introducing extended collective licensing? Please provide reasons and evidence about any under or over-estimates or any missing costs and benefits? The Government is particularly interested in the scale of holdings you suspect to be orphaned in any collections you are responsible for. Would you expect your organisation to make use of this proposed system for the use of individual orphan works? How much of the archive is your organisation likely to undertake diligent searches for under this proposed system? What would you like to do with orphan works under a scheme to authorise use of individual orphan works?**

Others are better placed to comment than we are.

2. **Please provide any estimates for the cost of storing and preserving works that you may not be able to use because they are/could be orphan works. Please explain how you arrived at these estimates.**

N/A

3. **Please describe any experiences you have of using orphan works (perhaps abroad). What worked well and what could be improved? What was the end result? What lessons are there for the UK?**

N/A

4. **What do you consider are the constraints on the UK authorising the use of UK orphan works outside the UK? How advantageous would it be for the UK to authorise the use of such works outside the UK?**

Foreign copyrights are foreign property rights. The whole basis of international copyright protection is one of national treatment i.e. other countries must afford UK originating works the same protection they give to works of national origin. They are not required to give the **same** protection as in the home country (except to the extent an aspect of protection is required under EU law or international agreement).

Notwithstanding the attraction of a "one stop shop", the extension of authorisation to exploitation of foreign copyrights is better left to European Directives or other international agreements.

5. **What do you consider are the constraints on the UK authorising the use of orphan works in the possession of an organisation/individual in the UK but appearing to originate from outside the UK: a) for use in the UK only b) for use outside the UK? How advantageous would it be for the UK to authorise the use of such works in the UK and elsewhere?**

(a) is acceptable so long as the legislation is tightly drafted to apply only to the specific case of an orphan work, and in terms that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author (i.e. the Berne Convention "3 step test"). (b) raises the concerns set out in our previous response.

6. **If the UK scheme to authorise the use of orphan works does not include provision for circumstances when copyright status is unclear, what proportion of works in your sector (please specify) do you estimate would remain unusable? Would you prefer the UK scheme to cover these works? Please give reasons for your answer.**

For an orphan works system to satisfy the Berne Convention 3 step test, there need to be clear rules as to what is and is not deemed to be an orphan work.

Where, following diligent search, it is unclear if a work is still in copyright because it is unclear whether and when the author has died, users may prefer to take a licence "in case". It might be possible to bring this within the licensing scheme, provided always that this does not involve any relaxation of the standards of diligent search. This system might be made even more attractive for users if it were provided that any fees paid could be recovered (less an

administration charge) to the extent the work is later shown to have been out of copyright.

7. **If the UK's orphan works' scheme only included published/broadcast work what proportion of orphan works do you estimate would remain unusable? If the scheme was limited to published/broadcast works how would you define these terms?**

Extending an orphan works scheme to unpublished materials raises wider concerns than for published works. Unpublished works may contain information that is confidential, highly personal, or even defamatory of third parties, or which an author or his/her heirs do not wish to put into the public arena for reasons of personal style and reputation.

This concern was reflected in Article 5(3)(d) Information Society Directive, leading to the amendment of s.30 Copyright, Designs and Patents Act 1988 to disapply the exception for fair dealing for criticism and review for works that have not been made available to the public. It might therefore be appropriate to adopt the definition of "making available to the public" in s.30(2) for the purposes of identifying which orphan works may be subject to licensing.

8. **What would be the pros and cons of limiting the term of copyright in unpublished and in anonymous and in pseudonymous literary, dramatic and musical works to the life of the author plus 70 years or to 70 years from the date of creation, rather than to 2039 at the earliest?**

2039 "at the earliest" comes from the policy implemented in the Copyright, Designs and Patents Act 1988 (see e.g. schedule 1, para. 12 (3)-(5)) to abolish the possibility of perpetual copyrights previously enjoyed by certain categories of works. Otherwise the general rules as to term are those set out in that Act (i.e. term varies depending on type of work and other factors).

For most works, the UK cannot unilaterally change the term of protection because the term of copyright is subject to EU maximum harmonisation as now described in Directive 2006/116 (superseding Directive 92/100/EEC, as amended). For example, Article 1.1 requires a term of copyright for literary and artistic works of life plus 70 years, regardless of when the work is published. Article 1.3 sets a term of 70 years from lawful making available to the public unless the author's identity is or becomes clear in that term, in which case life plus 70 applies. Article 4 provides that if a previously unpublished work that is out of protection is lawfully published or communicated to the public, a new 25 year term runs.

We wonder if this question is aimed only at those works whose term was left unaffected as a result of the transitional provisions of the Directive (see Directive 2006/116, Article 10.1) and in particular works whose term of protection was cut back (to end 2039) as a result of Schedule 1 para. 12 (3)-(5) of the Copyright, Designs and Patents Act 1988 (or similar provisions elsewhere in the transitional provisions to that Act). If this is the case, we are unable to comment on the number of works that would in fact become available for use as a result of passing into the public domain. We also wonder what is the justification for revisiting a policy decision taken in the 1988 Act roughly half way through the 50 year term the legislators then decided to apply.

9. **In your view, what would be the effects of limiting an orphan works provision to non-commercial uses? How would this affect the Government's agenda for economic growth?**

We agree that in practice distinguishing commercial from non-commercial is likely to be problematic. Provided the grant of licences is limited to published works, we believe there is widespread support for commercial use to be allowed, and that this can be justified under the Berne 3 step test in the context of true orphan works provided market rates are charged.

10. **Please provide any evidence you have about the potential effects of introducing an orphan works provision on competition in particular markets. Which works are substitutable and which are not (depending on circumstances of use)?**

What is substitutable depends on the work and the proposed use. In circumstances where a user wants to exploit a particular work, nothing is substitutable.

11. **Who should authorise use of orphan works and why? What costs would be involved and how should they be funded?**

The authorising body should be seen by all concerned as impartial and representing a fair balance between the interests of owners of copyright in orphan works and would- be users. It should be focused on checking whether a work is indeed an orphan work, and (only then) on settling appropriate terms for exploitation.

The UK has a range of existing incumbents who have experience in the administration of rights, and who are subject to scrutiny by the Copyright Tribunal. The proposed Copyright Exchange may also provide a suitable resource. There is no reason why only one body should be permitted to carry out this function. Indeed, there is a case for saying that existing bodies already involved in licensing similar types of work for similar types of use are best placed to know what appropriate terms are likely to be. This will assist in reducing transaction costs.

Since there is no guarantee that owners of orphan works will ever emerge, it is likely that authorising bodies will wish to recover their costs primarily from would-be users through the fees paid. It is also likely the first would-be user will bear a higher diligent search cost than subsequent users. Accordingly a charging structure that does not load all the administration cost on the first user would be more equitable.

12. **In your view what should constitute a diligent search? Should there be mandatory elements and if so what and why?**

Orphan work status should not be given lightly to stay within the Berne three step test. We favour minimum standards for what amounts to a diligent search, supplemented with a general requirement to take all other reasonably proportionate measures likely to identify or trace the author.

13. **Do you see merit in the authorising body offering a service to conduct diligent searches? Why/why not?**

Yes as it may have better resources to do this properly, but the fact the search is done by the authorising body should not automatically satisfy the obligation of the would-be user in all circumstances. For example, the would-be user may have relevant knowledge not known to the authorising body.

14. **Are there circumstances in which you think that a diligent search could be dispensed with for the licensing of individual orphan works, such as by publishing an awaiting claim list on a central, public database?**

No. Orphan work status should not be given lightly in order to fit within the Berne Convention 3 step test.

15. **Once a work is on an orphan works registry, following a diligent search, to what extent can that search be relied upon for further uses? Would this vary according to the type of work, the type of use etc.? If so, why?**

We do not think the fact a previous search has been conducted should be conclusive, but if the authorising body maintains records of the searches done we see no reason why these should not be made available to other would-be users. Unless the search was very recent, it is likely that some degree of refreshing would be required, at least.

16. **Are there circumstances in which market rate remuneration would not be appropriate? If so, why?**

It will be difficult to justify licensing of orphan works unless rightholders receive fair and equitable remuneration. It is hard to see how below-market remuneration could be appropriate.

17. **How should the authorising body determine what a market rate is for any particular work and use (if the upfront payment system is introduced)?**

If an authorising body is e.g. an existing collecting society or the Digital Copyright Exchange, it is likely already to have relevant knowledge which it can apply. Would-be users should be permitted to adduce evidence to support their contentions as to market rate. Oversight could be provided by the Copyright Tribunal.

18. **Do you favour an upfront payment system with an escrow account or a delayed payment system if and when a relevant copyright holder appears? Why?**

An upfront system with funds held in a separate beneficiaries account seems more likely to guarantee that authors will receive fair and equitable remuneration, satisfying the Berne Convention 3 step test. Otherwise they face the risk that users may not exist, or not be in funds, if royalties are only payable when claimed. Where the author is known but he or his heirs do not claim the royalties within a fixed period after the work goes out of copyright, the unclaimed royalties might be applied to defray the costs of the authorising body, or refunded or part-refunded to the user or to fund some other public good.

19. **What are your views about attribution in relation to use of orphan works?**

The right to be identified as author is guaranteed by the Berne Convention Article 6bis but normally has to be asserted. If there is no evidence it has been asserted it might still facilitate identification or tracing of the rightholder if it were a condition of the right to exploit orphan works that the author – where known - be identified. However, this may be practically difficult or inappropriate in some contexts. We therefore favour giving the administrative body explicit powers to require this as a term of the licence where appropriate (or, if preferred, to have the power to waive this requirement).

20. What are your views about protecting the owners of moral rights in orphan works from derogatory treatment?

We have very little case law on derogatory treatment, but this protection is required under the Berne Convention (Article 6bis). We suggest that any licence to exploit orphan works is subject to the right of the author (if he or she emerges) to object to derogatory treatment.

21. What are your views about what a user of orphan works can do with that work in terms of duration of the authorisation?

Some users may only require a short term licence for one off use. Other users may wish to include a work in a larger work that is intended to be available to the public without limit of time in circumstances that the licensed work cannot be substituted at reasonable cost and its removal would materially impact the ability of the licensee to exploit the work in which it is included.

It would seem draconian to give owners of rights in orphan works the power to hold users to ransom who have paid a market rate remuneration and built that into their pricing. The key, in our view, is to reflect the market rate value of the actual licensed use.

Extended Collective Licensing

This section of the submissions has been prepared with the assistance of a specialist lawyer from Sweden and our thanks go to Erik Ficks from Roschier in Stockholm. As referred to in the Consultation, Sweden, along with other Nordic countries have adopted an ECL system. Our response therefore makes comparisons with and includes references to first-hand experience from Sweden.

22. What aspects of the current collective licensing system work well for users and rights holders and what are the areas for improvement? Please give reasons for your answers.

The key issues with the current system are: complexity, involving multiple collecting societies, rights holders and users granting and seeking permission to use multiple works, which often require rights to be granted from more than one collecting society; and the lack of control and regulation around the collective licensing schemes.

The benefits of a collective copyright licensing system for both rights holders and licensees raised in the Consultation are acknowledged, primarily that in the absence of these societies, licensees would need to seek permission from each and every rights holder of copyright materials they use. Rights holders would have to negotiate licences with individual licensees and monitor and

enforce unauthorised copying of their materials. Collecting societies significantly simplify copyright licensing and save costs in this respect.

We consider the following areas of the current copyright licensing system could be improved:

1. The current system is complex, often requiring businesses to procure a number of licences from a number of different collecting societies. This can create confusion, uncertainty and an administrative and financial burden on businesses and others including educational establishments.
2. Different licences are required for different types of copyright material, with some overlap, for example, two different licences are required to play a recorded song in a public place, again leading to confusion, uncertainty and an administrative and financial burden on businesses and others.
3. There are no "standard licence terms" for use of copyright materials and so businesses need to be familiar with the different terms of and restrictions under a number of different licences which can be difficult to understand and again leads to confusion, uncertainty and an administrative and financial burden on businesses and others.
4. Existing licences do not necessarily cover all of the activities undertaken or copyright works used (only those belonging to the members of the collecting societies). These "gaps" leave users open to claims of copyright infringement and/or make them wary of using copyright materials. Fear of infringement can lead to missed opportunities to use copyright material, in particular in the educational world. This is an area where the ECL Scheme will help to alleviate the concern.
5. Existing licences fail adequately to deal with developing technologies, in particular the use of digital materials.
6. There is no "one source" to establish whether a copyright work is covered by a collecting society licence. It is therefore difficult to identify whether and within which licensing schemes certain copyright works fall. For example, if a prospective user wants to find out if a film is covered by an MPLC licence, there is no central database to determine this. Instead, organisations have to search for the producer/distributor of the film and then match this up with the participating rights holders, provided this information is available. There is no central database of copyright works available for schools to access and use which hinders their use of available materials. It is acknowledged that the Government's proposal for a Digital Exchange will help to alleviate this concern.
7. There is little information or advice available for organisations in relation to copyright licensing, without going to the collecting societies themselves and there may be concern that they may not be impartial or consistent in their advice.
8. Rights holders, through the collecting societies, are effectively free to dictate their own licensing terms and fees, with little control or consistency.

9. The existing collecting societies are controlled/regulated in the UK by their own constitutions and members. This allows the collecting societies to impose their own licence terms and licence fees on licensees. Licensees do have the right to complain to the Copyright Tribunal if they consider the terms or fees to be unreasonable. However, for SMEs, the costs and time in bringing such a complaint are likely to outweigh the potential benefits.
23. **In the Impact Assessment which accompanies this consultation, it has been estimated that the efficiencies generated by ECL could reduce administrative costs within collecting societies by 2-5%. What level of cost savings do you think might be generated by the efficiency gains from ECL? What do you think the cost savings might be for businesses seeking to negotiate licences for content in comparison to the current system?**

The cost savings for businesses will depend largely on the popularity of the ECL scheme with rights holders and the level of opt out. If the rights holders decide that the ECL scheme is less profitable and decide to opt out, then this will not create any real improvement to the current system.

The cost saving for businesses and others seeking to negotiate licences for content in comparison to the current system will probably be greater than the cost saving for the collecting societies or at least for those businesses that routinely negotiate licences with independent rights holders, depending on the take up of the scheme and the number of rights holders who "opt out". The main cost saving for businesses and other prospective users is likely to be in the administration and burden of identifying from whom they can secure the rights. We envisage that the collecting societies will incur not insignificant additional costs as a result of adopting an ECL scheme, in particular upfront costs, for example, the costs of applying for ELS approval; obtaining consent from its members; monitoring and applying rights holder opt outs and carrying out "searches" for the authors of works.

24. **Should the savings be applied elsewhere e.g. to reduce the cost of a licence? Please provide reasons and evidence for your answers.**

On balance, we consider the savings should be shared amongst the rights holders. However, this should also be a factor when considering any increase in licence fees (see Question 25 below)

The cost savings for the collecting societies should be distributed to the rights holders. The success and trust in collecting societies in the UK and the Nordic countries may be explained by the organisations being member-owned and run on a not for profit basis. Even if the proposal does not go as far as requiring that all UK collecting societies shall be member-owned and run on a no-profit basis, the costs for the administration and the percentage of the licence fees to be paid to rights holders as remuneration (royalty) should be one of the most important factors taken into account when considering authorisation of a collecting society to operate an ECL scheme.

25. **The Government assumes in the impact assessment for these proposals that the cost of a licence will remain the same if a collecting society operates in extended mode. Do you think that increased repertoire could or should lead to an increase in the price of the licence? Please provide reasons for your answers.**

We consider that an increase in price of the licence could be justified by the adoption of an ECL scheme, on the basis that the scope of the licence could be significantly extended. However, this should be balanced against the perceived value of the extended licences to most businesses; the anticipated cost savings for collecting societies; and the volume of rights holders that "opt out" of the scheme.

The key considerations are as follows:

1. CLS Members – if the price of the licence remains the same but the number of potential recipients of royalty payments increases (i.e. by extending the scheme to non-members), then the CLS members may feel that they are out of pocket, particularly if the "cost savings" of the ECL Scheme are not sufficient to neutralise the difference. It is therefore difficult to see the incentive for CLS members to consent to the ECL scheme for their sector if their royalty shares would not be maintained.
2. Licensees – where a CLS repertoire is increased through an ECL scheme, the licensee technically is getting "more for their money". This may be an advantage for certain licensees for whom the current collective licensing scheme is insufficient and who then also have to negotiate individual licences with rights holders. However, many individual licensees for whom the current licensing scheme is sufficient will not receive this benefit.

Our experience suggests that there is a general misunderstanding about the scope of collective copyright licensing in the UK. For example, a publican purchases a PRS for Music licence to allow them to play music in their pub. The publican may well be unaware whether the rights in particular music fall within the PRS for Music licence or not. It is uncertain what impact an extended licence would have on this general perception.

3. The extent of the "extended repertoire" – the adoption of an ECL scheme will extend the repertoire of the collecting society. However, the proposal is that rights holders will have the opportunity to "opt out" of the scheme. It is likely that where "high value" rights holders currently choose not to be members of existing collective licensing schemes on the basis that individual licensing is more profitable, they will also choose to opt out of the ECL scheme. If the volume of opt outs is significant in a sector it will be difficult to justify an increase in licence fees.
 4. Cost Savings – see question 24 above in relation to cost savings.
26. **If you are a collecting society, can you say what proportion of rights holders you currently represent in your sector?**
- N/A.
27. **Would your collecting society consider operating in extended licensing mode, and in which circumstances? If so, what benefits do you think it would offer to your members and to your licensees?**
- N/A.
28. **If you do not intend to operate in extended licensing mode, can you say why?**

N/A.

29. **Who else do you think might be affected by the introduction of extended collective licensing? What would the impact be on those parties? Please provide reasons and evidence to support your arguments.**

In addition to the collecting societies and licensees, we consider rights holders (member, non-member and orphan work authors) and consumers/end users will be impacted by the scheme.

Rights holders

- Collective society member rights holders will be impacted as the royalties collected by the collecting societies will be shared amongst a larger pool of rights holders (i.e. members and non-members), although it is anticipated that unclaimed funds will be distributed amongst members. The balance may be redressed if the ECL scheme results in equivalent cost savings and/or the royalty fees for licences are increased. The distribution of unclaimed funds we understand will be delayed by a certain period, to allow rights holders to come forward.
- Non-member rights holders will be able to take advantage of the ECL scheme and the distributions made under that scheme. Should they wish to continue to license their own works independently, they can choose to opt out.
- Non-identifiable rights holders who are not aware of the scheme may be impacted on the basis that their work may be used under licence without their knowledge or authorisation. Although this may be the case at present, failure to identify the author of a work may be a deterrent to copying under the present regime.
- It is important to note that the geographic scope of collective licensing schemes extends further than the UK as a result of reciprocal agreements between collective licensing societies. Overseas rights holders are also likely to be affected in a similar manner.
- Evidence from the Nordic countries suggests the ECL system(s) is favoured by rights holders.

Consumers/end users

- The ECL scheme is likely to extend the repertoire of copyright works available to licensees/users. This is likely to grant access to works where it would otherwise be difficult or impossible to negotiate a licence and to make available works that may otherwise be unseen.
- By way of example, we consider the ECL scheme will help to address a number of issues identified in relation to the use of copyright materials in schools (Pinsent Masons LLP report for BECTA May 2010 referred to in the Hargreaves Report). An ECL scheme that extends the repertoire of copyright works available under licence is likely to give teachers more confidence to copy and use copyright materials without the fear of exceeding the scope of their licence, benefiting both teaching staff and pupils.

30. **What criteria do you think should be used to demonstrate that a collecting society is “representative”? Please provide reasons for your answer.**

We consider the main criteria should be that the collecting society has the "most" members compared with any other collecting society in the same "sector". This will largely depend on how the relevant "sectors" are defined. Competition considerations should be taken into account in setting these criteria.

The Nordic model requires the collecting society to represent a substantial number of rights holders of the category of work in question. However, this could result in more than one collecting society being eligible in each sector (if more than one represents a "substantial number" of rights holders). If it is permitted that more than one collecting society can represent a particular "sector" category of rights in an ECL scheme, and new collecting societies are established in the various sectors, this could "devalue" the licences both for licensees and rights holders (in particular member rights holders). It does not seem appropriate that two collecting societies should represent both their own members and the rest of the rights holders in that sector.

If the requirement is that a collecting society represents the "majority" of rights holders, this may not be attainable in certain sectors where membership is low.

We consider that only one collecting society should be authorised to operate an ECL scheme within a specific field of use (or a clearly defined part of a field) at any one time.

The relevant "sectors" will require careful definition. We anticipate that to avoid a complete restructuring of the current collective licensing system, "sectors" will be based on the existing categories of rights currently represented by the existing licensing societies. However there should be scope to add to or amend these sectors to reflect the changing nature of technology. Currently, in the majority of categories, only one collecting licensing society operates within that category. It is likely that the representative nature of the existing collecting societies would be established. There should be a minimum threshold of members represented for new collecting societies and/or a minimum period of operation before it can apply for an ECL approval.

The proposal that only one collecting society could be authorised to operate an ECL scheme in a particular sector at any one time is reasonable. The legislation should not prevent a new collecting society replacing any previous one if the latter is better suited.

Care should be taken so as not to limit the "sector" in a manner which does not reflect the fields of use (including defined parts of a field which could benefit from having a separate collecting society authorised).

Provision for extensions to existing fields and the addition of new fields following implementation of the extended collective licensing scheme should be included.

The requirement to be representative and to have a substantial number of the relevant sector should, however, only apply to the collecting society's home country. It should not be required that the collecting society should represent –

through reciprocal agreements – the repertoire of a number of foreign countries. In most areas such international representation does not exist. Consequently it should be enough that the collecting society is representative at the national level.

31. **Do you think that it is necessary for a collecting society to obtain the consent of its members to apply for an ECL authorisation? What should qualify as consent - for example, would the collecting society need to show that a simple majority of its members have agreed to the application being made?**

The input of and support of the members of the collecting societies are imperative to the continued operation of these organisations. The impact on member rights holders has been identified above. It cannot reasonably be justified to introduce an ECL scheme without member consent. Some collecting societies may have existing constitutions that provide for member approval of certain matters. The procedures laid down in any existing collecting society constitutions for getting member approval should not be bypassed or ignored.

The majority of UK collecting societies are member run, not for profit organisations. The input of and support of the members of the collecting society are imperative to the continued operation of these organisations. We consider that the majority of these organisations will have their own "member constitutions". It is highly likely that these constitutions require member consultation on matters relating to the structure and operation of the collecting society.

Any agreed member constitutions should not be "bypassed" to allow the organisation to apply for an ECL without consent. The existing member constitutions should be reviewed and considered when determining what should constitute "consent".

Where existing member constitutions do not specify procedures for getting member consent, then we consider that a simple majority would be the easiest qualification to apply but consideration should be given to "weighted votes", depending on the number of works a member licenses in the UK.

Rights holders outside of the UK whose works are licensed under reciprocal agreements should not be considered for this purpose.

The collecting society should demonstrate consent when applying for an ECL authorisation.

32. **Apart from securing the consent of its members and showing that it is representative, are there other criteria that you think a collecting society should meet before it can approach the Government for an ECL authorisation? Please give reasons for your answer.**

Collecting Societies should demonstrate that they have adopted and implemented a code of conduct with minimum standards (see further the answer to Question 35 below). Alternatively, legislation should set out these minimum standards as requirements for approval.

33. **When, if ever, would a collecting society have reasonable grounds to treat members and non-member rights holders differently? Please give reasons and provide evidence to support your response.**

Member and non-member rights holders should receive equal treatment, other than in the distribution of unclaimed funds.

It is difficult to see any specific situation in which discriminatory treatment would be reasonable, other than the fact that non-members may not be required to benefit from the distribution of unclaimed funds (see the answer to Question 43 below). In the Nordic countries we understand it is a requirement of the ECL Scheme that rights holders not represented by the collecting society must be given equal treatment to those who are directly represented within the scheme. The law also gives them the right to claim individual remuneration.

However, if collecting societies' member constitutions impose certain conditions or requirements on member rights holders, then members may feel aggrieved that non-member rights holders receive the same benefits as the member rights holders but are not subject to the same conditions and restrictions.

34. **Do you have any specific concerns about any additional powers that could accrue to a collecting society under an ECL scheme? If so, please say what these are and what checks and balances you think are necessary to counter them? Please also give reasons and evidence for your concerns.**

The key concern would be collecting societies demanding unreasonable terms and pricing for the ECL licences, with little or no checks or controls, although this is a concern with the current system. We consider that the current checks and controls in place are insufficient with limited powers given to the Copyright Tribunal to deal with complaints brought by licensees. We consider the grant by the government of an ECL approval provides an opportunity to monitor the behaviour of collecting societies and enforce the code of conduct (see Question 35 below), thus providing a more tightly regulated regime.

35. **Consultation Question No. 35: Are there any other conditions you think a collecting society should commit to adhering to or other factors which the Government should be required to consider, before an ECL authorisation could be granted? Please say what these additional conditions would help achieve?**

We consider that the adoption of a code of conduct with certain minimum standards should be mandatory before a collecting society is considered for and granted an ECL approval. The code of conduct should relate to the treatment of rights holders and licensees.

There has been recent debate about collecting societies adopting codes of conduct, whether on a voluntary or compulsory basis, following complaints about a lack of transparency with the current system.

The adoption of an ECL scheme makes it even more important that collecting societies are transparent and the adoption of an ECL scheme offers an opportunity for the government effectively to ensure collecting societies adopt a

code of conduct with minimum standards. The code of conduct should relate to the treatment of both rights holders and licensees.

We consider the minimum standards in the code of conduct should include the following:

- A requirement to maintain accurate and readily available membership lists and opt out lists.
- Clear and transparent information in relation to the remuneration process, including calculations of remuneration, how to submit claims for compensation and any relevant time limits as well as searches for identification of creators and works.
- Controls around pricing and price increases.
- A clear and transparent complaints procedure for members and licensees.
- A formal ADR procedure for licensees to discuss and resolve issues relating to pricing and licence terms.
- A duty to consult members in relation to collecting society operations.
- Reporting requirements that include the following:
 - Detailed information relating to pricing, distribution policies and deductions, including what a society does with any unclaimed royalties.
 - Detailed information for non-members about how to claim compensation/ royalty payments, including time limits for doing so.
 - Clear statements of the categories of rights and rights-holders that a collecting society represents.
 - The quantity of licences held, on a sector by sector basis for each type of right.
 - Detailed reporting of complaints received by users.

On the basis that non-member rights holders will be able to claim compensation under the ECL scheme, the reporting information will have to be publicly available and easily accessible, for example on the collecting society's website.

It should not be sufficient for the collecting society merely to show that it has adopted a code of conduct in its application for ECL approval. It should also demonstrate the internal procedures and policies adopted under the code of conduct and/or demonstrate compliance with the code for a certain period of time before an ECL approval can be granted. Sanctions should be imposed for collecting societies that do not comply with the code of conduct, for example financial penalties, publishing details of breaches and the ability for the government or its nominated regulator to impose conditions on the society.

36. What are the best ways of ensuring that non-member rights holders are made aware of the introduction of an ECL scheme and that as many as possible have the opportunity to opt out, should they wish to?

The adoption of an ECL scheme must be communicated through public and popular channels, for example as a minimum: (i) on the IPO website and in the IPO newsletters; (ii) on the collecting society's website and in their newsletters; and (iii) where applicable, through recognised industry bodies. Advertising in national media should be considered in order to reach the widest audience (subject to Question 37 below). It is imperative that a rights holder's right to opt out of an ECL scheme is properly and effectively communicated. The collecting society must also provide an effective communication service to answer questions raised by rights holders in relation to the ECL scheme.

Proper communication of the ECL scheme is key to its successful operation. Minimum requirements should be set down for communicating the implementation of an ECL scheme, including clear information as to what this means, which rights holders will be affected and details of how to claim compensation, including any timescales.

There should be no requirement for a rights holder to provide a reason for the decision to opt out of an ECL Scheme, except perhaps in exceptional cases (see discussion about a time limit for giving an opt out notification in the answer to Question 38 below).

The opt out need not be an "all or nothing" option and rights holders should be given the option to opt out of:

- a) all their works; or
- b) a class of work; or
- c) particular, specified works.

37. What type of collecting society should be required to advertise in national media? For example, should it need to be a certain size, have a certain number of members, or collect a certain amount of money?

If advertising an ECL Scheme in the national media is not made mandatory across the board, it should be considered relative to the estimated size of the sector represented by the collecting society.

As set out above, we consider it is important that rights holders are given an adequate opportunity to opt out of the ECL scheme. We consider that advertising through national media would be a good channel of communication and ideally would be a requirement of ECL approval. However, we also recognise the significant cost in such advertising which, if compulsory, may deter smaller collecting societies from applying for ECL approval.

We consider that if not compulsory across the board, advertising in the national media should be considered relative to the estimated size of the sector represented by the collecting society. The more potential rights holders that will be covered by the ECL Scheme, the more justified expenditure in communicating to those rights holders should be.

Provision should be considered to allow joint advertising by collecting societies who receive ECL approval around the same time.

38. What would you suggest are the least onerous ways for a rights holder to opt out of a proposed extended licensing scheme?

It is important that the opt out should be simple and readily available through different media at zero or negligible cost for rights holders (including disabled rights holders) without the need to state reasons.

The proposal that the opt out mechanism shall "be simple and at zero or negligible cost to the rights holder", e.g. by means of "email or a telephone call to a free phone or local number", is agreed. In a digital age, the ability to opt out through the relevant collecting society's website online should also be available.

Confirmation of an opt out notification should be sent by letter or email by the collecting society to a confirmed address of the creator so as to safeguard against false notifications (see also the answer to Question 39 below).

The notice should be provided to the collecting society. Allowing for the notification to also be made to the user (as in the current and proposed system in Sweden), may be considered to unduly complicate the issue and create a high administrative burden.

It is important that rights holders do not have to give reasons for their opt out but it is important the opt out clearly defines the effect (scope) the opt out should have (see Question 36 above).

A rights holder should be given a sufficient length of time to opt out of the ECL Scheme. However, once this period has expired, the rights holder should not be allowed to opt out at any given time, as users may have invested in using the relevant works, unless there are exceptional circumstances, for example:

- The collecting society has failed properly to communicate the ECL scheme.
- A rights holder can demonstrate there are significant reasons (for example its moral rights) to object to the use of the copyright work.
- The rights holder can demonstrate a justification for removal of the rights from new licences only.

The timescales for opt outs should run from the implementation of the scheme and from the publication of new works. If a rights holder chooses not to opt out, this should not preclude him or her from opting out their future works from the ECL scheme.

The evidence from the current system in Sweden is that very few creators actually use their right to opt out of the ECL scheme. The creators' main interests lie instead in the proper reporting of use of works and the collection and distribution of remuneration. That being said, the requirements of providing information as discussed in relation to Question 36 above should be complemented by appropriate means of opting out.

39. **Should a collecting society be required to show that it has taken account of all opt out notifications? If so, how should it do so? Please provide reasons for your answers.**

Yes. It is important for an ECL scheme to work that the licensee understands what is not covered by its licence. If opt outs are not properly applied or communicated licensees could easily act outside of the scope of their licence and infringe someone's work. An accessible database of opted out works/rights holders should be available for this purpose.

It should be the responsibility of the collecting societies to ensure the proper handling of opt out notifications. An opt out notification should be enforceable by the rights holder once submitted to the collecting societies and it should be for the collecting societies to indemnify the users for any costs associated with improper handling of opt out notifications leading to the need to limit the use. The opt out notifications received should be clearly communicated to the users (including potential users) by the collecting societies, either directly or by information available from searches in a database.

40. **Are there any groups of rights-holders who are at a higher risk of not receiving information about the introduction of an ECL scheme, or for whom the opt-out process may be more difficult? What steps could be taken to alleviate these risks?**

Unsophisticated rights holders who are not accustomed to commercialising their works are at higher risk of not receiving information about the ECL Scheme. It is difficult to address this, other than through the communication channels suggested in Question 36 above. It is important that communication channels also address the needs of rights holders with disabilities. Websites should cater for individuals with visual impairment and Braille materials should be made available on request.

The right to opt out should be communicated and the means set up for submitting notifications in a way considerate also to creators with disabilities.

Access by overseas rights holders and users needs also to be addressed.

41. **What measures should a collecting society take to find a non-member or missing rights owner after the distribution notice fails to bring them forward?**

A collecting society should take sufficient measures to locate non-member or missing rights owners, but the measures should not be so extensive and of such cost as to unreasonably reduce the remuneration due to identified rights-owners and members. A collecting society may be required to keep lists of works and its creators. All reasonable efforts should also be made to identify any mistakes in the reporting of use of works, such as wrongly spelled names or incorrectly given titles, against such lists. The proposals in relation to Orphan Works need to be considered in this context.

42. **How long should a collecting society allow for a non-member rights holder to come forward?**

A minimum period of three years might be considered appropriate. However, a collecting society should be free to adopt a longer period.

A minimum period of three years is provided in the Nordic countries. The period seems reasonable and a collecting society should therefore be under an obligation to allow claims for remuneration for at least that time. A collecting society should, however, be free to adopt any longer period which its members consider appropriate.

43. Aside from retention by the collecting society or redistribution to other rights holders in the sector, in what other ways might unclaimed funds be used? Please state why you think so?

Unclaimed funds could be used for charitable or educational purposes, for example, to improve information available to licensees and end users.

Exceptions to Copyright

67 Do you agree that a private copying exception should not permit copying of content that the copier does not own?

First, we would like to make some preliminary observations that apply to private copying, and questions 67-71, in general.

- As recognised in the IPO's Copyright Consultation Report ("CCR"), any amendments to UK law will have to comply with (i) EU law, and (ii) international law. We refer in particular to:
 - the following provisions of the Infosoc Directive (2001/29/EC):
 - recital 38: indicates that the right to introduce a private copying exception is limited to the reproduction right, and to reproduction of audio, visual and audio-visual material for private use, accompanied by fair compensation;
 - article 5(2): Member States may provide for exceptions or limitations to the reproduction right "in respect of reproductions on any medium made by a natural person for private use and for ends that are neither directly nor indirectly commercial, on condition that the rightholders receive fair compensation which takes account of the application or non-application of technological measures" (emphasis added); and
 - the three-step test in the Berne Convention and TRIPS ("members shall confine exceptions ... to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder"; emphasis added).
- The UK government has decided that it does not intend to consider introducing a private copying levy. We agree with that position (in view of the various problems associated with such levies, which are summarised in the CCR). However, the effect of this decision is that there will be no separate scheme for ensuring fair compensation. As a result, it is vital to ensure (taking into account in particular the provisions of EU and international law mentioned in the previous bullet point) that any private copying exception causes no or negligible harm to

rightholders. This will, for example, be the case where the exception legitimises acts of copying which rightholders do not object to, and would not want (or would not practically be able) to seek to charge a separate fee for.

- It is important to bear in mind what the reasons for introducing the proposed private copying exception are, in determining how it should be formulated. It seems to us that the main reason for introducing this exception is to increase public respect for UK copyright law. The reason why the exception would tend to do this is it would render lawful acts which are undertaken by a large section (perhaps the majority) of UK society, and which society does not generally consider morally objectionable or harmful, and rights owners have not generally complained about, but which currently infringe copyright. The classic example of such an act would be an individual who transfers a CD to a computer, and then on to an iPod (which as the law stands would potentially involve at least two infringing acts). It may be that there would also be a subsidiary benefit to introducing this exception, of incentivising the design of products and software which enable individuals to undertake private copying. But we do not see this as particularly significant or certain to apply, given that electronics manufacturers have been developing and selling on the UK market a vast range of products in recent years which enable private copying, notwithstanding the fact that such copying amounts to an infringement of copyright.
- The justification for this exception is not, and should not be, simply that a lot of people undertake private copying. So for example, the fact that a significant percentage of the UK population use P2P file sharing services such as the Pirate Bay does not mean that such services should benefit from an exception. Such copying causes serious financial harm to rightholders' businesses.

In terms of the specific answer to question 67, we answer yes, as this would not be consistent with the above-mentioned provisions of EU and international law, as it would conflict with normal exploitation of the work and unreasonably prejudice the legitimate interests of the rightholder, for example by causing consumers not to pay for copies of musical or audio-visual works, as they could instead:

- obtain them via peer to peer file sharing websites;
- copy them from works owned by people they know;
- copy works they own and pass on the originals to friends.

This would inevitably cause rightholders' sales to fall, at a time when the music and media industries (not least in the UK) are already suffering greatly from online piracy.

Further, allowing individuals to copy content which they do not own would run directly contrary to the aim stated above of improving public respect for UK copyright law (as it would send a message that copying content which belongs to someone else in circumstances where the rightholder receives no compensation is perfectly acceptable).

68. **Should the private copying exception allow copying of legally-owned content for use within a domestic circle, such as a family or household? What would be the costs and benefits of such an exception?**

We would not recommend wording the exception in this way, for the following reasons:

- there is a clear likelihood that this will cause significant damage to rightholders (which would potentially render the provision non-compliant with EU and international law as mentioned above). For example, people living in the same household may currently have various reasons to purchase more than one copy of a work: they may only be living together on a temporary basis (e.g. students, flatshare), they may want to have a copy of the work to enjoy outside the house, etc. If the exception allowed those living in the same home (and/or in the same family) to copy one another's works, less works would be bought, which would obviously harm rightholders; and
- there are difficulties with defining concepts like "domestic circle", "family", "household". This means that if these terms were used, the scope of the exception would be likely to be unclear. Given the difficulties of enforcement for rightholders in the domestic context (massive number of infringers, lack of visibility, high costs of enforcement relative to level of likely damages), consumers are likely to interpret any uncertainty as permission to copy.

It may be noted that individuals can already undertake various acts in relation to copyright works which they own, which enable other household members to enjoy them, without needing an exception from copyright infringement, for example:

- lending a work to a household member would not amount to an infringing act, provided no charge was made for the lending (the infringing act of "lending" under the CDPA only occurs if done through an establishment which is open to the public);
- playing music or films to friends or family in the home would not ordinarily amount to an infringing act, because it is not done in public.

69. **Should a private copying exception be limited so that it only allows copying of legally-owned content for personal use? Would an exception limited in this way cause minimal harm to copyright owners, or would further restrictions be required? What would be the costs and benefits of such an exception?**

Yes: private copying should be limited to copying of legally owned content for personal use, because (as mentioned above) a wider exception would cause harm to copyright owners. It seems to us that such an exception should cause minimum harm, provided (as required under EU and international law) it is also limited:

- to the reproduction right;
- to audio, visual and audio-visual works;
- to private use by the owner of the original content ("the Original");
- to use by a natural person;
- to use for ends that are neither directly nor indirectly commercial;

- so that, as under the format-shifting defences enacted in Australia (by their Copyright Amendment Act 2006), it ceases to apply if the main copy of the work is sold, hired, traded or distributed to a third party. On the disposal of the original to another person, all other copies should become infringing copies (so that it would be the owner's responsibility to delete all copies prior to disposal of the Original). The aim of this is to avoid the situation where a person acquires the Original, makes a free copy of it under the exception, and then disposes of the Original to another person (who might repeat the process), such that the rightholder would end up selling less copies;
- it should be clear in the legislation that "legally owned content" would not include streamed audio/ visual content which is simply made accessible to internet users, unless the terms of use permit the internet user to make a permanent copy.

As digital technology is constantly evolving, it is possible that permitting such private copying would cause future harm to rightsholders which is currently hard to foresee. As a result, we would recommend that there be a specific statutory requirement to keep under review the impact of the defence on rightsholders, and for the government to take appropriate measures to protect rightsholders if the exception starts unreasonably to prejudice their legitimate interests.

If, as hoped, this exception caused minimal harm to rightsholders, the costs of this amendment should also be minimal.

As mentioned above, the main benefit that should follow from this amendment would be to bring the law into line with consumer behaviour and help to reduce uncertainty over what is and is not legal, and thus increase public respect for copyright law. It may be that there would also be a subsidiary benefit, of incentivising the design of products and software which enable individuals to undertake private copying.

70. Should a private copying exception be explicitly limited so that it only applies when harm caused by copying is minimal? Is this sufficient limitation by itself, or should it be applied in combination with other measures? What are the costs and benefits of this option?

No; the exception suggested here would not provide the necessary certainty (which is important for both the public and rightsholders) as to the scope of permitted acts. Other jurisdictions, such as Australia, have provided certain and specific limitations, and such an approach (applying the limitations listed in the previous section) is recommended over referring to a "minimal harm" concept.

71. Should the current mechanism allowing beneficiaries of exceptions to access works protected by technological measures be extended to cover a private copying exception? What would be the costs and benefits of doing this?

No. It should be recalled that the main reason for introducing this exception is to bring copyright law into closer line with reality and consumer expectations, and so increase respect for the law (it is not because there is some other overriding public policy reason why it is socially or economically important for individuals to be able to make copies for private use). If rightsholders wish to apply DRM, they should not be prevented from doing so by a private copying exception.

Our responses to a number of the questions posed in Chapter 7 are submitted elsewhere. We would like, however, to comment on the copyright exceptions in general, as invited to do in paragraph 7.22 of the Consultation.

The Government should not assume that the exceptions included in the Copyright Directive were intended to create “the right conditions for economic growth” (7.6) or that their introduction will necessarily “help to encourage innovation and will provide new opportunities for economic growth.” (7.8) The background to the Directive and the attitude the Court of Justice of the European Union (the “**CJEU**”) has taken to the exceptions suggests that they will not help to promote these aims in the way envisaged or hoped by the consultation. The Copyright Directive is not an exceptions regime that truly promotes and supports economic growth. Such a regime would need greater support from the EU, as the Consultation and Hargreaves Review both acknowledged.

The list of permissible exceptions in Articles 5(2) and 5(3) of the Copyright Directive was not put together with the view to creating the right conditions for economic growth or, indeed, with any intention that the Directive was permitting exceptions that would be the most beneficial to economic growth. The list was compiled for a much more pragmatic reason: “the Council has accepted taking on board a number of additional, narrowly-defined exceptions to accommodate requests from Member States” (see paragraph 35 of the Council of the European Union’s Common position of 26 July 2000, 9512/00 ADD 1). The list was drafted to avoid Member States being forced to introduce new exceptions (“This list takes due account of the different legal traditions in Member States” – Recital 32) and to allow them to retain the exceptions that they already had (see, for example, Article 5(3)(o)).

The recitals to the Copyright Directive reinforce the impression that the aims targeted by the Government in the Consultation are not those that the drafters of the Directive had in mind. For example, Recital 31 refers only to “A fair balance of rights and interests between the different categories of rightholders... and users of protected subject-matter must be safeguarded.” The Recitals which refer to the specific exceptions make it clear that the Directive’s primary concerns are protecting the rightholders preventing “harm to rightholders” and ensuring they receive “fair compensation” (see, for example, Recitals 35 and 38). This is an important proposition, because it, in part, informs the attitude that the CJEU has taken when interpreting the exceptions. It is the CJEU that, ultimately, will determine the scope of the exceptions.

The CJEU has given the exceptions a “narrow construction”: “it should be borne in mind that, according to settled case-law, the provisions of a Directive which derogate from a general principle established by that Directive must be interpreted strictly”¹. Further, the CJEU explained that “this is all the more so”² in light of the Directive’s incorporation of the Berne Convention’s three-step test³. The exceptions “must also be interpreted in the light of the need for legal certainty for authors with regard to the protection of their works.”⁴

¹ Case C-5/08 *Infopaq International v. Danske Dagblades Forening* at [56]

² *Infopaq* at [58]

³ By virtue of Article 5(5) of Directive 2001/29, exemptions are to be applied only “in certain special cases which do not conflict with a normal exploitation of the work or other subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.”

⁴ *Infopaq* at [59]

The CJEU has taken this approach in a number of other rulings. The *Stichting v Opus Supplies*⁵ case is instructive:

23 With regard to the answer to the question of the identification of the person who must be regarded as responsible for paying the fair compensation, the provisions of Directive 2001/29 do not expressly address the issue of who is to pay that compensation, meaning that the Member States enjoy broad discretion when determining who must discharge that obligation.

24 That being the case, the Court has already held that the notion and level of fair compensation are linked to the harm resulting for the author from the reproduction for private use of his protected work without his authorisation. From that perspective, fair compensation must be regarded as recompense for the harm suffered by the author (*Padawan*, paragraph 40).

25 In addition, as is apparent from recital 31 in the preamble to Directive 2001/29 and from paragraph 43 of *Padawan*, a 'fair balance' must be maintained between the rights and interests of the authors, who are to receive the fair compensation, on one hand, and those of the users of protected works, on the other.

32 It should however be recalled that, according to recital 9 in the preamble to Directive 2001/29, the European Union legislature expressed its desire for a high level of protection to be guaranteed for copyright and related rights, since they are crucial to intellectual creation. Their protection helps to ensure the maintenance and development of creativity in the interests of authors, performers, producers, consumers, culture, industry and the public at large. Thus, according to recital 10 in the preamble to Directive 2001/29, if authors or performers are to continue their creative and artistic work, they have to receive an appropriate reward for the use of their work.

The CJEU's narrow construction of the exceptions appears to conflict with the prior English approach to the exceptions⁶; that they are intended to strike a balance of the rights of the copyright holder with the interests of the wider public. See, for example, the statement of the Court of Appeal in *Pro Sieben*⁷:

'Criticism or review' and 'reporting current events' are expressions of wide and indefinite scope. Any attempt to plot their precise boundaries is doomed to failure. They are expressions which should be interpreted liberally.

75. Would extending the copyright exception for research and private study to include sound recordings, films and broadcasts achieve the aims described above? Can you provide evidence of its costs and benefits?

Yes (to first question).

Copyright Directive (2001/29/EC, Art 5(3)(a)) enables member states to implement copyright exceptions for research. UK copyright law has limited this exception to literary, dramatic, musical or artistic works, and certain published editions (s. 29(1) and (2) CDPA). UK Government proposes that the UK should make this exception "work-neutral" by extending to sound recordings, films and broadcasts. The

⁵ C-462/09

⁶ The Canadian approach to a similar statutory framework is revealing here, as demonstrated by the *CCH Canadian* decision. "The fair dealing exception... is a user's right. In order to maintain the proper balance between the rights of a copyright owner and users' interests, it must not be interpreted restrictively."

⁷ Per Robert Walker LJ at 614 in *Pro Sieben*

Government points out that the current law is inconsistent and prejudices research in the humanities, and that both Hargreaves and Gowers argued for this change.

We support this change for the reasons given in the Consultation.

Parody, caricature and pastiche

81. When introducing an exception for parody, caricature and pastiche, will it be necessary to define these terms? If so, how should this be done?

No, in answer to the first question.

In general, the CLLS supports proposed changes to the copyright regime which would better meet the expectations of users and would improve the public perception of copyright law. However, this should not be done in a way that would increase uncertainty, as this would be detrimental both to the creators and to the users. The exception should also not be defined in a way that permits uses of works which do not justify why a rights owner should not be able to control that use and seek a licence fee for it. Identifying the circumstances in which a user should be free to use a creative work and being able to justify those circumstances, in a way that is clear, predictable and fair to rights owners, should be the priority.

Given this, we do not agree that a statutory definition of parody, caricature and pastiche (together, "parody") should be included. It is commonly acknowledged in the literature that no stable definition exists. Comparing, for example, the Australian approach with the American approach shows that even legal systems do not agree. Further, even within America there has been some difficulty in identifying exactly what kinds of parodies are caught, particularly in relation to the "target and weapon" parodies. Nevertheless, common characteristics of legitimate parodies can be identified (see our response to Question 82). In any event, it can prove difficult to apply definitions to any given alleged parody in a way that would promote the economic growth (i.e. market for parodies) sought by the Consultation.

Even though we do not support the introduction of specific definitions of the terms, we feel that the exception must incorporate factors to be taken into account which would reflect the circumstances in which it can be justified that a licence is not needed. In this way, the exception itself would help to identify the circumstances in which the Consultation's apparent view (that economic growth is better served by introducing an exception for parody rather than the current situation of requiring licences to be paid to copyright owners) can be justified.

The suggested approach would guard against our concern that merely taking a substantial part of a copyright work for the purposes of "comic effect" (as referred to in paragraph 7.117) should not be sufficient for the exception to apply. If a user has merely created a funny or comic version of a work, we cannot see why this use should have a greater claim to be a free use than, for example, performing it to an audience in an expert way, making a film of the work, or translating that work. If the only motivation of the user is to create a comic version of a work, we do not see why he should not have to obtain a licence for that version. For this reason, we are concerned that the impact assessment refers to Peter Kay's version of "Is this way to Amarillo?" as being a use of a work that might benefit from the parody exception. Regardless of the benefits that may have flowed to Tony Christie's original, we would suggest that there is no good reason why Peter Kay should not have been required to obtain a licence for this use. As the Hargreaves report acknowledged, comedy is big business. As such, it should not be immune from paying royalties to incentivise the creation of works on which it relies to build that business.

82. **How should an exception for parody, caricature and pastiche be framed in order to mitigate some of the potential costs described above?**

We suggest that the exception for parody, caricature and pastiche should be framed by reference to a number of indicative characteristics which a court could use in assessing whether the exception applies.

- This approach has precedents. For example, Section 97A CPDA, which implemented Article 83 of the Copyright Directive, sets out some criteria which a court can take into account in determining whether the test has been satisfied, which were not present in the text of the Directive. The Australian Copyright Act also explicitly includes some fair dealing criteria which are generally applicable. It is not suggested that these fair dealing criteria for parody should be of more general application in the amended act because the existing corpus of case law already clearly sets out those criteria as applied to the particular legislative context.
- Further, the suggested approach would better support the Consultation's aim of promoting the conditions for economic growth. It is suggested that the better way of doing this is not simply to introduce exceptions that, in the government's view would promote economic growth, but to do so in as clear and predictable way as possible. Where neither the user nor the creator knows what the parameters of permitted use are, it is likely to lead to complicated advice, complaints, disputes and costly litigation. Clearly setting out the parameters in advance helps to narrow the issues between the parties and to measure their expectations.
- Given the potentially wide and uncertain definitions of parody, it is quite possible that whether a parody qualifies for the defence might come down to sophisticated expert evidence and, ultimately, matters of taste (particularly given the problems caused by the uncertainties inherent in the nature of parody as an art form). The law is generally reluctant to allow matters of taste to enter judicial consideration, for example, the statements in Section 4(1)(a) CPDA that the artistic works are listed are protected "irrespective of artistic quality". It is suggested that introducing a framework for the assessment of whether the exception can apply would help to avoid matters of taste entering into judgments and could promote consistent decision making. Economic growth is more likely in circumstances where would-be parodists and their backers and investors are more confident that their use is not going to be infringing.
- We note that other countries in Europe that have a specific parody defence have not taken this approach. However, we would suggest that this is not sufficient reason for the UK government not to do so. Those countries will have a long tradition of relevant case-law which identify what falls in and outside the exception. The UK does not have that benefit (in the way it does, for example, for the other fair dealing exceptions) so legislation should make up for it.

It is suggested that the defence for parody, caricature and pastiche could be framed in the following way:

Fair dealing with a work for the purpose of parody, caricature and pastiche does not infringe any copyright in the work.

In determining whether the exception applies, a court shall take into account all matters which it considers to be relevant and, amongst other things, shall have regard to:

- (a) the commercial use of the parody, caricature or pastiche;*
- (b) the dominant impression of the parody, caricature and pastiche;*
- (c) the transformative nature of the parody, caricature or pastiche, including the amount of independent creative input or commentary or criticism, whether of the work or otherwise;*
- (d) the necessity to use the work;*
- (e) the extent to which the parody, caricature or pastiche could be a substitute in the ordinary market for the work; and*
- (f) the proportion of the work taken compared to the transformative nature of the parody, caricature or pastiche.*

It is suggested that these criteria would help to minimise the negative impact on copyright owners identified in the Consultation and would identify the circumstances in which a parody would fall within the exception:

- For example, it is clear that works made under the exception would not be able to mimic original works too closely and emphasises that the work made under it would need to go further than simply creating a comic effect. Potential Impact on sales of the original work is also taken into account. For example, the "Is this the way to Amarillo?" cover version might have displaced demand for the original given its almost entirely faithful reproduction of that original and there was minimal independent creative input, criticism or commentary, as the original was merely placed in a comic setting. Use merely for entertainment should not be enough to fall within the exception.
- The criteria also seek to prevent use for purely commercial reasons such as advertising. This is aimed at situations where, while there may be some comic repositioning of the well know work, the overall dominant impression is promoting the business of the user. The suggested wording would mean, for example, that the parody of Annie Leibovitz's picture of a naked Demi Moore by the producers of the Naked Gun 33 $\frac{1}{3}$ film would not have been permitted under the proposal, contrary to the position in the US. This example also demonstrates that using a work in an unaltered way, with only a small amount of parodic overlay, may well not benefit from the defence. The amount of work taken would be high and the proportion of critical commentary or parodic purpose relative to that amount would be low.
- A key difference between a parody and a mere comic version of a work and also the key difference between a parody and, for example, an expert public performance of a work is the distance between the parody and the original and the commentary that the parody provides. This distance is generated by the author's own independent creative input which provides something more noteworthy and justifiable than a mere rehashing of the original. The need to demonstrate this distance is all the more pressing for pastiche, because the commentary element of a parody or caricature is not necessarily present.

Pastiches are more likely to be closer imitations of an original and to lack as much creative input.

The criteria seek to address the problems posed by use of some classes of work by parodists:

- For example, a parody of the lyrics of a song will inevitably have to reproduce in whole or at least a very substantial part, the musical work in that song. These could be owned by separate people. By way of comparison, music is exempted from the “free use” exception in Germany. Drafting an exception in such a way that allowed a parody of the lyrics but not use of the music for that purpose could defeat some of the purpose of the exception, as a whole class of works would be excluded from it. The exception is therefore worded to include use for the purposes of parody where that work might not itself be parodied. The fairness of using that musical work would be judged by reference to the criteria identified. The user has been saved the trouble of creating a musical work for himself; it is difficult to justify why he should always be able to make free use of it (see above in relation to the sports fan example).
- Another difficult case is artistic works, where a large portion or all of the work would need to be particularly reproduced in order to effect a parody of that work. It is suggested that the criteria identified would assist in resolving that tension because the amount of the taking would have to be justified by the dominant critical impression of the work. If, for example, the whole of the artwork was taken but only limited transformation took place, it is likely that the parody would remain a market substitute and would not contain sufficient independent and creative input to succeed as a parody. In short, the more that is taken, the more the parodic content that will be needed and the lower the harm to the rights holder.

The proposal also addresses an issue that the consultation paper failed to. That is the difficulties posed by satires whose intention is not to parody the work, “target parodies”, but to use the work to comment or criticise wider concerns, “weapon parodies”. Parody requires an original that can be imitated. Satire is not dependent on any one original work. It can be practically difficult to distinguish between instances of target and weapon parody. It should be recognised, however, that use of one work to criticize or comment on wider issues, rather than referring to the work itself, does raise different issues and has the potential to harm right owners in a different way to the target parodies.

- This is why one of the criteria refers to the necessity to use the particular work. It may often be difficult to demonstrate why a particular work in all other works was particularly suited to the target of the criticism. This is a valid concern. In circumstances where it is difficult to prove a necessity to have used that particular work, then it would be difficult to show that such use was justified. The other factors would then take on more importance in determining the fairness of the parody.
- This tension is also felt in circumstances where, for example, the melody of a song is taken but the lyrics are altered to make a particular point or where a music work or film is used in the background and sets the scene for independently created works. An example of the former is sports fans’ songs. These regularly take the melody of popular music songs and change the words to refer to the subject of their song. An example of the latter is the

various Downfall parodies. The parodists used particular scenes in the film to make a point unrelated to the film. In these circumstances, there would appear to be a good deal of independent creative input, a low level of commercial motivation and a low risk of market substitutability. On the other hand, there is no need to use that particular work and there is a low level of criticism or commentary (whether of the work or a third party). A distinction should also be drawn, for example, between commercially releasing the fans' songs (which would not be fair dealing) and the fans themselves singing them at matches (which would be fair dealing). If a TV producer used, for example, the Downfall scene in a satirical comedy programme, the defence might not apply if it could not justify why the Downfall scene in particular was used for that criticism. This is because of the commercial use and the wholesale use of the film. On the other hand, if the scene was particularly or solely suited to the criticism or commentary that the satire was trying to make, then the defence may apply.

- Another illustration was given in one of the follow up papers to the Gowers proposal to introduce a parody exception: a children's book being used in an anti-smoking campaign. It is suggested that the current criteria would not permit such use. There would be no necessity to use this particular work. The use would be heavily commercial or promotional and the dominant impression would not be one of criticism or commentary, but of gratuitous use of an unrelated story.
- An example which appears to sit on the line between target and weapon parodies is the use Barbie dolls in a US case to criticize society's views on beauty, yet at the same time to highlight and comment on the characteristics of the Barbie dolls as depicted by their manufacturer. This would, we suggest, benefit from the defence. There is some necessity to use the work and there is a heavy critical or commentary purpose behind the use.
- These kinds of examples also illustrate that the residual concept of fair dealing has some role to play independent of the individual characteristics. Gratuitous use of material should not be given carte blanche solely on the basis that there is some degree of criticism of a third party, comedy or dislocation of the original.

Applying the above criteria to the "Newport (Empire State of Mind)" parody, it is suggested that the exception would not, on balance, apply to it:

- While a substantial part of the lyrics was probably not used, all of the musical work was. The use of the music was commercial, because it was created to promote the stars of the video. The dominant impression was humour or spoof. The music was not transformed in any way. The music was not used as part of a commentary or criticism. There was no need to use this work; any number of songs could have been used to mock Newport. All or a very large part of the music was taken but there was no comment or critique in the lyrics to justify that taking. It is suggested that it may have been different if the music was taken to comment on New York itself, for example as part of a political protest.
- We accept that an argument could be made the other way, that the exception would apply to it. The definition of parody used in the Consultation was arguably met, as there was a comic repositioning of the original. The commercial use was inevitable and was directly related to the success of the

parody, rather than promoting a third party e.g. a brand or Newport itself. The lyrics were heavily transformed and the use of the music was bound up in that transformation. There was commentary, by way of deliberate exaggeration, on the regard in which Jay-Z, Alicia Keys and, potentially even, New York itself have for the city. This work was one of the best examples of that attitude. There would be no or little substitute because it targets different markets. Only the music was used and all of it had to be used otherwise it would not be possible to transform the lyrics in an effective way.

This discussion demonstrates the difficulties that rights owners, parodists, their advisers and courts would have in applying any parody exception. This difficulty should be borne in mind when assessing the benefits of introducing the exception.

83. Would making this a “fair dealing” exception sufficiently minimise negative impacts to copyright owners, or would more specific measures need to be taken?

Our response to Question 82 sets out our view that, while fair dealing does have a key role to play, it should be supplemented by other, more context-specific, considerations which would help to minimise the negative impacts to copyright owners.

The considerations discussed in Question 82 in part take their inspiration from the considerations currently considered in the fair dealing exceptions in Section 30 CDPA, as expounded in cases such as *ProSieben*. However, the US experience suggests that parodies raise context-specific concerns not raised, or raised to a different extent, not raised in other applications of the US fair use test. The concepts of parody, caricature and pastiche are also broader terms and harder to define than terms in the existing fair dealing defences (e.g. “criticism and review”). It would therefore promote certainty and predictability to include explicit references to particular characteristics a parodist should demonstrate to take advantage of the exception.

In any event, it is suggested that over-reliance on the fair dealing criteria as interpreted in existing UK case law might not withstand scrutiny from the CJEU. To the extent that the Copyright Directive defences are to be interpreted by the CJEU in a harmonised way, the freedom of the UK courts to rely on their previous fair dealing jurisprudence may be limited and, instead, UK courts may be forced by the CJEU to refer more closely to the three-step test in Article 5(5) of the Copyright Directive. The criteria suggested could apply equally to three-step test analysis as they would the fair dealing analysis. It is noteworthy in this context that Mr Justice Arnold in his consideration of the criticism or review defence in *SAS Institute* [2010] EWHC1829 remarked that, “I should record that neither counsel addressed me on Article 5(3)5 of the Information Society Directive”. He, therefore, clearly believes that UK defences have to be interpreted in light of the Directive.

101 Should our current exceptions be expanded to cover use for public exhibition or sale of artistic works on the internet? What would be the costs and benefits of doing this?

1. Section 62 – Use of works located permanently in public places

7.228 and 7.229 Use of works located permanently in public places

Section 62 CDPA provides an exception that allows the copying of buildings, models for buildings, sculptures and works of artistic craftsmanship permanently situated in public places.

As presently drafted the wording of s62(2) states that it is the copyright "in such a work" (i.e. the work of architecture, or other artistic work, itself) that is not infringed. This limits the scope of the s62 exception so that copyright in the architect's or artist's original drawings of a building or sculpture may still be infringed when someone, for example, takes a photograph of the building or sculpture (one of the acts permitted by s62). We doubt that this limitation is intended, i.e. s62 presumably aims to provide an exemption for all relevant copyrights.

For this reason we propose that s62(2) extend beyond "such a work" to any underlying artistic work (such as a drawing), to remove the quirk in the current drafting.

2. **Section 63 – Sale of artistic works – Question 101**

Limits on section 63

Section 63 CDPA provides an exception that allows copies of artistic works to be made for the purpose of advertising the sale of the work. The exception is useful for auction houses, for example, who can use it to make and publish copies of a painting in a sales catalogue to advertise its availability for sale.

As presently drafted, s63 does not (at least expressly) allow communication to the public of the copied work, which means that reproducing copies of the artistic work for sale on the internet without authorisation from the copyright holder might infringe copyright even though other forms of advertising (such as posters) do not. That distinction seems illogical in a world where media spend is increasingly diverting away from traditional media in favour of on-line advertising. We therefore agree with an exception which is "media neutral".

Artistic works versus all works / fair dealing

As currently drafted, s63 only relates to artistic works. There is no reason in principle why it should not be extended to cover other kinds of copyright works.

Paragraph 7.215 gives an example of a type of activity that would be included under the s63 exception, if it were extended to cover the internet: "This could legitimise, for example, the use of images of second-hand books being offered for sale on the internet". However, although an illustration (for example) from a book would fall under the exception as an artistic work, a reprographic image of pages from a book may not be covered by s63 and might rather infringe, for example, s17(2) CDPA as an unauthorised copy of a literary work and s17(5) CDPA as an unauthorised copy of a typographical arrangement.

However, we would not favour extending s63 to copyright works such as sound recordings, at least unless the section were brought within the express ambit of fair dealing. (The section already has safeguards against the further use of copies, but these are hard to police in the digital era.) For example, the Act should not in our view permit the owner of a music CD to upload all of

the sound recordings on it under the pretext of advertising a sale of the physical CD, since that would facilitate infringement and interfere too severely with rightsholders' interests.

Sellers and exhibitors will usually have an incentive to adopt appropriate measures to obtain, respectively, maximum value from the sale of the work or maximum attendance at their exhibition (such as watermarked or low-quality images), which would not substitute for buying or licensing the original work. However, private individuals selling on sites such as eBay may not have the ability to use these measures.

We therefore agree that a broader exception should be made expressly subject to fair dealing criteria.

103. What are the advantages and disadvantages of allowing copyright exceptions to be overridden by contracts? Can you provide evidence of the costs or benefits of introducing a contract-override clause of the type described above?

We would not be in favour of a prohibition on contractual override of the exceptions, especially for works in digital form.

The copyright exceptions date back to a time before the widespread availability of works in digital form and before the corresponding rise in piracy and other forms of infringement. Whilst a library's ability to allow its users to copy from physical books may have minimal impact on rightsholders, the same cannot be said for freeing up digital copying from digital copies of works.

Prohibiting contractual override would not provide a straightforward solution to the perceived difficulty of managing a large number of different contracts, since many exceptions involve case-by-case interpretation (e.g. the fair dealing exceptions). This issue can be addressed in other ways such as:

- certified licensing schemes under the CDPA;
- consortium-type contracts such as those negotiated by JISC;
- other multi-rightsholder contracts such as the licences granted by the Copyright Licensing Agency on behalf of numerous publishers; and
- the proposed Digital Copyright Exchange.

Competition law also provides a route to object to abusive licence terms (as does the Copyright Tribunal for issues within its remit).

The advantages of allowing copyright exceptions to be overridden by contracts, as a quid pro quo for access to a work (particularly in digital form) include:

For rightsholders:

- It helps protect against piracy and other forms of hard-to-police infringement. If a licensee could not be restricted from making an exempted copy, rightsholders would usually have no way of guarding against further, non-exempted copies. This has a knock-on effect on both creativity and price i.e. if rightsholders have to factor in uncontrolled copying, they will be more likely to increase prices and may be less likely to make valuable works available digitally.
- It enables rightsholders to charge users in a uniform way for a digital package of services (such as access to the work, ability to search, ability to print, ability

to cut and paste, links to other content) without having to carve out exempted acts.

- It gives rightsholders the flexibility to adopt differentiated business models (e.g. paying authors and charging users on different bases for different kinds of uses, such as downloads versus streaming), without having to factor in exempted copying in a form different from the specific one permitted by the contract. Again, this has a knock-on effect on price.

For users:

- Far greater certainty (see above – prohibiting contractual override does not get around the need to interpret the law).
- Simpler pricing structures (see above).
- More choice between business models (see above).

If the Government is minded to prohibit contractual override, then we recommend that the legislation address the following issues:

- Confirmation that obligations of confidence can still override the exceptions (since many kinds of information are made available under terms of confidence).
- Whether rightsholders can still use DRM and other technical protection measures (e.g. unique passwords to ensure that only one user accesses the licensed content).
- Whether the prohibition would be a "rule of the forum" such that even non-UK law governed contracts would have to comply with it.

Copyright clarification and notices

104. Are there specific and or general areas of practical uncertainty in relation to copyright which you think would benefit from clarification from the IPO? What has been the consequence to you or your organisation of this lack of clarity?

The Hargreaves Review confirmed that understanding of copyright law is poor. In other words, even areas that are legally clear are not well understood by the general public, nor often by SMEs. As the consultation paper acknowledges, many questions already being put to the IPO are not about "problem areas" but rather basic questions about copyright law. As lawyers practising in the field of intellectual property, we see clients encountering problems because of common errors. For example, these are often around securing ownership (e.g. where they commission external contractors) or adequacy of contractual rights of use. In our view, the IPO could serve a useful function simply by providing more communication about the basics of copyright law as it works in practice across different sectors, in terms and in a manner tailored to non experts. Much of this would not involve "problem areas" at all, but would help reduce confusion due to lack of basic knowledge.

We have looked at the websites of other bodies involved in copyright matters, including the US Copyright Office. Although the US system is very different due to the US copyright registration system, we found the FAQ section at <http://www.copyright.gov/help/faq/> approachable. We believe that the IPO website could be made more useful to non professionals by some simplification of design and by some rewriting of the content to make it more applied and a little less "legal".

In our view, improving basic levels of knowledge about copyright is likely to produce better results than simply focusing on areas identified by some as "problems" or

which are controversial. In our view, the greater need is for the IPO to focus on enhancing the basic guidance it already provides.

105. Who do you think would benefit from this sort of clarification? Should it be reserved for SMEs as the group likely to produce the greatest benefit in economic growth terms?

Increased awareness should assist all right owners and users and reduce the level of unnecessary disputes.

106. Have you experienced a copyright dispute over the last 5 years? If so, did you consult lawyers and how much did this cost?

We represent IP lawyers, most of whom have fairly regular experience of copyright disputes. Many of these disputes will settle (often quickly) based on legal advice as to merits and options for resolving. Where disputes are fought, costs vary substantially depending on subject matter and complexity. Features of complex cases include:

- Complexity in the history of creation and ownership, e.g. for works with multiple contributing authors and chains of title that may not have been documented as clearly as lawyers would wish
- Non literal copying / borderline copying of a substantial part
- Underlying legal uncertainty. This is often on topics resulting from partial harmonisation of copyright law. For example, the following topics are examples of issues which have been or are the subject of recent references to the CJEU:
 - Meaning of "communication to the public"(see e.g. cases C-393/09, C-135/10, C-162/10, C403/08, C-429/08, C-283/10)
 - Scope of protection for databases following the Database Directive (see e.g. case C-604/10)
 - Whether exhaustion overrides express contractual terms in licences relating to software and other digital content (see case C-128/11)
 - Scope of protection for software (see e.g. case C-406/10)

107. Do you think that it would be helpful for the IPO to publish its own interpretation of problem areas which may have general interest and relevance? What sources should it rely on in doing so?

We are concerned about how "problem areas" would be identified and the evidentiary basis on which the guidance would be provided. Developments in technology, culture and means of exploitation regularly raise new questions, or old questions in new lights. Many of these questions require careful consideration, and (as the consultation paper acknowledges) the answer will often be fact and context sensitive. Also, how copyright is applied in practice varies enormously between different sectors – even lawyers practising in the field typically do not profess applied expertise across all sectors that rely on copyright.

In our view, the IPO should not provide guidance on areas that are identified by some as "problem areas" without full prior and rigorous consultation with all categories of affected right owners as well as users. This should cover:

- whether there is in fact any problem (or just a misunderstanding or lack of knowledge as to the law)
- what solutions already exist for addressing the perceived problem
- the nature of the problem – this might range from uncertainty about an area of copyright law which is subject to EU harmonisation to recent changes in technology which may require time for licensing solutions to be developed and
- any consensus about how to address the issue.

Full consultation before any guidance or interpretation is provided would be entirely consistent with IPO's commitment to evidence based policy making. We anticipate that in many cases, the IPO would conclude that the "problem" is not one requiring legal interpretation or guidance at all (other than perhaps through the general copyright information section of its website).

108. Do you agree that it would be helpful to formalise the arrangements for these Notices through legislation? Please explain your reasons.

We assume the IPO does not need to formalise arrangements for the important role we hope the IPO can play in improving knowledge of basic copyright law and practice. When it comes to consulting on alleged "problem areas" we suggest the IPO should formalise and publish best practice to ensure that it consults with interested parties who wish to engage in the discussion.

Since we anticipate that a number of alleged "problem areas" would prove not suitable for IPO interpretation or guidance (as opposed, in particular, to the provision of information), we do not see a need to make formal arrangements for notices at this time.

109. How do you think that the IPO should prioritise which areas to cover in these Notices?

We recommend prioritising an overhaul of the IPO website in relation to copyright to increase its usefulness.

110. Does there need to be a legal obligation on the Courts to have regard to these Notices? Please explain your answer.

n/a

111. Are there other ways in which you think that the IPO can help clarify areas where the law is misunderstood? How would these work?

In our view, there is an important need for the interests of UK copyright-based industries, as well as users, to be well represented by the UK Government (including the IPO) on the European and international stage. Increasingly, UK domestic copyright law is informed by EU (and international) legislation, and the CJEU is increasingly shaping European copyright law in cases referred to it by the member

states. It is critical to preserving the UK's leadership role in many of the creative sectors in Europe that UK government representatives involved in European, international and domestic copyright reform understand copyright in an applied sense so that they can appreciate potential consequences of proposed legal reforms.

This is not to argue for an over-broad copyright law nor to say that current copyright law is perfect in all respects – it is not. Rather the need is to ensure that EU, international or domestic adjustments to the copyright system in response to new technologies and new means of exploitation are evidence based and broadly consulted on, and do not cause unnecessary negative impact on those UK industry sectors that rely on copyright.

112. **Do you think it would be helpful for the IPO to provide (for a fee) a non-binding dispute resolution service for specific disputes relating to copyright? Who would benefit and how? Are there any disadvantages of IPO operating such a service?**

In this area, there are already various options, including the Patents County Court and its small claims service, numerous IP mediators, and the possibility of getting an opinion from counsel. Because the IPO does not provide expert services in this area in the same way as it does for patents, registered trademarks and registered designs, we think the case for its offering such a service is weaker than for the rights which it is involved in granting. On balance, we are unconvinced about the need for, or benefits of, such a service.

113. **What would you be prepared to pay for a dispute resolution service provided by the IPO? Please explain your answer, for example by comparison with the time and financial cost of other means of redress.**

n/a

114. **Which would you find more useful: general Notices on the interpretation of the law (free) or advice on your specific dispute**

See above. We favour a more approachable, user friendly and enriched copyright section to the IPO website.

CLLS would welcome the opportunity to comment on any detailed proposals, once published by the Commission and would ask to be consulted.

Other points for consideration

Access to Legal Advice by SMEs and individuals

One issue which is not referred to in the Consultation questions but which is relevant to the availability of legal advice around copyright and perhaps to the idea of Copyright Notices is the regulatory environment within which solicitors work. This is an issue which may not have been touched on simply because the government is unaware of it but it has a real impact on smaller companies seeking advice.

The largest body of professionals advising on copyright matters is solicitors, though to some extent trade mark agents and patent agents advise on this area as well. Solicitors are subject to the Solicitors Regulatory Authority Code of Conduct, its Accounts Rules and also the Money Laundering Regulations 2007 as “independent legal professionals”. Carrying out the necessary checks and procedures to ensure

compliance with these obligations when taking on a new client is a significant administrative overhead.

While it is not the intent of this submission to make representations as to the rights or wrongs of the current regulatory regime, we believe it is important for the government to be aware that the regime's practical effect is that it is increasingly common for solicitors to turn away work from new clients below a certain value. It is often simply not worth the cost and time of going through the Money Laundering Regulations process, particularly when combined with the potential for creating conflicts of interest that acting for any new client may give rise to. Inevitably it is smaller companies which suffer the effects of this and it has a knock-on effect on the rationale for the copyright reforms. If, for example, small claims tracks for dispute resolution are to succeed, parties must be able to access legal advice.

We consider this an area which the Government should consider in detail. It is possible that some checks are being carried out unnecessarily, through a sense of caution. If in fact a clarification of the applicable rules and principles could be promulgated which indicated that certain types of works were not caught by some aspect of the current regulatory regime then that might assist smaller companies seeking advice as well as those best able to advise them.

We are not able to comment on the degree to which patent and trade mark agents regard themselves as also subject to the Money Laundering Regulations as, while the definition of "independent legal professionals" in those Regulations would suggest they are for some types of work, the IPReg Code of Conduct simply states that persons subject to it should be "aware of "money laundering" legislation" (IPReg Rule 11.3), and anecdotal evidence suggests they do not typically carry out the same checks. It would seem sensible for all professionals advising on similar areas to be regulated in the same way.

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Copyright in Unpublished Works: 2039 and Orphan Works

Aislinn O'Connell

Abstract

Transitional provisions in the implementation of the *Copyright, Designs and Patents Act* (1988) made changes to the copyright protection to works which were unpublished at the time of the implementation of the Act. Those unpublished works will remain in copyright until 31 December 2039, rather than in perpetuity, as was previously the case. Following a consultation in late December 2014, the government has stated that they will not be making any changes to the legislation until further discussions take place. This article discusses the ways in which cultural and heritage institutions may make use of works subject to the 2039 rule, including both UK and European Orphan Works provisions, and considers the possible solutions for making the use of older 2039 works simpler.

1 Introduction

The implementation of the *Copyright, Designs and Patents Act* (CDPA) (1988) was a major reform of copyright law in the UK. The Act fundamentally changed when the copyright 'clock' starts ticking, fixing it at the point of recording (whether in writing or otherwise), rather than at the point of publication. Where previously unpublished works could remain in copyright in perpetuity (*Copyright Act* 1956, s 2(3)), the 1988 Act introduced transitional provisions which fixed a fifty-year copyright on all literary, dramatic, musical works, engravings, and photographs which remained unpublished at the end of the year in which the Act came into force (which was 1989) (Schedule 1, Para 12, CDPA, 1988). This meant that works not yet published on 31 December 1989 will remain in copyright until the end of 2039 – regardless of when the work was originally created. This applies only to works by authors who died prior to the 1 August 1969, and where the work is not anonymous or pseudonymous – different provisions apply in those cases. This contrasts against the new copyright term introduced by the Act, which stated that copyright arose at creation and generally lasted for fifty years after the death of the author (s 12(1) CDPA (as enacted)).

Author

Aislinn O'Connell is a PhD candidate at the Department of Information Studies at University College London.

Email: .

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The duration of copyright after the death of the author (post mortem auctoris (PMA)) was further extended in 1996 to 70 years (*Duration of Copyright and Rights in Performances Regulations* 1995, SI 3297).

This fifty-year copyright term granted by the CDPA transitional provisions matches the term that would have been granted to any work that had been published at that point. This was to ensure that works which would have been in copyright had the Act not been introduced would not be left without copyright protection terms by virtue of the change in copyright regime.

However, this has led to a huge number of old works failing to fall into the public domain. The Imperial War Museum estimates that almost all of their 1.75 million works are unpublished, with a substantial proportion of those falling under the 2039 rule (IPO, 2015a, 2). The term of protection for 2039 works, regardless of whether they were 26 or 206 years old in 1989, remains the same, with 24 years still to run until the expiration of the 2039 provisions.

In addition to the fact that these works are protected by copyright despite their age, the fact that they are so old often means that the knowledge of their copyright holders has been lost, making them both 2039 works and orphan works – works for which the copyright holder cannot be found. Given that the chain of ownership may have passed down over hundreds of years, tracing it could be nigh on impossible. This article considers the developments for 2039 works from late 2014 to early 2015, and considers the possible avenues for using those works in the future.

This is not to say, of course, that the problem of 2039 and orphan works is a new or even a recent one. In fact, there has been much discussion of orphan works in the years preceding 2013. Several submissions by heritage institutions to the 2011 Hargreaves consultation on intellectual property mentioned the issues of 2039 and orphan works (Libraries and Archives Copyright Alliance, 2011; National Library of Scotland, 2011; National Library of Wales, 2011; The National Archives, 2011) and the Jisc report, *In From The Cold*, pointed to the long copyright term as an inevitable cause of works becoming orphans – rights holders are nigh on impossible to trace over such long periods of time (Jisc, 2009, 9).

2 Government Actions

In 2013, Parliament implemented the *Enterprise and Regulatory Reform Act* which, among other things, approved powers to remove some of the complex transitional provisions for 2039 works (ERR Act, 2013). These powers would then have to be implemented via secondary legislation, in the form of Regulations (s 76 ERR Act, 2013). In late 2014, the Government opened a consultation on the possible ramifications of using those powers, specifically s 76 of the ERR Act. The consultation was open for six weeks, from 31 October to 13 December of 2014, and received 43 responses. The majority of these responses were from cultural and heritage institutions (CHIs) citing the difficulty of rights clearances for works subject to the CDPA transitional provisions. In 2014, the centenary of the beginning of World War I, CILIP, the Chartered Institute of Library and Information Professionals, launched a campaign to “free our history”, stating that diaries and other personal materials, because they were unpublished at the

transition date, remain copyrighted despite it being in some cases more than a hundred years since the death of the author (CILIP, 2015) and they were thus unable to display those works. The campaign was backed by multiple museums and libraries, including Collections Trust; Imperial War Museums; International Association of Music Libraries, Archives and Documentation Centres (UK and Ireland); Libraries and Archives Copyright Alliance; National Library of Scotland; Scottish Council on Archives; UCL Library and the University of Leeds (CILIP, 2015). The transitional provisions of the CDPA require lengthy rights clearance processes, involving finding out the author, their date of death, the publication status of the work, and the current copyright holder which, according to a 2010 study for the European Commission, can often be more time consuming and expensive than the digitisation process itself (Vuopola, 2010, 12-14). For those institutions which may hold large numbers of works which need rights clearances (the Imperial War Museum, for example, holds 1.75 million such items (CILIP, 2015)) this can be burdensome.

In a tangentially-related development, in 2014 two sets of Regulations were implemented by the government concerning two orphan works schemes. The first of these, which was enacted under the power granted by the *Enterprise and Regulatory Reform Act 2013*, is the UK Intellectual Property Organisation (IPO) licensing scheme, which allows the granting of licences for commercial and non-commercial use of orphan works (ERR Act, 2013, s.77). The second, which is allowed under *Directive 2012/28/EU of the European Parliament and of the Council on certain permitted uses of orphan works* (2012) is the EU orphan works scheme, which allows cultural and heritage institutions to use orphan works in certain limited ways (*Copyright and Rights in Performances (Certain Permitted Uses of Orphan Works) Regulations* (SI 2861), 2014; *Copyright and Rights in Performances (Licensing of Orphan Works) Regulations* (SI 2863), 2014).

Lastly, a variety of copyright exceptions were introduced in 2014, most relevant among which was the exception created by the *Copyright and Rights in Performances (Research, Education, Libraries and Archives) Regulations 2014*. This allows libraries, museums, educational establishments and archives to create copies of works for preservation purposes (s42(1) CDPA, 1988) and to allow access to works at dedicated terminals on-site (s40B CDPA 1988). These exceptions have broadened the activities available to libraries and archives, and apply to all copyrighted works, which includes 2039 and orphan works (SI 1372, 2014).

3 Results of Consultation

The governmental response to the consultation stated that it had decided not to take further action at the time, but would seek further information from interested parties (IPO, 2015a). It backed up this decision not to take further action by stating that certain rights holders have built their business models on the expectation that their copyright will last until 2039. A primary example is that of the Ralph Vaughan Williams Charitable Trust, which administers the copyright on Williams' works, and uses the revenue licensing these works to support British composers and support further performances of those works. Changing the date at which Williams' works will fall into the public domain (on a 70 years PMA

interpretation this would be 11 years earlier than 2039) would negatively affect the revenue stream of this trust.

The response further pointed out that an additional submission stated that allowing works which have not yet been published to fall into the public domain may be damaging to legitimate rights holders, as they would lose out on any potential licence fees for their works, which rights holders would at present be able to accrue if someone wished to publish the works at some point in the next 24 years. Further, several contributors, especially those representing authors and rights holders, suggested that the removal of property from legitimate rights holders could be considered a violation of human rights, and thus problematic for the UK Government (IPO, 2015a, 4).

For these reasons, the government decided not to take any action to use the ERR powers until further investigations had been made. The IPO pointed to the newly-implemented orphan works licensing system and also to the creation in 2014 of the libraries, archives and museums exception to copyright, which allows a range of activities including preservation and archiving, as well as digital access at dedicated terminals on the premises, for the purposes of research and private study (IPO, 2015a).

Although the consultation did not result in any promises to change the 2039 legislation – in fact it specifically stated that there was no intention to utilise the powers to change the system without further consultation – there has been an improvement to the situation for CHIs. One of the major difficulties with 2039 works was that they could not be displayed in museums and archives, due to a provision of the CDPA, which stated that copyrighted works may not be “performed” in public without the permission of the rights holder. It then goes on to specifically state that it includes “any mode of visual or acoustic presentation” (s 19(2)(b) CDPA, 1988). Interpretation of this section was contested; it was unclear whether or not display would constitute performance of a work. In March 2015, the Intellectual Property Office published a copyright notice which stated that the display of items such as letters or diaries does not violate the copyright of those items (IPO, 2015b), as it does not constitute a performance in the same way that a performance of a musical or video work would. This then avoids the issue faced by many libraries and museums at the centenary of the beginning of WWI, as the notice clarified that they would be able to display such items as personal letters or diaries without infringing copyright. While IPO copyright notices are not legally binding, they are generally taken as a statement of official thinking on a particular topic, and thus a good indicator of the permissibility of certain acts. This in turn eliminated the main campaign pressure of the #catch2039 movement, which used the display of blank letters as a talking point to highlight their previous inability to display such works.

4 Solutions for using 2039 and orphan works

From the government response to the 2039 consultation, there are five potential ways to make use of a 2039 work. The first steps in making use of a 2039 work are the same regardless of which method is used in the end. First, an attempt must be made to establish the author and the age of the work. The method of

establishing the author is, of course, dependent on the work itself. Personal letters and diaries might have the author name inscribed upon them, a starting point for searching out their descendants and the current rights holders. Photographs and other artistic works may have been registered in photographic societies, or marked in some way by the author. It is a process individual to each work. The date of creation of the work may be similarly difficult to ascertain; if it is marked upon the work, then that is relatively simple, but one might also take into account the possibility of dating pictures or photographs using more technical methods.

As well as establishing if possible the identity of the author, and their date of death, it is also necessary to establish whether or not the work has been published, and if so, whether this was prior to 31 December 1989. It is, of course, only if the work remained unpublished at that date that it falls under the 2039 provisions. For CHIs that keep meticulous records, it may be a matter of simply checking the records to ascertain the publication status of a work prior to 1989, but this is an ideal situation, and certainly not one which will apply to all works.

It is at the point that the copyright holder has been ascertained that the possible paths diverge. If it is not possible to establish the author of the work after a diligent search, then it is classed as an orphan work (although it may well also be a 2039 work). What constitutes a “diligent search” may differ, depending on who is requiring the search. The IPO licensing scheme gives guidelines on diligent searches, according to the type of work (IPO, 2014), and requires applicants for licences to complete a list of registries and databases that they have searched. The IPO provides checklist(s) for completion, which are required to be uploaded as part of the licensing process. The EU Directive, on the other hand, does not have a strict requirement to fulfil: applicants are required to self-certify that they have completed a diligent search. After the search is complete, if the rights holder for the work cannot be found, then the work is an orphan, and thus options 1, 3, 4 and 5 are open to the CHIs for use of the work. If the rights holder has been established, then only options 1, 2 and 3 are available.

4.1 Option 1: display only

This option, following the guidance given by the IPO in March of 2015 (IPO 2015b), allows CHIs to display works which are still in-copyright, regardless of whether or not the copyright holder can be found. This is especially helpful for museums and archives that may wish to display, for example, letters or diaries of soldiers who fought in World War I. The display of such works does not fall under the definition of a “performance, showing or playing” as required by the legislation. This guidance from the IPO largely eliminates the issues faced by many archives and museums in their “free our history” campaign, giving them more certainty in the matter of displaying works. This is not to say that a rights holder would not be able to bring an infringement case against a CHI, but in the IPO’s opinion, such display is not infringing.

4.2 Option 2: obtaining licences

A second option available to any interested party is to obtain a licence. The feasibility of this depends on the individual rights holder in each specific case. There are of course potential difficulties in identifying or contacting the rights

holders. Once they have been identified, those who hold a number of copyrighted works and who have a functional licensing system in place may offer a relatively simple process for providing licences. Some rights holders for certain 2039 works do have effective systems in place, such as the Vaughan Williams Trust which licences the unpublished works of British composer Ralph Vaughan Williams. However, given that this discussion centres on unpublished works, this may be unlikely. It is possible that people may not be aware that they are the rights holder of a particular work, and thus obtaining a licence from them may be difficult or even impossible, as they may have no experience of or desire to engage in the (often complex) process of licensing work.

4.3 Option 3: relying on the libraries exception

The third potential avenue to use in order to make use of 2039 works is to rely on the *Copyright and Rights in Performances (Research, Education, Libraries and Archives) Regulations 2014* (SI 1372, 2014). This exception to copyright applies to libraries, archives, museums and educational establishments, regardless of whether or not they are for-profit. The exception has several parts, each of which allows a different use of copyrighted works. Institutions may digitise works for preservation purposes (s 42); make recordings of works available at dedicated terminals on the premises (s 40B); supply a copy of a work to another library (s 41); provide a single copy of works (both published and unpublished) for research and private study purposes (ss 42A, 43); and make a recording of a work for archiving purposes, even if the archive is not connected to the maker of the work (s 75) (CDPA, 1988). This range of activities provides additional freedoms to cultural and heritage institutions, and applies to all works (not just 2039 or orphan works), subject to certain limitations, including the reasonable availability of replacement works, and provision of a declaration that another copy of the work has not been made.

While these new freedoms granted by the exception are heartening, there are still substantial restrictions on what libraries, museums and archives may do with works, especially orphan works, and the new exceptions are mostly aimed at maintaining the status quo of collections, such as ensuring that copies are not lost due to age-related deterioration, rather than allowing new methods of access through digitisation and online access. The preservation and digitisation of works, for example, applies only to items in the permanent collection, and must be for reference purposes only. It is still a very narrow exception.

Relying on this exception allows libraries, archives, museums and educational establishments to copy works in order to maintain the integrity of their collection, and also to provide access to works for individuals for the purposes of research and private study. The exception is narrowly framed, however, and only allows one copy to be made for most purposes, thus limiting the activities of CHIs in certain circumstances.

4.4 Option 4: IPO orphan works licensing scheme

As the government's response to their consultation stated, the orphan works licensing process was its suggested forum for allowing use of 2039 works for which the rights holder or holders cannot be found (IPO 2015a, 1). This process is relatively lengthy, as it requires a "diligent search" to be conducted, and the IPO provides a list of organisations which must be contacted in order to attempt this. After the diligent search has been conducted, the system can then be used to indicate:

- the work for which a licence is required;
- the purposes for which it will be used;
- the number of works which will be produced;
- the length of the licence (up to seven years).

This licence restriction may cause issues for those who wish to use the work for longer, especially publishers or for online use. There is a fee for each licence, from a minimum of 10p for non-commercial use upwards, combined with an administration fee of £20. There is a sliding scale of fees, depending on the number of works requested. As documented by Terras (2014), this process is not yet perfect. In attempting to obtain a licence for a lantern slide, which did not fall into any of the categories prescribed by the IPO, she had some difficulty and was presented with a list of irrelevant organisations to contact in the course of her diligent search. As of the end of April 2015, 263 orphan works had been subject to application, with 220 licences granted (IPO, 2015c). Of these licences, 188 were obtained by the Museum of the Order of St John for still images depicting St John's Ambulance volunteers during WWI. The separate licensing of still images is a deliberate provision of the scheme, in order to reassure rights owners. Further guidance is available from the IPO (IPO, 2013). This demonstrates that it is possible for museums to obtain licences for orphan works, but at a cost, both in terms of time and licence costs. Furthermore, given the huge proportion of orphan works which were licensed by a single institution, the number of different institutions, bodies, or indeed individuals, licensing orphan works is much smaller than the number of licences granted would seem to indicate. There are still problems with the orphan works licensing scheme, including the length of time required to obtain licences (Terras, 2014), and their expiration after a maximum of seven years. The time-limited nature of the scheme leads to difficulties in using orphan works in published form or online, due to the fact that the use would be likely to exceed the duration of the licence. Nonetheless, the IPO orphan works licensing system is still gaining users since its implementation, particularly as it allows the licensing of standalone artistic works.

4.5 Option 5: European orphan works directive

There is a second orphan works scheme which applies to Cultural and Heritage Institutions (CHIs) including museums, libraries and archives, which is substantially easier and less restrictive to use. However, it applies only in certain limited circumstances and to specific categories of works. *Directive 2012/28/EU of the European Parliament and of the Council on Certain Permitted Uses of*

Orphan Works (2012) was partially implemented into UK law through the *Copyright and Rights in Performances (Certain Permitted Uses of Orphan Works) Regulations* (SI 2861) (2014) and creates an exception to copyright legislation for certain uses of some types of orphan work by cultural and heritage institutions.

This exception allows archives, libraries, museums, educational establishments, and public service broadcasters to make certain use of orphan works without the need to obtain a licence from the IPO. Those uses include making the work available to the public, or reproducing the orphan work for the purposes of digitisation, making available online, indexing, cataloguing, preservation or restoration (s 42 CDPA 1988). The requirement for a diligent search is still present, but it is self-certified. The exception does not apply to all creative works: it covers literary works, cinematographic works, audio-visual works and sound recordings across the EU, but does not include standalone artistic works like photographs, maps, plans and drawings. It does specifically apply to unpublished works, meaning that it can apply to 2039 works, but even this is a limited inclusion, as it is only applicable to those unpublished works which have been “made publicly accessible by a relevant body” (Schedule ZA1 s 2(3)(c) SI 2861). In this context, a “relevant body” is a CHI which is able to make use of the exception. Given that the “free our history” campaign focused on making publicly held but inaccessible works more freely available, it is likely that a proportion of the works which they sought to free would not fall under the ambit of this scheme.

This scheme does have some limitations. As mentioned above, it applies only to certain categories of works, and excludes maps and photographs. This exclusion is due to be revisited in October of 2015 (Article 10, *Directive 2012/28/EU*, 2012). Furthermore, it is possible to lose the benefit of the exception if the work is used for purposes outside of the CHI’s public interest mission. For the protection of copyright holders, there is a requirement to pay fair compensation for the use of the work if the copyright holder does appear.

5 Comparison of orphan works schemes

We can compare the two orphan works systems, IPO licensing and EU exception on several dimensions (Table 1).

The requirement for a diligent search is present in both schemes, although it is more stringent in the IPO licensing system. The EU scheme does not require a monetary fee, whereas the IPO does. However, both schemes will still incur the cost of a diligent search. In the event of a rights holder wishing to claim back-dated licensing fees, these can be claimed from the IPO if that system was used, whereas a CHI relying on the EU system will be required to pay licence fees directly to the rights holder. The EU system has more limitations in terms of works, uses, and users. The IPO system is only applicable in the UK, whereas the exception is valid across the EU. Furthermore, works which have been designated as orphans in one European member state hold the same status in other states, giving CHIs a greater body of works which they can use online. Thus, we can see that there are advantages and disadvantages to both the Orphan Works licensing scheme and the European Orphan Works Exception, and the choice of which to use is one which must be made on a case-by-case basis, depending on the work,

the use to which it will be put and the body which wishes to make use of the work, as well as financial and time considerations.

	IPO Licence Scheme	European Orphan Works Directive
Who Can Use It?	Anyone	Cultural and Heritage Institutions
What works does it apply to?	All works	Text based works, embedded artistic works, and audio visual works which have been published or made publicly available by a relevant body.
What uses are covered?	All uses	Making available and reproductions for the purposes of digitisation, making available, indexing, cataloguing, preservation or restoration.
Diligent Search?	Yes, with guidance and specific forms	Yes, self-certified
Fee Applicable?	Yes, minimum £20 application fee, plus minimum 10p licence fee	No
Rights holder claims covered?	Yes, the IPO will pay licence fees	No, the user must pay licence fees
Duration?	Up to seven years	Until copyright expires, or until the rights holder appears
Area covered	UK Only	EU-wide

Table 1: comparison of orphan works schemes.

There are also further concerns that certain works licensed under the Orphan Works Scheme may not, in fact, be orphan works, but might be public domain works. Where the original rights holder cannot be found, it is then difficult to establish what their date of death was, or the publication status of their work, and thus institutions and individuals who purchase orphan works licences may be doing so unnecessarily (Korn, 2015).

6 Possible future solutions

Although there are now several options in place for organisations to use 2039 and orphan works, there are still reasons to reduce the number of works which fall under the 2039 provisions, or indeed removing them altogether. Currently the UK is the only country in Europe which has such provisions. It is unique among the member states in that some of its historic works are not available for use without a licence, whether from the IPO or the rights holder.

The interaction of this unique UK situation with the dissimilar wider European situation is potentially interesting. It means that UK works are not permitted to fall into the public domain in the same way as other European works. This then hampers international cooperation in terms of research and use of older artistic works, as works which are in the public domain in other member states give much more freedom with regard to uses than their UK counterparts. These extra restrictions on UK works impede the general movement in European copyright towards harmonisation, leaving the UK out of step with other member states. The UK would struggle to participate in a project which collected or compared diaries of WWI soldiers, for example, as these would be 2039 works, and often also orphans, where equivalent documents would be public domain in other EU states.

We can see from the above discussion that there are solutions available to obtain licences or permission to display and reproduce 2039 and orphan works (or works which fall into both of those categories). This disparity between the UK and other European member states is not the only area in which copyright diverges (indeed, there are many) but it is one which throws up particular obstacles to using historical creative materials.

Display of private communications, such as letters and diary entries is, according to the IPO's copyright notice, not a violation of copyright. Further, the reproduction of works such as 2039 works is permissible under the orphan works exception for CHIs, provided that it is for one of the above specified purposes. Lastly, if an institution wishes to use an orphan or 2039 work for purposes above and beyond that permitted by the European exception, they may apply to the IPO for an orphan works licence, which lasts for seven years, with an option to renew.

However, for works which may be hundreds of years old, a subsisting copyright which will continue to exist for the next 24 years is a stringent protection. It means that there are still many procedures to go through before the works can be used, and there are restrictions on the ways in which they can be used. Thus, although the UK government has committed to not utilising the powers laid out in the ERR Act without further consultation, there are several options open to the UK government which should be explored in order to allow greater use of 2039 and orphan works.

Option 1: Use the powers in the ERR Act 2013 to change the copyright protection of still unpublished 2039 works to match the standard term, which is the life of the author plus 70 years.

This solution would have the following effects:

-
- Already published works would remain unaffected by the change (for example, those of the Vaughan Williams Trust);
 - The vast majority of historical 2039 works would move into the public domain;
 - This would allow greater freedom to use those historical works;
 - Given that 2039 status only applies to works by authors deceased prior to 1 August 1969, no copyright terms would be extended;
 - Ascertaining publication status would no longer be a consideration when conducting assessment of potentially orphan works;
 - The UK would no longer have a disparity against other EU Member States regarding copyright in unpublished works.

There are issues which would need to be considered before the possible implementation of this scheme. The underlying human rights issues which stayed the hand of the government in response to the consultation must be carefully considered and any issues resolved before copyright terms are changed. These specifically include rights relating to the removal of property (IPO, 2015a, 4). Thus, it would not be possible to implement this solution without preliminary human rights research and an evaluation of the implications of this.

Option 2: Use the powers of the ERR Act to extinguish copyright in those unpublished works which pre-date the 20th century, with the following effects:

- All still unpublished 2039 works from before 1900 would move into the public domain;
- 2039 works which have already been published would be unaffected by this change;
- Historic works would be freed up for greater uses;
- Some 2039 works would continue to exist, namely those works created between 1900-1989;
- Thus, this would not solve the problem of 2039 works, but could reduce it;
- Ancient, medieval, and pre-20th century works would all be freed up for use by falling into the public domain;
- The UK would be more in line with other EU member states, with the exception of those works created from 1900-1989.

This option raises the same issues of human rights that are raised by option 1, and thus robust and authoritative research would be an absolute necessity before implementation. Furthermore, this option still leaves ninety years of unpublished works unaccounted for and subject to the 2039 rule, and thus does not solve the problem, only ameliorate it. The disadvantage of this may be that those works would remain unusable for the remaining 24 years of the 2039 term, and the burden of ascertaining publication status would remain on those who wish to those works, together with the diligent search requirements of orphan works schemes. Furthermore, it is impossible to know the proportion of 2039 works

which would be affected by this change, and a further difficulty would arise for those works which were created around the turn of the century, in that it would be crucial to establish their exact date of creation, in order to know whether or not the 2039 rule would still apply to those works.

Option 3: Maintain the status quo.

- The options for using orphan and 2039 works discussed above would remain available;
- No additional human rights concerns would have to be investigated;
- Many 2039 works would remain essentially inaccessible for another 25 years.

Although there are some concerns with removing the copyright from older works, including human rights issues, it is important to note that the vast majority of 2039 works, due to their venerable age, do not have traceable rights holders, which may limit potential violation of human rights. However, this would need to be evaluated by an Impact Assessment from the UK government which ascertains the level of potential damage from such a move. The solutions discussed above could be modified in order to avoid violating the human rights of any copyright holder, subject to further research.

Furthermore, the application of the standard term or reduced terms to 2039 works does not necessarily mean that those works would have no rights attached to them whatsoever. There is a right analogous to copyright, known as the publication right, which creates copyright-like property rights for unpublished works that have fallen into the public domain (*Copyright and Related Rights Regulations* (SI 2967), 1996). This grants the first publisher of a work a 25-year monopoly over the further publication and dissemination of a particular creative work. However, there is nothing to say that the first publisher of a work must be the author, or the prior holder of the (now-expired) copyright, and thus this right would not automatically be assigned to previous copyright holders. Thus, a third party could publish a previously unpublished 2039 work, and benefit from the publication right for the following 25 years, while the holder of the (now extinct) copyright would no longer have any rights over the work.

This scenario would result in the extinguishing of copyright which was due to run until 2039. That expired copyright could be supplemented by rights holders simply publishing the works in which they hold the rights first, meaning that the publishing right would accrue to them, and not to a third party. Ideally, they would do this before the expiration of their copyright, as until their copyright expires, they have the exclusive right to do so. If this does not occur before they fall into the public domain, however, the nature of the publication right could lead to a race to be the first to publish, which would lead to sub-standard editions being produced in order to obtain the publication right, at the expense of better editions which took more time to publish by virtue of their superior publishing quality (IPO, 2015a). This same race could occur in 2040, with a greater number of works, as the (almost unknowable) entirety of works subject to the 2039 rule fall into the public domain.

The number of 2039 works is unknown, and difficult to accurately estimate. Publishing or utilising them is difficult and time-consuming, especially where they are also orphan works. Allowing more 2039 works to fall into the public domain is a simple step which would free up more copyright works for display and use by cultural and heritage institutions without damaging the legitimate business models which rely on the use of works which have been published in the almost 30 year period since the implementation of the CDPA 1988. It would further greatly reduce the number of hours required for rights clearances, not only from cultural and heritage institutions, but for all bona fide users of copyright works. Furthermore, applying the standard term to still unpublished 2039 works would eliminate the difficult and time consuming processes which set 2039 works apart from other creative works, and those in other EU member states. The movement towards allowing the use of orphan works in Europe and in the UK is one which has been supported by research in the form of the European Green Paper (European Commission, 2008), which points out that while there is demand to use orphan works, their very nature as orphan works means that there are no rights holders attempting to exploit the copyright in the works, meaning that they are left unable to be used. This was the rationale behind the Orphan Works Directive, and a similar rationale can be applied to still unexploited 2039 works. The majority of 2039 works are orphans, and those that are not orphaned have generally been exploited for commercial gain already. Thus, it is difficult to see where the detriment in freeing up 2039 works can be found.

While the IPO is undoubtedly aware of the arguments both for and against freeing up 2039 works, and elected in this instance not to implement a change to copyright duration, this may be because the consultation did not distinguish between subsequently published 2039 works and still unpublished works. Thus, with the considerations of rights owners submitted to the Consultation, further consideration would be required before implementing a new exception or a change to copyright law. The distinction between 2039 works which are being exploited and those which are lying unused and unusable is something which could be explored by the government's seeking further views, as mentioned in the response to the consultation (IPO, 2015a, 1).

7 Conclusion

Although the government consultation on 2039 works stated that the government would not immediately use the powers created by the ERR Act to reduce the copyright duration in 2039 works, there is every reason for the government to continue to explore more avenues which will free up unusable 2039 works for use by the greater public. This is indicated by the response to the consultation document, which stated that the government would not take further action "at this time" but would "seek further views" (IPO, 2015a, 1). However, it is clear that some 2039 works are already being exploited to their full potential, and thus it would be unwise to remove this potential from rights holders. Therefore, the government should shift its focus to concentrate not on 2039 works which are being exploited, but on those that still remain unpublished and unusable.

The developments of the last number of years, especially with regard to orphan works licensing and the clarification regarding the display of copyrighted material

are important, but it is also vital that the UK continues to develop its copyright regime in order to maintain parity with other European member states, to encourage creativity, to allow the use and distribution of historical creative works and to allow additional creative works to reach a wider audience in the UK. Given the general movement of the EU towards greater harmonisation of copyright rules (indeed, cross-border portability of copyright works is one of the issues considered as part of the EU's Digital Single Market strategy) there is a need for the UK to consider carefully this anomalous copyright provision when seen in the context of the wider European framework.

The development of a system which simplifies the complicated rules regarding 2039 works would lead to greater use of historical creative works, which are often of great cultural and historical interest due to their age and nature. Examples of 2039 works held by CHIs which would become available include the letters of Conan-Doyle, held by the Natural History Museum. These letters are still in copyright due to their unpublished nature, while the rest of his body of work has fallen into the public domain. Similarly, the Tate holds the works of Walter Sickert, Henry Scott Tuke, Gaudier-Brzeska and Thomas Cooper Gotch (CILIP 2014). There is a substantial argument to say that enabling these works to make their way into the world would enhance the cultural, artistic, and historical offerings of CHIs, rather than locking away interesting and artistic works to remain unused and largely ignored for a further two and a half decades. Not only this, but it would also reduce the number of hours required by cultural and heritage institutions for work on clearing rights, and should reduce the financial costs associated with using such works. The unique situation of the UK amongst EU member states could be framed as an advantageous protection of rights holders, but in reality, those rights holders willing to exploit their 2039 works are already doing so, and the implementation of carefully considered provisions to enable use of currently unusable 2039 works would bring manifold benefits to the British public, research, culture, and heritage.

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Section 52 consultation
Copyright Directorate
Intellectual Property Office
4 Abbey Orchard Street
London SW1P 2HT

23 December 2015

By email to: section52cdpa@ipo.gov.uk

Response to the consultation on transitional arrangements for the repeal of section 52 of the Copyright, Designs and Patents Act 1988

Dear Sirs,

DACS welcomes the opportunity to respond to the consultation on transitional arrangements for the repeal of s.52 of the Copyright, Designs and Patents Act 1988 (CDPA). DACS has responded to the Government's previous consultation on s.52 CDPA and our response can be found appended to this document.

DACS is concerned that the Government has not provided sufficient options for the implementation period and that the option given is incorrectly applied as it effectively overrides the evidence gathering process. DACS is a member of the British Copyright Council (the BCC) and supports their response to this consultation.

About DACS

Established by artists for artists, DACS is a not-for-profit visual artists' rights management organisation. Passionate about transforming the financial landscape for visual artists through innovative new products and services, DACS acts as a trusted broker for 90,000 artists worldwide. Founded over 30 years ago, DACS is a flagship organisation that has and continues to campaign for artists' rights, championing their sustained and vital contribution to the creative economy. In its support of artists and their work, DACS collects and distributes royalties to visual artists and their estates through Artist's Resale Right, Copyright Licensing, Artimage, and via Payback. More information can be found on the [DACS website](http://dacs.org.uk).

DACS has a wide and varied membership including both creators of 3D works of artistic craftsmanship and photographers who may photograph such works. As such, DACS favours a transitional period and a depletion period that is fair and proportionate to balance the rights of both types of creators whose works are affected by s.52 CDPA.

General Observations

DACS considers that the Government has not correctly applied a timeframe for the repeal of s.52 CDPA. The fact that the 'clock' for the 6-month transitional period started when the consultation was announced prejudices the consultation and does not allow for effective evidence gathering.

Rightsholders and businesses were initially informed that the date of implementation was April 2020 and may have made arrangements to meet this date¹. The Government considered that implementation in 2020 would “provide a proportionate time frame for affected businesses to adjust to regulatory change”², therefore it follows that the impact of implementation 4 years earlier will be significant and not proportionate.

This second consultation refers to measures in respect of depletion of stock dates, pre-1957 designs and for second hand sales. These are significant changes that businesses and rightsholders will need time to implement, and any related costs must be taken into account.

The previous consultation provided an option for repeal to take place in April 2018 and this option does not appear to be considered at all in the second consultation.

Responses

- 1. What will be the impact of a transitional period of six months, both costs and benefits**
- 2. Should the six months run from the start date of this consultation or from a different date, and if different, why?**

DACS considers that six months from the date of the consultation’s release is not proportionate as it incorporates the evidence gathering period and therefore effectively overrides evidence given.

- 3. Should a longer or shorter transitional period than six months be adopted, and if so, what are the costs and benefits?**

DACS believes that a longer transitional period should be adopted: a suggestion would be a midway point between April 2016 and the repeal date stated in the previous consultation (April 2020), which is a more balanced and proportionate approach, and which was originally considered the fairest option under the prior consultation³. The Government should actively seek evidence of any costs incurred by rightsholders or businesses in making arrangements to meet the previous implementation date.

- 4. Are there any other issues which the guidance should cover which are not listed?**

As stated in our prior consultation, appended herewith, DACS considers it would be beneficial for guidance to be created in consultation with the relevant industry sectors.

¹ We refer to the Association of Photographers (AOP) who have stated that photographers will have been commissioned for work that can no longer go ahead and will have planned future business around the Government’s original implementation date in 2020.

² Department for Business Innovation and Skills Regulatory Policy Committee comments, p.2 in *Government response to the consultation and announcement of transitional provisions* (February 2015) p.67

³ Page 22 of *Consultation on the timing of the repeal of s.52 CDPA* (October 2014) states that the Government proposes a 3-year period commencing on 1 April 2015 (i.e. implementation to take place in 2018) “causes the least disruption for designers, rightsholders, business... and users”.

5. Do you agree that the Government is right not to distinguish between two- and three-dimensional copies?

Differentiating between 2D and 3D works is necessary as it would take into account the way in which these works are used. For instance, where a 2D work appears in a publication, what will depletion of such stock entail? Additionally, the publication could then be copied and subject to secondary use licensing, as usually collected via a blanket licence. It is unclear how the works will then be treated and whether or not copying a publication of a 2D image of a 3D relevant work will be an infringement.

- 6. Do you agree that applying the depletion period only to those contracts entered into prior to the start time and date of this consultation appropriate, and what are the costs and benefits of this?**
- 7. Are there any other factors that the Government should consider for the depletion period?**

DACS considers that the subsequent use of 2D works should be taken into account when determining what the depletion period relates to and there should be clarity on what should be depleted. Six months (four given the length of the consultation process) is a very tight time frame in which to expect full depletion of stock without significant financial losses.

- 8. Do you agree that the period provided for depletion of stock is proportionate?**
- 9. Should a longer or shorter depletion period than six months be adopted, and if so, what are the costs and benefits?**

We refer to the AOP's response in this regard.

10. Do you agree that no legislative change should be made in respect of items previously purchased under section 52 CDPA? If not, what provision would you make and why?

DACS does agree that this should be the case, especially in light of secondary uses of published works containing 2D images of 3D works relevant to this consultation. If a publication is issued prior to the repeal, we would consider that the rights of the 3D work are exhausted for the purpose of reprography of the 2D image. In that respect there should not be legislative change to items that have been purchased or created in the knowledge the copyright in the 3D work had expired.

11. Do you agree that Paragraph 6 of Schedule 1 of the Copyright, Designs and Patents Act 1988 should be amended to exclude items protected by copyright in the EU at 1 July 1995?

As this amendment would have the consequences of enabling rightsholders to achieve remuneration for the use of works that were made before 1 June 1957, DACS considers this to be equitable to those rightsholders. However, in light of our comments above, this amendment must be compatible with the notion that the 2D copy of such works that relied on s.52 CDPA would have exhausted rights

in that work in, for example, a publication and therefore a person copying an old publication containing such an image would not require additional rights clearances.

12. If Paragraph 6 of Schedule 1 of the Copyright, Designs and Patents Act 1988 is repealed or amended, are you aware of items where copyright would be conferred which never previously had copyright protection anywhere?

13. Do you agree that Regulation 24 of the Duration of Copyright and Rights in Performances Regulations 1995 should be repealed?

DACS agrees that Regulation 24 should be repealed. Rights holders should have the ultimate decision when it comes to licensing their works. DACS has no evidence concerning the costs and benefits of compulsory licensing, or whether our members expect to reply on it in the future.

For further information please contact

██████████

Legal and Policy Manager

DACS

T ██████████

████████████████████

Appendix 1

DACS' response to the consultation on the
transitional provisions of the repeal of s.52
CDPA 1988

October 2014



DACS
33 Old Bethnal Green Road
London
E2 6AA

T +44 (0) 20 7336 8811
F +44 (0) 20 7336 8822
E info@dacs.org.uk

dacs.org.uk

██████████
Copyright Directorate Intellectual Property Office
4 Abbey Orchard St
London
SW1P 4HT

By email: Section52CDPA@ipo.gov.uk

23 October 2014

Dear ██████████

Consultation on transitional provisions for repeal of Section 52 of the Copyright, Designs and Patents Act 1988

DACS welcomes the opportunity to respond to the transitional provisions for the repeal of Section 52 of the Copyright, Designs and Patents Act 1988 ("CDPA"). Since the majority of questions are addressed to users of works DACS will respond to the consultation more generally, restricting our answer to the point of view of visual artists. Whilst DACS generally supports the extension of copyright holder's rights, we believe that apart from striking a balance between rights holders and users of works, the interests of different types of visual artists need to be taken into account too.

About DACS

Established by artists for artists, DACS is a not-for-profit organisation for visual artists' rights management. Passionate about transforming the financial landscape for visual artists through innovative new products and services, DACS acts as a trusted broker for 80,000 artists worldwide. Founded over 30 years ago, DACS is a flagship organisation that has and continues to campaign for artists' rights, championing their sustained and vital contribution to the creative economy. DACS collects and distribute royalties to visual artist and their estates through three rights management schemes: Payback, Artist's Resale Right and Copyright Licensing.

General Observations

DACS notes with concern the sections in the consultation paper that contain legal assessments and assumptions that are prejudicial to visual artists and rights holders in artistic works. The consultation paper makes assumptions about the definition of artistic works, in particular works of artistic craftsmanship, and the application of exceptions is generalised. There is also a disregard to the fact that both situations call for a case by case analysis and established court practice.

When assessing which works are concerned by the repeal of section 52 CDPA, the consultation paper contains explanations about section 4 CDPA which are incomplete and which conclude in a suggestion to issue a Copyright Notice about what items are likely to attract copyright. DACS believes that this is insufficient and considering the expressed view of Government that items in museums and gallery

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collections often appear because of their prevalence or historical significance in a particular period of time, and may not necessarily make any attribution to its aesthetic qualities (page 7 of the consultation paper) may result in an assessment unfavourable to visual artists.

We believe this view may be the result of a very restricted application of one of the opinions expressed in the case *Henscher Ltd v Restawhile Upholstery* 1976 and that this view is no longer compliant with more recent developments on a European level, which risk for the delimitation of fixed categories of works in the CDPA 1988 to be non-compliant with EU law. Furthermore, section 4 CDPA may not comply with EU law given the apparent requirement, following the *Infopaq*¹ case, to allow open-ended subject-matter categorisation, as is already the case in other European countries like France, Germany and Italy.

Decisions of the Court of Justice of the European Union in *Infopaq*, *BSA*², *FAPL*³, and *Painer*⁴ have all sought to confirm this approach, focusing on the intellectual creation of a work rather than it falling within narrowly prescribed definitions of work categories.

UK law has not as yet fully encompassed this analysis as to works which are entitled to copyright protection and any analysis of which works attract copyright protection under section 4 CDPA should start there rather than on an explanation delivered by the House of Lords in 1976.

DACS further objects to the generalising assessment in the consultation paper that photographs taken of 3D artistic works will benefit from existing exceptions. It is well established case law that the application of an exception has to be determined on a case by case basis and that exceptions will only apply in limited special cases. The statement on page 17 of the consultation paper that “users and creators of 2D images of artistic works are likely to be able to benefit from existing copyright laws that allow the use of a work for the purposes of criticism and review, or for the incidental inclusion of a copyright work in another artistic work such as a photo, film or broadcast” is a generalisation that disregards established case law about the application of fair dealing exceptions as well as about the need for each and every use to be incidental, whilst being detrimental to visual artists as a whole. Such statements encourage an incorrect application of the law – incidental inclusion, for example, cannot be applied where there has been a purposeful use of a work.

We would therefore urge Government to refrain from issuing generalising guidelines such as the ones contained in the consultation paper and that any potential Copyright Notice would need to be created after consultation with the relevant industry sector.

Impact on DACS’ members

In general DACS welcomes the repeal of section 52 CDPA, as this will benefit visual creators whose copyright has been unduly restricted to 25 years under UK law. However, DACS also recognises that the repeal will have an impact on photographer members who photograph works that currently fall within section 52 CDPA. Following the line of argument in the consultation paper it does not appear that photographs taken of works falling within section 52 CDPA would become infringing photographs once the repeal is implemented. However, their subsequent use would need copyright clearance regarding the works included in the photographs as with any other artistic work shown in photographs.

¹ Case C-5/08 of 16 July 2009: *Infopaq International A/S v Danske Dagblades Forening*

² Case C-393-09: of 22 December 2010: *Bezpečnostní softwarová asociace - Svaz softwarové ochrany v Ministerstvo kultury*

³ Case C-403/08: 4 October 2011: *Football Association Premier League Ltd and Others v QC Leisure and Others*

⁴ Case C-145/10 of 7 March 2013: *Eva-Maria Painer v Standard VerlagsGmbH and Others*

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This change will not prevent DACS from licensing these photographs because the photographer (or rights holder) still retains copyright in the photograph itself; however DACS appreciates that the clearance process will potentially be more laborious considering that the photographs contain works which are now back in copyright.

Transitional period

DACS favours a transitional period for the implementation of the repeal of section 52 CDPA that is fair, proportionate and balanced. We are aware that different stakeholders will have different interests and, in particular, we are concerned about the impact the repeal will have on photographers who have specialised their practice around taking photographs of works that fall within section 52 CDPA. DACS is further sympathetic to businesses who have specialised in the reproduction of artistic works they believe to be out of copyright following section 52 CDPA; however, as section 52 CDPA unjustifiably restricted the term of protection in those works we believe that rectifying this situation should take precedent over the interest in maintaining a business that was as such illegal in other European countries and is now in the UK.

DACS believes that the extension of the term for works that were affected by section 52 CDPA is in effect not fundamentally different to the previous extension of the term in the UK for all works from 50 years after an author's death to 70 years after an author's death. Although a substantially greater number of works was affected by this change the transitional period was limited to 18 months. DACS appreciates the fact that businesses have been set up and are focusing on the reproduction and sale of works that fell out of copyright under section 52 CDPA and that these should be given sufficient lead in time to adapt their practice. Because of the different stakeholder interests even amongst DACS on membership DACS cannot opt for a specific period.

Uncertainty about works of artistic craftsmanship

As outlined above DACS is aware that some stakeholders to this consultation and members of the public are uncertain about what items will attract copyright as artistic works. Nevertheless, DACS firmly believes that where legislation does not provide distinct guidance on this matter, it is not for Government but instead the courts to deal with interpretation. There have been several cases since the decision in *Hensher v Restawhile* that have considered the notion of artistic craftsmanship, including the recent case *Lucasfilm*⁵ and these cases provide significant interpretation of the law.

With regards to question 3 of the consultation paper and in respect of the above, we are mindful that a Copyright Notice would go above and beyond the interpretation of artistic craftsmanship that already exists through case law. It should also be borne in mind that any such interpretative guidance may affect other sectors than those directly affected by the repeal of section 52 CDPA and that a very limited view as expressed in the consultation paper could illegitimately restrict and deprive visual artists of their rights or ability to protect their work. A narrow interpretation to favour businesses specialising in copies of artistic work "furniture" may also have a negative impact on the application of Artist's Resale Right Regulations 2006.

As outlined above, DACS believes that section 4 CDPA needs to be reformed more fully which in our opinion a limited Copyright Notice will not achieve.

⁵ *Lucasfilm Ltd & Ors v Ainsworth & Anor* [2011] UKSC 39

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For further information please contact:



Legal & Policy Manager
DACS



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The Society of Authors

**Briefing Note: The Enterprise and Regulatory Reform Bill. House of Lords
Committee Stage**

To

The Society of Authors
84 Drayton Gardens
London SW10 9SB
Tel 020 7373 6642
www.societyofauthors.org

The Society of Authors' Briefing Note: The Enterprise And Regulatory Reform Bill. House Of Lords Committee Stage

Introduction

The Society of Authors exists to protect the rights and further the interests of authors. The Society was founded in 1884 and today has over 9,000 members writing in all areas of the profession (from novelists to doctors, textbook writers to ghost writers, broadcasters to academics, illustrators to translators). Authors are eligible to join if they have been offered a contract from an independent publisher, broadcaster or agent or have sold over 300 copies of a self- published book. The members of our council are listed at <http://www.societyofauthors.org/about-us/council>.

Enterprise and Regulatory Reform Bill

1) Exceptions to Copyright by Regulation

Clause 66, enabling the extension of exceptions to copyright by regulation without full parliamentary debate is unacceptable. This Clause limits the extent to which amendments can be made to the Copyright Act through secondary legislation. It does this through limiting the introduction of further copyright exceptions to those that are listed in the Copyright Directive. To this extent it merely reasserts the powers which Government already has by dint of the European Communities Act 1972 ('the ECA'). The primary intention behind this Clause is to allow new exceptions to copyright to be accompanied by the introduction of higher criminal penalties for infringement – a power which Government does not have under the ECA. The Society supports this amendment and we welcome that the Explanatory Notes to the Bill have been amended to reflect explicitly this aim– but the risk remains that future governments will introduce large “bundles” of changes, further reducing Parliament’s power of scrutiny. We therefore support the Publishers Association in requiring the following points of clarification:

1. Each proposed exception to copyright should be subject to an individual statutory instrument. Rightsholders are concerned that the introduction of any new copyright exceptions, whether through Clause 66 or the ECA must be done through Parliament’s careful consideration of each individual exception; therefore each one should be subject to its own individual Statutory Instrument. This will allow Parliament to decide whether to approve or to reject each change on its merits. The other possibility, that exceptions be “bundled” together in a single Statutory Instrument, would prevent Parliament from being able to accept some changes whilst rejecting others. Such a “take it or leave it” approach to copyright reform is

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wholly unsuited to the nuance and detail of the subject and risks there being insufficient consideration of the issues.

2. Each proposed exception should have its own associated economic impact assessment. As the economic evidence which accompanied the Hargreaves Review of IP & Growth 2011 sadly demonstrated, the economic analysis underpinning some proposed changes to copyright is either lacking or flawed. Officials have indicated that new impact assessments will be published alongside any proposed changes to copyright and we would welcome reassurance from the Minister that this will be the case.

2) Term of Protection

We are concerned at the recommendation in clause 67 which gives the government power by means of Regulations to reduce or end the term of protection which currently applies for works which are unpublished and which were written before the provisions of the Copyright Designs and Patents Act 1988 (CDPA 1988) came into force (effectively this means unpublished works in existence in 1989) and works which have been published and were in existence before the CDPA 1988 came into force and are of unknown authorship because their author chose to be published under a pseudonym or anonymously and their identities cannot be ascertained by reasonable inquiry.

The power may be exercised so as to bring the term of copyright in the works affected to an end on the commencement of the regulations or at any later time. The operation of such Regulations could deprive rightsholders of their vested proprietary interests without compensation and without compensatory benefit to the UK economy and would be contrary to the United Kingdom's international treaty obligations under the Berne Convention, under TRIPS, and under the EU Term Directive. Although the Explanatory Notes give the impression that the Clause is intended to facilitate the digitisation and communication to the public of medieval manuscripts and other very old material held by cultural institutions it is of wider application and is capable of affecting works of relatively recent origin whose rightsoowners are easily located, for example, Ford Madox Ford, the author of the novel sequence *Parade's End* which was recently broadcast by the BBC died in 1939. Consequently, all his published work has been in the public domain since the beginning of 2010. Any unpublished work-(correspondence, diaries, drafts) is

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protected under current UK law for a further 25 years from 2013. The following safeguards should be included:

- We understand that the Copyright Term Directive of “life plus 70 years” will continue to apply to all works, and specific reference should be made to this on the face of the Bill.
- Under the 1988 Act (Schedule 1 12(3)) works are not considered anonymous or pseudonymous if the identity of the author becomes known at any time in which case the general rule applies (life of the author plus 70). The Regulations should be amended to make it clear that this provision will still apply and to provide an obligation to make a diligent search in accordance with orphan works guidelines before any work is deemed anonymous or pseudonymous.

2) Extended collective licensing

The Society is extremely concerned by the proposal in the ERR Bill enabling “extended collective licensing” to be introduced by Regulation (in the clause currently numbered 68).

As the Creators’ Rights Alliance said in response to the government consultation post-Hargreaves: there is no point in legislating for proper remuneration through extended collective licensing, or for exceptions to copyright bearing a right of remuneration, if publishers can then inform creators that they must sign over all such income. Steps to level the playing field in negotiations between individual authors and publishers are required: at a minimum, an equitable share of income from new streams such as extended collective licensing must be an unwaivable right of the individual creator. Such an unwaivable right already exists in UK copyright law in the implementation of the EU Rental and Lending Directive.

We agree with the CRA’s preconditions for the acceptability of extended collective licensing:

- Enforceable unwaivable moral rights for all creators, including an enforceable prohibition on removing metadata, are brought in at the same time;
- Only collecting societies democratically controlled by creators in the field may issue either kind of licence;
- Said collecting societies’ handling of applications for such licences shall be subject to government regulation;
- Licences are for a fee reflecting the market rate; and
- Unclaimed monies should be applied to the benefit of authors as a whole, e.g. for training and education.

3) Orphan works

The other proposed Regulations to be authorised by Clause 68, to introduce schemes for the licensing of “orphan works”, raise many of the same questions. While we welcome the assurances that officials have given in meetings of the Intellectual Property Office Working Group on ECL and orphan works, that the goal of any changes must be to avoid distorting the markets for works by known authors, further safeguards are necessary including measures to prevent future works being “orphaned” by introducing effective deterrents against removing identifying metadata.

In addition any orphan works licensing scheme must include safeguards to protect the author’s rights. The regulations at schedule 116A set out certain conditions under which a licence to use an orphan work may be granted. We agree with the Publishers Association that these do not go far enough:

- Each individual work must be subject to a diligent search for the rightsowner. It cannot be assumed that a work is orphan unless a diligent search of each individual work in question has been carried out. The Society acknowledges the discussions being had through the Working Group on Orphan Works, which includes defining what constitutes a diligent search, but would welcome statements from the Minister on the floor of the House setting out what the Government believes must be included in any diligent search; and what sector specific guidelines are likely to be provided.
- An orphan works licence must provide remuneration for relevant rightsholders, specifically the holding of money in escrow to remunerate rightsholders who come forward within a certain time period.

We hope that these points are helpful. We would be happy to provide any further information which may be useful, and to provide oral evidence to the review.

(c) Society of Authors December 2012

December 2014

Consultation on reducing the duration of copyright in unpublished (“2039”) works in accordance with section 170(2) of the Copyright, Designs and Patents Act 1988

About UK Music

1. UK Music is the umbrella body representing the collective interests of the UK’s commercial music industry, from songwriters and composers to artists and musicians, studio producers, music managers, music publishers, major and independent record labels, music licensing companies and the live music sector.
2. UK Music exists to represent the UK’s commercial music sector, to drive economic growth and promote the benefits of music to British society. The members of UK Music are listed in annex 1.

General

3. We see no justification to change the 2039 Rule to the extent that it impacts music, whether it is for sound recordings or musical works. The rule constitutes a compromise achieved in 1988 in order to bring the calculation of term for unpublished works in line with the one for published works in 2039.

We note that Government has not provided any evidence in the Impact Assessment which would justify their preferred Option 2a with regards to sound recordings and is otherwise very limited for other forms of works.

4. There are some important general points about the Impact Assessment that we would wish to note:
 - a) On page 1 it is stated that the works cannot be lawfully published if copyright owners cannot be identified. The Government has recently introduced an orphan works licensing scheme to permit lawful publication of such works. In addition the Impact Assessment does not consider whether works subject to the 2039 Rule could be cleared via an extended collective licence. Both of these systems have only just been introduced following a lengthy process:

UK Music
4TH floor
49 Whitehall
London, SW1A 2BX
T. 020 3713 8454
M: 07720 496 555
E. info@ukmusic.org

www.ukmusic.org

this would be a good opportunity to assess whether they can help to solve any problems relating to unpublished works to the satisfaction of both rightholders and users.

- b) On page 9 it is stated that “many 2039 works are likely to be of little commercial value to the copyright owner...” but that “they may be of commercial interest to third parties”. This is a contradiction – if a work is in copyright and a third party has a commercial interest in publishing it, then the licence fee they would pay the copyright owner must be of commercial value to the copyright owner. On page 11 it is stated that “the lack of commercial exploitation would indicate that there will be very little or no economic harm to copyright holders from this reduction in copyright term”. That does not follow: even if the copyright owner had not been planning publication, if an archive were to decide to publish a work and seek a licence from the copyright owner, then the copyright owner would receive a payment. The fact that an initiative to publish comes from a licensee, not the copyright owner, does not indicate that the removal of rights would not constitute an economic loss to the copyright owner.

5. We are responding to specific questions raised in the consultation on the basis of our knowledge and experience. We also refer to our members who have provided individual submissions.

Questions

6.

Q4 If you are the copyright owner of a work subject to the 2039 rule, do you agree with this policy?

The members of UK Music include record labels, music publishers and collecting societies that are copyright owners of works that are subject to the 2039 Rule.

Some examples of works in the PRS repertoire are listed in Annex 2. Revocation of the 2039 Rule would be a direct cost to these copyright owners. For example, the Edward Elgar estate has received more than £20k in royalties for Elgar’s posthumously published Third Symphony from *PRS for Music*. Of this £13,650 was since 2005, the year that the work would have come out of copyright if the 2039 Rule had not applied.

UK Music disagrees with the proposed change in particular due to the absence of any economic evidence to justify the reneging of the CDPA 1988 compromise the 2039 Rule.

The policy appears to be predicated on the basis that it will ensure material will be more accessible but, particularly in the case of music, this will not prove to be the case for several reasons, below.

General reason

The primary stated policy objective is to reduce the administrative burden for entities wishing to publish previously unpublished works. In our view, the policy will not achieve the stated objective.

It is acknowledged on p. 11 of the consultation document that it is not the current Government's intention to undermine existing markets (this point is made in both the section on works published after 1989 and that on sound recordings). Certainly it would be particularly unacceptable if copyright term were cut short for a work that is already under exploitation. Publication of a work entails cost and that cost is necessarily front-loaded. For example, it entails preparing the work for publication (e.g. editing, digitizing, packaging), sales and marketing. Cutting short copyright term for a work that has been published is likely to undermine that investment. Avoiding such an outcome is a fundamental principle set out by the then Conservative Government during the debate on Schedule 1 of the Copyright, Designs and Patents Act:

"The general principles underlying the schedule are that existing copyright should not be lost; that existing works not in copyright should not suddenly acquire it; that existing copyright owners should not suddenly find themselves with a right substantially less valuable than they enjoy at present and that others already exploiting or dealing with existing works should not suddenly find themselves unable to continue."
HL Deb 14 December 1987, vol 491, cols 573-89

To avoid undermining existing exploitation, it would be necessary to restrict the revocation of the 2039 Rule to works that have not yet been published. There are works subject to the Rule that are in term that have been published both after 1989 and *before* 1989 (Schedule 1, paragraph 12(2) covers works published before 1989). If existing exploitation is permitted to continue, any party wishing to clear rights would still need to ask the very same questions set out on page 4 of the consultation document that the policy is designed to obviate. Therefore, revoking the 2039 Rule would not simplify rights clearance, so would fail to achieve its main objective of reducing any administrative burden. It would also fail to achieve the third objective of providing greater legal certainty.

Inappropriate to revoke the rule in relation to music

It is particularly inappropriate to revoke the rule in relation to music (i.e. musical works, associated lyrics and sound recordings) for these reasons:

Firstly, the type of large-scale rights clearance exercise that the policy is intended to simplify is far more likely to be carried out by libraries and archives in relation to text items, not to musical works, for which such large archives are much less common. This is illustrated by the fact that the consultation document refers to publication of war diaries, poems, letters and wills. The evidence in Annex B specifically only relates to literary works. Furthermore, the volume of ancient sheet music that is subject to the 2039 Rule is likely to be much less than the volume of text.

Secondly, music rights for large-scale rights clearances are typically managed by collecting societies, which can offer blanket licences. This means that, for example, *PRS for Music* can – and does routinely – license all of the works in its repertoire that

are subject to the 2039 Rule as part of its normal licensing arrangements. There is no additional administrative work required on the part of the licensee.

Thirdly, film and photographs have been excluded from the policy on the grounds that they may be under commercial exploitation via film and picture libraries but have not been “published” for the purposes of this 2039 Rule. As noted in the consultation document, the same issue applies for sound recordings. It also applies to musical works and associated lyrics that are incorporated into films.

Sound recordings

The second stated objective of the policy is “an increase in the publication and dissemination of these works”. So far from making unpublished content more accessible, an imminent cessation of the 2039 Rule is likely to have precisely the opposite effect: limiting the opportunities for some previously unheard music to be released to the public and could result in an unnecessary burden on music companies.

The existence of the 2039 Rule means that music companies currently have certainty that they can match consumer desire for previously unreleased versions of sound recordings. The issuing of such material is an added incentive for music fans to buy music and for music companies to remaster material that is in their archives using the superior technology available today. The existence of popular services such as iTunes means fans can buy individual tracks if they do not want to buy new versions of an album.

Music companies own the contents of their vaults. The end of the 2039 Rule is not going to allow access to their property. To deny the commercial incentive that copyright provides will mean any unreleased recordings will simply gather dust. It would also be burdensome in that music companies would have to quickly reconsider release strategies that could have otherwise been developed over the next 25 years.

As noted in the impact assessment, the 25 year publication right does not apply to sound recordings and so the impact of the removal of the 2039 Rule will act as a particular disincentive for record companies.

As it stands the Government’s proposal would mean any music previously unreleased between the period Andy Williams “Butterfly” and the Beatles “I Feel Fine” was at number one in the UK charts would fall out of copyright on commencement of the regulations. This is music from a period of great cultural significance to the UK and its soundtrack continues to define us as a nation.

Summary

Revoking the 2039 Rule would constitute a significant removal of property rights. Given that the policy objective generally and particularly in relation to music would not be achieved, it would be an unlawful intrusion upon the rightholders’ property rights, as protected by Article 17.1 and 17.2 of the Charter of Fundamental Rights of the European Union. Article 17 – like the equivalent provisions in Article 1 Protocol 1 ECHR – requires any interference with protected property rights to be ‘in the public interest’.

7.

Q5. Having regard to the enabling power, do you agree with the Government's proposed approach?

Q6. If you consider that the copyright in affected works should expire a fixed period after commencement of the regulations, how long should that period be?

We do not agree with the Government's preferred option to implement Clause 76 of the Enterprise and Regulatory Reform Act 2013.

8.

Q8. Do you consider that this policy would encourage or facilitate the publication of previously unpublished works?

No. In the field of music the proposed changes will have no impact to our knowledge given that the 2039 Rule is not an impediment to the publication of previously unpublished works. The decision to publish is based on personal and commercial considerations. As acknowledged in answer to question 4, the policy may act as a disincentive and restrict the publication of previously unpublished works for music.

9.

Q9. Have you any plans to publish previously unpublished works following the implementation of this policy? If so, how many?

Q11. Do you consider there to be any issues involving privacy or confidentiality in the content of works which were previously protected by copyright until 2039 but fall out of copyright as a result of this policy?

The publication of musical works and sound recordings not only constitutes a business decision as to when publishing a sound recording is economically appropriate, it is also often based on the wishes of the composers and musicians who for personal reason might have decided not to publish, or to publish at a later point. The 2039 Rule provides for all parts in the music industry the transitional provision to adjust their activities concerning the publication of their work. It is inappropriate to remove from musicians, composers, record producers and music publishers this option post facto. The 2039

compromise was agreed to give all parties the time to adjust their personal and commercial behaviour.

It is key that such very personal rights for creators are not undermined.

10.

Q10. Are you affected by or aware of a situation where copyright works have been deposited with a third party on the belief that the 2039 provisions would remain in place to protect the work, and if so what is the likely impact to you of the policy?

The phrasing of this question implies that this question is directed at libraries. If our members deposited works with libraries it might be on the basis of a later posthumous publication based on an individual agreement. Whatever option Government chooses any such expression of the will of the creator needs to be upheld. We ask for assurance from Government for this.

11.

Q12. Do you consider that transitional provisions are required in respect of works subject to the 2039 rule but published after 1989?

No, the 2039 Rule constitutes the transitional provision agreed in 1988.

12.

Q13. Should these regulations apply to unpublished sound recordings? (Please give reasons for your answer.)

As previously mentioned, we do not believe there is any evidence to support the regulations applying to unpublished sound recordings. Similarly, we believe it would be of reciprocal benefit to treat unpublished musical works in the same way as sound recordings and exempt them from the regulations too and ensure consistency for music based rights.

We note that a persuasive argument which led to the exemption of photographs and films from the regulations during the Parliamentary debates on the Enterprise and Regulatory Reform Act was that the existing 2039 Rule enables certainty of investment for digitisation archive projects when using such media. We would like to point out that there are similar projects for sound recordings and recommend the Government considers the work of organisations such as the EMI Archive Trust when considering this policy further.

UK Music also points out that the term of protection for sound recordings has recently increased to 70 years and instead of abolishing the 2039 Rule, there is a strong argument to suggest that it is updated to take this new development into account. It is regrettable that the Government is not considering this option as part of the consultation, as well as the possible impact of the policy on the session fund which formed part of the term directive package.

13.

Q14. Are you the owner of relevant sound recordings, or the copyright in them? If so, are you able to share information about the present state of the market for unpublished sound recordings?

Individual record companies and UK Music members BPI and AIM would be in the strongest position to answer this specific question.

We note however that the question does not refer to the contractual or commercial motivation of a record company to publish a sound recording at a specific time. These are commercial decisions by record companies on how to run their business based on existing laws and should not be interfered with without justification.

14.

Q15. Do you agree that the likely impact of this policy in respect of sound recordings is minimal (whether as a benefit or a cost)?

We do not believe the impact of this policy will be minimal and it will be at a cost to both the industry and the enjoyment of music.

Annex 1

UK Music's membership comprises of:-

- AIM – Association of Independent Music - representing over 850 small and medium sized independent music companies
- BASCA - British Academy of Songwriters, Composers and Authors – BASCA is the professional association for music writers and exists to support and protect the artistic, professional, commercial and copyright interests of songwriters, lyricists and composers of all genres of music and to celebrate and encourage excellence in British music writing
- BPI - the trade body of the recorded music industry representing 3 major record labels and over 300 independent record labels.

- MMF - Music Managers Forum - representing 425 managers throughout the music Industry
- MPG - Music Producers Guild - representing and promoting the interests of all those involved in the production of recorded music – including producers, engineers, mixers, re-mixers, programmers and mastering engineers
- MPA - Music Publishers Association - with 260 major and independent music publishers in membership, representing close to 4,000 catalogues across all genres of music
- Musicians' Union representing 30,000 musicians
- PPL is the music licensing company which works on behalf of over 90,000 record companies and performers to license recorded music played in public (at pubs, nightclubs, restaurants, shops, offices and many other business types) and broadcast (TV and radio) in the UK.
- *PRS for Music* is responsible for the collective licensing of rights in the musical works of 100,000 composers, songwriters and publishers and an international repertoire of 10 million songs
- UK Live Music Group, representing the main trade associations and representative bodies of the live music sector

Annex 2

Examples of works in *PRS for Music* repertoire in copyright by virtue of the CDPA's posthumous works rules and under active exploitation.

Debussy	COQUETTERIE POSTHUME
Debussy	IMAGES OUBLIEES
Debussy / Bourget	ROMANCE, SILENCE INEFFABLE
Debussy	L'ARCHET
Delius	APPALACHIA (AMERICAN RHAPSODY)
Delius	IDYLLE DE PRINTEMPS
Delius	IN GLUECK WIR LACHEND GINGEN
Delius / Fenby	INTERMEZZO FROM FENNIMORE AND GERDA
Delius / Beecham	MARCH CAPRICE
Delius	MARGOT LA ROUGE
Delius	MARGOT LA ROUGE - PRELUDE
Delius / Beecham	SLEIGH RIDE
Delius / Fenby	THE MAGIC MOUNTAIN
Delius	VIOLIN SONATA IN B MAJOR
Elgar	CONCERT ALLEGRO OP 46
Elgar	IMPROMPTU
Elgar	LAURA VALSE
Elgar	MARCH
Elgar	QUEEN ALEXANDRA'S ODE
Elgar / Payne	QUEEN ALEXANDRA'S ODE

Elgar	SPIRIT OF ENGLAND OP 80
Elgar / Payne	SYMPHONY NO 3
Elgar / Payne	THE CROWN OF INDIA Op 66
Gershwin	Lullaby
Holst	A WINTER IDYLL
Holst	INDRA OP.13
Holst	NUNC DIMITTIS
Holst	SITA OP.23
Mahler	Totenfeier
Messenger	J'AI DEUX AMANTS from L'Amour Masque
Messenger	L'AMOUR MASQUE
Rachmaninov	PRELUDE IN D MINOR OP.POSTH
Ravel	CHANSON DU ROUET
Ravel	FRONTISPICE (on EMI)
Ravel	MYRRHA
Ravel	SI MORNE
Ravel	SITES AURICULAIRES
Ravel	SITES AURICULAIRES - ENTRE CLOCHES (on EMI)
Ravel	VIOLIN SONATA (1897) (on EMI)
Satie	ALLEGRO
Satie	ALLONS Y CHOCHOTTE
Satie	CHEZ LE DOCTEUR
Satie	DESEPOIR AGREABLE
Satie	DEUX CHOSES
Satie	DOUZE PETITS CHORALS POUR PIANO
Satie	GNOSSEIENNES 4-6
Satie	LES PANTINS DANSENT
Satie	MUSIQUES INTIMES ET SECRETES
Satie	NOUVELLES PIECES FROIDES
Satie	OGIVES
Satie	OMNIBUS AUTOMOBILE
Satie	PAGES MYSTIQUES
Satie	PAGES MYSTIQUES - HARMONIES
Satie	PAGES MYSTIQUES - PRIERE
Satie	PAGES MYSTIQUES - VEXATIONS
Satie	PRELUDES FLASQUES
Satie	PREMIERE Pensee ROSE + CROIX
Satie	REVERIE D'UN PAUVRE
Satie	TROIS MELODIES SANS PAROLES
Satie	TROIS NOUVELLES PIECES ENFANTINES
Satie	TROIS NOUVELLES PIECES ENFANTINES - BERCEUSE
Satie	VERSET LAIQUE ET SOMPTEUX
Satie / Caby	2 REVERIES NOCTURNES
Satie / Caby	CARESSE
Satie / Caby	CARNET D'ESQUISSES ET DE CROQUIS
Satie / Caby	DANSE DE TRAVERS
Satie / Caby	DREAMY FISH
Satie / Caby	PETITE MUSIQUE D'UN CLOWN TRISTE
Satie / Caby	PETITE OUVERTURE A DANSER
Satie / Caby	PRELUDE CANIN
Satie / Caby	SIX PIECES

Satie / Caby	USPUD - BALLET CHRETIEN
Zemlinsky	DIE SEEJUNGFRAU
Zemlinsky	SYMPHONY NO 2 IN B FLAT MAJOR
Zemlinsky	PSALM NO.13 OP.24
Zemlinsky	PSALM 83
Zemlinsky	SERENADE

Examples of Vaughan Williams Works currently in copyright until 2039 by virtue of the 2039 Rule (provided by the Vaughan Williams Society via the Music Publishers Association):

String Quart in C minor: *Composed 1897 / Published: Faber 2000*

Serenade in A minor for small orchestra: *Composed 1898. / Published: OUP 2012.*

Quintet in D major, for cl, hn, vln, vc & pno: *Composed 1898 / Published: Faber*

The Garden of Proserpine, for sop, chorus & orch. (words, Swinburne): *Composed 1897-99/ Published: Stainer & Bell 2011*

Mass for soloists (SATB) mixed double chorus & orch: *Composed 1897-9/Published: Stainer & Bell 2011*

Bucolic Suite for orchestra in 4 movements: *Composed 1900/ Published: OUP*



**Law
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Scottish Law Commission
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Unfair Terms in Consumer Contracts: a new approach?

Appendices A to D

25 July 2012

**The Law Commission
and
The Scottish Law Commission**

**UNFAIR TERMS IN CONSUMER CONTRACTS:
A NEW APPROACH?**

Appendices A to D of Issues Paper

THE LAW COMMISSION
THE SCOTTISH LAW COMMISSION

**UNFAIR TERMS IN CONSUMER CONTRACTS:
A NEW APPROACH?**

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(Appendix E: the Impact Assessment is available on our websites at
http://lawcommission.justice.gov.uk/consultations/unfair_consumer_contracts.htm
and <http://www.scotlawcom.gov.uk> (See News column).

APPENDIX A

COMPARATIVE LAW

- A.1 With the help of a number of leading academics,¹ we have considered the implementation of the Unfair Terms Directive (UTD) in France, Spain and Germany. Further, we have considered Part 2-3 of the Australian Consumer Law, which is modelled on the UTD. In doing so we hoped to identify any issues or solutions as a result of the way in which they tackled the article 4(2) exemption.
- A.2 As we explore below the French legislation essentially copies out the terms of the exemption, in a similar way to the UK. Whilst there has not been any real discussion of the significance of the exemption in France, our comparison has shown that the French courts have applied the “plain, intelligible language” requirement differently to UK enforcement bodies. Interestingly, France has extended the unfair terms protections to commercial contracting parties and has chosen not to extend the exemption.
- A.3 By contrast, the Spanish legislation omits the article 4(2) exemption in its entirety, subjecting terms which define the price and main subject matter of a contract to an assessment of fairness. As we will see below, this has not been well received by all.
- A.4 The German legislation adopts a unique approach to the exemption. Applying this law to a very different banking framework the German courts have assessed the fairness of bank charges, contrasting with the decision in *Office of Fair Trading v Abbey National plc*.²
- A.5 Finally, we look at Australia’s decision to import the UTD protection and the way in which they have interpreted the division to be drawn between terms which are and are not assessable for fairness.

FRANCE

- A.6 The French legislative regulation of unfair terms in consumer contracts dates back to the 1978 *Loi Scrivener*.³ This was consolidated, together with other provisions, in the *Code de la consommation* in 1993 (the Consumer Code) which was amended in 1995 to implement the UTD.⁴

¹ We are most grateful for the assistance of Professor Simon Whittaker, Professor Hugh Beale, Professor Sergio Cámara Lapuente, Professor Stefan Vogenauer and Christopher Bisping.

² [2009] UKSC 6, [2010] 1 AC 696.

³ This empowered the administration to make decrees rendering certain terms ineffective but was later interpreted by the Cour de cassation as giving the Courts a power of assessment of unfair terms within its scope: *Loi Scrivener* no 78-23 of 10 January 1978 article 35; Civ. (1) 14 May 1991, JCP 1991.II.21763 note Paisant.

⁴ *Loi* no 95-96 of 1 February 1995.

- A.7 The unfair contract terms provisions in the Consumer Code apply to contracts made between “*professionnels*” (persons in business or a profession) and “*non-professionnels ou consommateurs*”.⁵ Discussion has arisen as to whether “*non-professionnels*” includes businesses acting outside their business activities.⁶ In this respect the French legislation may differ as the Unfair Terms in Consumer Contracts Regulations (UTCCR) apply only to natural persons. The French provisions apply to all contract terms, whether individually negotiated or in standard term contracts⁷ and whether or not they reflect “mandatory statutory or regulatory provisions”.⁸ Again, the French legislation appears to differ from the UTCCR in these respects.
- A.8 The structure of the Consumer Code’s assessment of terms which are potentially unfair has changed significantly since the UTD was first implemented. Originally, the Consumer Code followed the UTD in setting a general test of unfairness and then provided a grey list of terms which may be unfair, although (unlike the UTD) the French legislation explicitly provided that the burden of proof as to unfairness remained on the consumer.⁹ However, in 2010¹⁰ the Consumer Code was amended to allow the creation by decree of a black list of contract terms which are unfair and automatically ineffective (literally, “deemed not written”) and a grey list of clauses that are presumed to be unfair, imposing a burden on a business to prove otherwise.¹¹
- A.9 Accordingly, article L – 132 – 1 of the amended Consumer Code provides:

Any term contained in a contract concluded between a person acting in the course of his trade, business or profession and a person who is not so acting or a consumer is unfair if its object or effect is to create, to the detriment of such a person or consumer, a significant imbalance in the rights and obligations of the parties to the contract.

A decree by the Council of State issued upon the advice of the committee set up under article L. 534-1, shall set a list of terms which are presumed to be unfair; in the case of litigation involving a contract containing such a contract term, the person acting in the course of his trade, business or profession must establish that the term in question is not unfair.

⁵ Article L 132-1(1) of the *Code de la consommation*.

⁶ See J Calais-Auloy and F Steinmetz, *Droit de la consommation* (6th ed 2003) no 178, pp 199 to 200.

⁷ Article L 132-1 of the *Code de la consommation*.

⁸ UTD, article 1(2). J Calais-Auloy and F Steinmetz, no. 180, p 201 note that any assessment of a contract term which reflects an administrative regulation must be undertaken by an administrative court following French law’s divided jurisdiction.

⁹ Art 132-1 of the *Code de la consommation* as amended in 1995.

¹⁰ *Loi* no. 2010-737 of 1 July 2010, article 62.

¹¹ Decree n° 2009-302 of 18 March 2009 concerning the application of article L 132-1 of the Consumer Code, which introduced provisions in art R 132-1 *Code de la consommation*. This scheme was apparently modelled on the EU Commission’s Proposal for a Directive on Consumer Rights COM (2008) 614 final arts 30 to 39.

A decree issued under the same conditions shall set the types of contract term which, having regard to the seriousness of their harmful effect on the balance of the contract, must be presumed irrebuttably to be unfair within the meaning of the first paragraph of this article.

These provisions apply irrespective of the form of the contract or the medium in which it appears. The foregoing shall apply inter alia to any purchase order, invoice, guarantee, delivery note or delivery order, ticket or coupon containing stipulations, whether or not the same have been freely negotiated, or references to general conditions drawn up in advance.

Without prejudice to the rules of interpretation laid down in articles 1156 to 1161, 1163 and 1164 of the Civil Code, the unfairness of a clause shall be assessed by reference, at the time of conclusion of the contract, to all the circumstances attending the conclusion of the contract and to all the other terms of the contract. It shall also be assessed in the light of the clauses contained in another contract where the conclusion or performance of each of those two contracts is legally dependent on the conclusion or performance of the other.

Unfair clauses shall be deemed not to have been included in the contract.¹²

A.10 Under article L 132-1 alinéa 7 the Code essentially “copies out” article 4(2) of the Directive:¹³

Assessment of the unfair nature of a contract term within the meaning of the first paragraph shall relate neither to the definition of the main subject-matter of the contract nor to the adequacy of the price or remuneration as against the goods sold or the service offered as long as the terms are drafted in a clear and intelligible manner.

¹² Albeit without explicitly mentioning the requirement of good faith as stated in article 3(1) of the UTD. This omission can be justified either on the basis that article 1134 alinéa 3 of the Civil Code contains a very general provision on good faith which is interpreted as applicable to all stages of the conclusion and performance of the contract or, by contrast, on the basis that this omission intensifies the controls on fairness contained in the UTD to the benefit of consumers as permitted by article 8 of the UTD.

¹³ The proviso at the end of the provision was added by Ordonnance no 2001-741 of 23 August 2011, article 16.

- A.11 There has not been very much discussion of the significance of the exemption in the French legal literature nor considerable case law applying it. So, for example, a leading commentary on consumer law briefly states that the purpose of the scheme in the Consumer Code is to combat imbalances in the terms of a contract and not to ensure the overall equivalence between the subject-matter of the trader's obligation and the price demanded.¹⁴ This follows the general tenor of French law which "does not sanction *la lésion* [substantive inequality in the parties' undertakings]" therefore the UTD provisions are similar to domestic French law – "the law of consumer protection follows in this respect the line taken by the civil law."¹⁵
- A.12 There is no reported decision of the Cour de cassation on the application of the exemption.¹⁶ However, in a rare example of its application, the Court of Appeal of Toulouse considered its significance in the context of a contract for the provision of private detective services.¹⁷ Here a wife engaged a detective to watch her husband and discover whether or not he was unfaithful. Having done so, she refused to pay the detective's final invoice of some 7,000€ (having paid 1,500€ in advance), arguing that the contract term determining the price was unclear and unfair within the meaning of article L 132-1 of the Consumer Code. This was because she was unable to know what price would later be charged to her, in particular as regards the treatment of the detective's expenses. The court did not agree. The terms in question were drafted in a clear and legible way which meant they were easily understandable and therefore, the term was exempt from an assessment of fairness by way of application of article 132-1 alinéa 7 of the Consumer Code.¹⁸
- A.13 This would appear to contrast with the way in which UK enforcement bodies are interpreting the "plain intelligible language" requirements under the UTCCR. As we discuss in Part 6, UK enforcement bodies have taken a purposive approach finding that terms which are clear and legible may not be intelligible where the trader is afforded a great degree of discretion.¹⁹

¹⁴ J Calais-Auliois and F Steinmetz, *Droit de la consommation* (6th ed 2003) no 178, p 203.

¹⁵ As above. Here, the 'civil law' refers to the position under the Civil Code as distinct from the Consumer Code: for the general rule on *lésion* see art 1118 Code civil. For a similar allusion to *lésion* see C Noblot, *Droit de la consommation* (2012), p 42.

¹⁶ It formed part of the grounds of application in Com. (3) 9 March 2005, Bulletin civil 2005 III no 59, p 51, but the Cour de cassation did not require to refer to it in its decision.

¹⁷ CA Toulouse 25 September 2007, Case number 06/02410 available at <http://www.legifrance.gouv.fr/>.

¹⁸ The Court of Appeal further held, however, that, given the uncertain elements in the calculation of the detective's expenses, there was no agreement between the parties as to the amount of the detective's remuneration, which could therefore be assessed by the court. The court referred for this purpose to arts 1171 & 1174 Code civil on 'potestative conditions' ie. where one party has the power to determine its content.

¹⁹ See Part 6, paras 6.49 – 6.51.

- A.14 Finally, it should be noted that recently the Commercial Code (*Code de commerce*) was amended to create new controls on unfair terms in commercial contracts.²⁰ The context of this provision was the control of unfair competition, but the new provision gives the court a power to hold a term in a purely commercial contract unfair where it “creates a significance imbalance in the rights and obligations of the parties”. Where a court considers a term is unfair the party relying on the term can be subject to both penal sanctions and civil liability. The similarities between the fairness assessment under the Commercial Code and Consumer Code were cemented in a case challenging the legal certainty of the Commercial Code. In holding that the Consumer Code provision conformed with the constitutional requirement of legal certainty, the French Constitutional Court (the *Conseil constitutionnel*) relied on the fact that article L 132-1 of the Consumer Code already used the notion of “significant imbalance in the rights and obligations of the parties” and that this phrase was already understood by the courts.²¹
- A.15 Strikingly, however, the new controls on unfair terms in the Commercial Code do not contain any provision equivalent to the exemption in article L 132-1 alinéa 7 of the Consumer Code and therefore are said to be available to control unfair price clauses,²² whether or not they are “clear and intelligible”.

GERMANY

- A.16 In Germany the 1976 Unfair Contract Terms Act (commonly referred to as the AGBG) codified the previous case law on unfair standard terms.²³ The UTD only required minor amendments to be made to German law, which were duly inserted into the 1976 Act. Finally, the Act to Modernise the Law of Obligations,²⁴ which came into force on 1 January 2002, incorporated most of the AGBG provisions into §§ 305 - 310 of the Civil Code (‘BGB’) without major alterations.²⁵ The procedural provisions on consumer injunctions were moved to a new Act concerning Actions for Injunctions.²⁶

²⁰ Art L 442-6 al. 1(2) Code de commerce as inserted by *Loi* no 2008-776 of 4 August 2008 and amended by *Loi* no 2010-874 of 27 July 2009, article 14(V).

²¹ Conseil constitutionnel 13 January 2011 décision no. 2010-85 QPC, paras 3 – 4 and see *Petites Affiches* 13 April 2011, no. 73, p 17.

²² M Malaurie-Vignal *Droit de la distribution* (LMD, 2012) p 112.

²³ *Gesetz zur Regelung des Rechts der Allgemeinen Geschäftsbedingungen* of 9 December 1976. For an overview, see Hugh Beale, Bénédicte Fauvarque-Cosson, Jacobien Rutgers, Denis Tallon and Stefan Vogenauer, *Ius Commune Casebooks for the Common Law of Europe: Cases, Materials and Text on Contract Law* (2nd ed 2010), pp 782 to 4.

²⁴ *Gesetz zur Modernisierung des Schuldrechts* of 26 November 2001.

²⁵ *Bürgerliches Gesetzbuch* of 8 August 1896. For an English translation, see http://www.gesetze-im-internet.de/englisch_bgb/englisch_bgb.html#p0930.

²⁶ *Gesetz über Unterlassungsklagen bei Verbraucherrechts- und anderen Verstößen* of 26 November 2001 (*Unterlassungsklagengesetz - UKlaG*).

- A.17 The BGB now contains a grey list of clauses that are “prohibited with a possibility of evaluation”²⁷ (*Klauselverbote mit Wertungsmöglichkeit*) and a “blacklist” of clauses that will always be ineffective (*Klauselverbote ohne Wertungsmöglichkeit*), for example where a seller seeks to exclude liability for defective goods entirely.²⁸ In addition to the two lists, §307 lays down a general test (*Inhaltskontrolle*) rendering standard business terms ineffective if, contrary to the requirement of good faith (*Treu und Glauben*), they unreasonably disadvantage the other party to the contract (*unangemessene Benachteiligung*). An unreasonable disadvantage is presumed:

if a provision

(no 1) is not compatible with essential principles of the statutory provision from which it deviates, or

(no 2) limits essential rights or duties inherent in the nature of the contract to such an extent that attainment of the purpose of the contract is jeopardised.²⁹

- A.18 For example, an exemption clause may constitute an unreasonable disadvantage if it touches on the essential obligations (*Kardinalpflichten*) of the contract.³⁰
- A.19 A term which is not in plain, intelligible language would constitute an “unreasonable disadvantage” applying §307(1)(2) BGB. This would also apply to unintelligible price terms which would otherwise not be assessable. There are many examples where the courts have held that a price term that lacks transparency constitutes such a disadvantage. For example, in BGH NJW 1980, 2518, a clause providing for an increase in bank charges without being specific about the requirements and extent of the eventual increase was held to constitute an “unreasonable disadvantage” and was ineffective.

²⁷ § 308 BGB.

²⁸ § 309 BGB.

²⁹ § 307(2) BGB.

³⁰ Paolisa Nebbia, *Unfair Contract Terms in European Law: A Study in Comparative and EC Law* (2007), p 26.

- A.20 Under § 307(3) the provisions of the BGB which render an unfair contract term ineffective only apply to standard terms that deviate from, or add to, default rules (“apply only to standard terms on the basis of which arrangements derogating from legal provisions, or arrangements supplementing those provisions, are agreed”). This phrase stems from § 8 AGBG and was not amended after the Directive entered into force. It was considered to be broadly in line with the exclusions in article 4(2) of the Directive on the basis that the nature and content of a product or service and its price are, in principle, not regulated by law. As such, the German courts have consistently held (both before and after the Directive came into force) that an agreement as to the price or subject matter of a contract cannot deviate from default rules because such rules do not exist.³¹ This has been interpreted as including both sides of the bargain: “the terms which define the seller’s or supplier’s main obligation under the contract, as well as the consumer’s main obligation”.³² Such clauses are not subject to an assessment of fairness.³³
- A.21 In contrast, “ancillary provisions” (*Nebenbestimmungen*) and “ancillary agreements as to the price” (*Preisnebenabreden*) are considered to be subject to an assessment of fairness: such clauses may have an “indirect effect” on the price or the counter performance, however, “a default rule will step in for them if there is no valid contractual agreement” on the particular issue (*an deren Stelle aber, wenn eine wirksame vertragliche Regelung fehlt, dispositives Recht treten kann*).³⁴ The default rules are too numerous to mention. However, a well known example would be a term in a tenancy agreement requiring the tenant to pay for minor repairs. The statutory default rules place this obligation on the landlord and so, as a default rule exists, the term would be classed as ancillary and would not fall within the exemption.
- A.22 There are a number of banking cases which illustrate this principle well. However, it should be noted that the German banking system is structured very differently to the UK – account holders are typically charged a general current account fee. Further, there is a whole raft of default rules which readily identify other banking charges as ancillary. No such framework by which to classify charges exists in the UK.

³¹ Michael Schillig, Directive 93/13 and the ‘price term exemption’: a comparative analysis in the light of the ‘market for lemons’ rationale, (2011) *International and Comparative Law Quarterly* 933, p 946.

³² Above, p 947.

³³ Above, p 947. See for example BGH 14 October 1997, XI ZR 167/96, [1998] *Neue Juristische Wochenschrift* which held that foreign use fees for credit cards are price terms and as such are not subject to a fairness assessment.

³⁴ BGH 24 November 1988, BGHZ 106, 42, 46, NJW 1989, 222, 223; BGH 18 May 1999, BGHZ 141, 380, 383, NJW 1999, 2276, 2277.

- A.23 On the basis that default rules exist, the German Federal Supreme Court (*Bundesgerichtshof – BGH*) has consistently held that the standard terms of banks are subject to an assessment of fairness if they provide for specific fees to be charged on top of the general current account fees where the bank incurs expenses because it renders an additional service. Thus the Court assessed the fairness of fees charged to a customer who wished to withdraw cash at the counter rather than from an ATM³⁵ or who was notified by the bank that his account has been seized by his creditors³⁶ or was overdrawn.³⁷
- A.24 The BGH has considered a term resembling that litigated in the *Abbey National* decision of the Supreme Court. The relevant term entitled the bank to charge a fee in the event that the customer's account was overdrawn and the bank therefore did not make a transfer or returned a cheque. Interestingly, the Court immediately assessed whether the clause was unfair (and answered the question in the affirmative). It did not even discuss whether the clause was subject to an assessment of fairness under § 8 AGBG.³⁸
- A.25 In a further case, a bank had instructed all of its branches to charge a fee of €6 if a debit had to be returned due to the customer account being overdrawn. The case mainly turned on the question of whether an internal instruction amounted to a circumvention of the statutory provisions for the policing of standard terms, in which case those provisions would still apply (§ 306a BGB). Once the Court had answered this question in the affirmative, it went on to assess the fee in accordance with the fairness control under § 307 BGB and held that a “similar clause in standard terms, by which the supplier is promised payment of a fixed sum by way of damages in the event of a return of debit because of a lack of cover, is not compatible with essential principles of the statutory provision from which it deviates (§ 307(2) no 1 BGB) and unreasonably disadvantages the customers concerned (§ 307(1) BGB)”.³⁹

SPAIN

- A.26 The UTD was first implemented in Spanish law by article 10 bis (1) of General Law 26/1984 for the protection of consumers and users (*Ley 26/1984 general para la defensa de los consumidores y usuarios*).⁴⁰ This provision stated that:⁴¹

³⁵ BGH 30 November 1993, BGHZ 124, 254, NJW 1994, 318.

³⁶ BGH 19 October 1999, NJW 2000, 651.

³⁷ BGH 13 February 2001, BGHZ 146, 377, NJW 2001, 1419.

³⁸ BGH 21 October 1997, BGHZ 137, 43, NJW 1998, 309.

³⁹ BGH 8 March 2005, NJW 2005, 1645, 1647. For a slightly different translation of the case, see Hugh Beale, Bénédicte Fauvarque-Cosson, Jacobien Rutgers, Denis Tallon and Stefan Vogenauer, *Ius Commune Casebooks for the Common Law of Europe: Cases, Materials and Text on Contract Law* (2nd ed 2010), pp 818 to 20.

⁴⁰ As amended by Law 7/1998 of 13 April 1998 on general contractual conditions.

⁴¹ As amended in 2006.

All those terms not individually negotiated [and all those not expressly agreed practices] which, contrary to the requirement of good faith, cause a significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer, shall be regarded as unfair terms. In any event, the terms listed in the additional provision of this Law shall be regarded as unfair.⁴²

Terms which failed this test of unfairness were void.⁴³

- A.27 In 2007 the main consumer laws were recast in the "Consolidated Text of the General Law for the Protection of Consumers and Users and other supplementary Laws" (Royal Decree-Law 1/2007 of 16 November, *Texto Refundido de la Ley General para la Defensa de los Consumidores y Usuarios y otras leyes complementarias*). The fairness test became article 82.1 of Royal Decree-Law 1/2007 (RDL 1/2007), adopting wording identical to article 10 bis. A "black list" of terms automatically considered to be unfair is currently located in articles 85 to 91 of the RDL 1/2007. Interestingly, a relevant addition to that list is a general mention in article 86 *ab initio* of the unfairness of terms "which limit or eliminate consumers' and users' rights granted by mandatory *or non mandatory law* and in particular...".
- A.28 The Spanish legislation differs from the UTD in a number of ways. There are more clauses in the Spanish "black list" of clauses which are automatically considered to be unfair. Further, "one of the main characteristics"⁴⁴ of the Spanish system is a Standard Terms Register which lists terms that have been declared unfair by final court decisions. The Notaries and Registrars of the Land Registry and the Commercial Registry must adhere to this Register and so must refuse to authorise contracts containing any of the listed terms.
- A.29 And notably, the Spanish legislation omits any provision based on article 4(2) of the UTD. This has been very much criticised by Spanish legal academics and has been interpreted in two ways. Most scholars and practitioners consider that this omission should be construed in the light of the whole Spanish legal system (including the liberal approach of the Spanish Constitution to free commerce) and in accordance with the UTD and therefore hold that article 4(2) is in force in Spain. It is argued that this would give an interpretation to Spanish law which conforms to the UTD. On the other hand, a minority of Spanish legal academics consider that the omission implies a tacit and lawful enhancement of consumer protection in Spain.⁴⁵

⁴² The words in square brackets were inserted by Law 3/2006 of 29th December on the improvement of consumers' and users' protection.

⁴³ Article 8(2) of Law 7/1998 of 13 April 1998 on standard contract terms.

⁴⁴ Consumer Law Compendium, *Comparative Analysis*, p 373.

⁴⁵ A full explanation of the debate and arguments in favour of the first position can be found in S Cámara Lapuente, *El control de las cláusulas abusivas sobre elementos esenciales del contrato* (2006). See also J M Miquel González, *Commentary on article 82* and S Cámara Lapuente, *Commentary on articles 86-87* in S Cámara Lapuente, (ed), *Comentarios a las normas de protección de los consumidores*, Colex, (2011) pp 720 ff and 888 ff, respectively (criticising the European Court's decision in *Caja de Ahorros*).

- A.30 In *Caja de Ahorros*⁴⁶ the Court of Justice of the European Union (CJEU) considered whether the omission of article 4(2) from the Spanish legislation constitutes a breach of EU law. The CJEU reference arose from proceedings brought by a bank customers' association to stop a major Spanish bank from relying on "rounding-up clauses" in its standard home loan contracts. These clauses rounded up a variable interest rate, following an agreed point of reference, up to the nearest quarter of a percent. Although it was not clear whether article 4(2) would actually exclude the "rounding-up clause" from review, the Spanish Supreme Court asked the CJEU whether the omission of the exclusion in the Spanish legislation was compatible with the UTD. The CJEU concluded that the Spanish legislation was compatible on the basis of article 8 of the UTD. This is a "minimum harmonisation" provision which allows Member States to adopt more stringent provisions for the protection of consumers. In the opinion of the CJEU, the power granted by article 8 extends to the entire "material scope" covered by the UTD and this includes the matters dealt with by article 4(2).⁴⁷
- A.31 Further, *Caja de Ahorros* confirmed that terms which fall under article 4(2) will only be exempt from review if they are transparent:
- The terms referred to in Article 4(2) ... escape the assessment as to whether they are unfair only in so far as the national court having jurisdiction should form the view, following a case-by-case examination, that they were drafted by the seller or supplier in plain, intelligible language.⁴⁸
- A.32 Interestingly, contrary to the conclusions at first instance in the *Abbey National*,⁴⁹ this case also appears to suggest that article 4(2) of the UTD excludes a particular type of assessment rather than the assessment of a term in its entirety.

⁴⁶ Case 484/08 *Caja de Ahorros y Monte de Piedad de Madrid v Asociación de Usuarios de Servicios Bancarios (Ausbanc)* [2010] ECR I-04785.

⁴⁷ Above [32].

⁴⁸ Above at [32].

⁴⁹ *Office of Fair Trading v Abbey National plc* [2008] EWHC 875 (Comm) (Andrew Smith J) at [422] to [435], conclusion at [436]. On appeal, this point was conceded by the Banks and was therefore not in issue before the Court of Appeal or the Supreme Court: see [2009] UKSC 6 at [29], [57] to [60] and [95].

- A.33 Following the CJEU's decision, the Spanish Supreme Court did not give its own view of the significance of Spain's lack of implementation of article 4(2) of the UTD since the defendant in that case (*Caja de Ahorros*) abandoned the litigation in the light of the CJEU judgment.⁵⁰ Later judgments of the Spanish Supreme Court cite the CJEU's decision in *Caja de Ahorros* as support *a fortiori* for the assessment of unfair terms, not all of which would fall within the scope of article 4(2) being related to ancillary elements of the contract,⁵¹ although no trend towards widespread control by Spanish courts of "core terms" can yet be clearly discerned.

AUSTRALIA

- A.34 The Australian Commonwealth Parliament has recently implemented a comprehensive Australian Consumer Law (ACL). This is contained in schedule 2 of the Competition and Consumer Act 2010 (Cth).⁵² Part 2-3 of the ACL regulates unfair terms in standard form consumer contracts⁵³ and is modelled on the UTD.⁵⁴ The States and Territories have agreed to introduce and enact legislation mirroring the ACL as part of their respective laws.⁵⁵
- A.35 In Victoria, prior to the ACL, unfair consumer contracts were regulated under part 2B of the Fair Trading Act 1999 (Vic) which drew inspiration from the UTD. However, the new ACL draws on the UTD more closely than the Victorian legislation; for example, the Victorian legislation applied to all consumer contracts whereas the new law only applies to non-negotiated contracts.⁵⁶
- A.36 The similarities between the ACL and the UTD are instantly evident. Under Part 2-3, a term in a standard form consumer contract will be void if the term is unfair.⁵⁷ A term will be unfair if:
- (1) it would cause a significant imbalance in the parties' rights and obligations arising under the contract;

⁵⁰ Spanish Supreme Court Order of 6th of July of 2010.

⁵¹ See the judgments of the Spanish Supreme Court of 1 July 2010 (insurance); 29 October 2010 and 4 November 2011 (both on 'round-up clauses').

⁵² Formerly the Trade Practices Act 1974; Trade Practices Amendment (Australian Consumer Law) Act (No 2) 2010 (Cth).

⁵³ See generally, Treasury, Australian Government, *The Australian Consumer Law: Consultation on Draft Provisions on Unfair Contract Terms* (2009) 24-9. The unfair contract terms law follows recommendations of the Productivity Commission in its *Review of Australia's Consumer Policy Framework*, Inquiry Report No 45 (2008).

⁵⁴ See Sirko Harder, Problems in interpreting the unfair contract terms provisions of the Australian Consumer Law, (2011) 34 *Australian Bar Review* 306 at 307. The provisions do not apply to financial services however equivalent provisions regulating unfair terms in these contracts have been introduced into the Australian Securities and Investments Act (2001) (Cth).

⁵⁵ Council of Australian Governments, *Intergovernmental Agreement for the Australian Consumer Law* (2009) cl 3.2.

⁵⁶ The Victorian law has now been amended to follow the ACL; Fair Trading Amendment (Unfair Contract Terms) Act 2010 (Vic).

⁵⁷ ACL, s 23(1).

- (2) it is not reasonably necessary in order to protect the legitimate interests of the party who would be advantaged by the term; and
- (3) it would cause detriment (whether financial or otherwise) to a party if it were to be applied or relied on.⁵⁸

A.37 In determining whether a term of a consumer contract is unfair, a court “may take into account such matters as it thinks relevant” and must take into account “the extent to which the term is transparent” and “the contract as a whole”.⁵⁹ Further, the ACL sets out a grey list of examples of the kinds of terms in standard form consumer contracts that may be unfair, such as termination and penalty clauses,⁶⁰ based on schedule 2 of the UTD.⁶¹

A.38 Under the ACL:

A term is transparent if it is:

- (a) expressed in reasonably plain language;
- (b) legible;
- (c) presented clearly; and
- (d) readily available to any party affected by the term.⁶²

This is essentially the way in which we sought to clarify the test in our 2005 Report recommendations and again in this Issues Paper.

A.39 As under the Directive, Part 2-3 excludes certain terms from an assessment for fairness. However, this is expressed slightly differently. The ACL does not apply to a term that:

- (1) defines the main subject matter of the contract; or
- (2) sets the upfront price payable under the contract; or
- (3) is a term required, or expressly permitted, by a law of the Commonwealth, a State or Territory.⁶³

⁵⁸ ACL, s 24(1).

⁵⁹ ACL, s 24(2).

⁶⁰ ACL, s25(1)

⁶¹ Jeannie Paterson, “The elements of a Prohibition on Unfair Terms in Consumer Contracts” (2009) 37 *Australian Business Law Review* 184, pp 193 to 198.

⁶² ACL, s 24(3). The definition of “transparent” in the ACL is based on a similar definition proposed in Law Commission and Scottish Law Commission, *Unfair Terms in Contracts* (2002), Law Commission Consultation Paper No 166; Scottish Law Commission Discussion Paper No 119 (2002), p 97.

⁶³ ACL, s 26(1). In addition, the ACL does not apply to “a contract of marine salvage or towage”, “a charterparty of a ship”, “a contract for the carriage of goods by ship”, or “a contract that is the constitution ... of a company, managed investment scheme or other kind of body”: s 28.

A.40 The “upfront price” is defined further:

The *upfront price* payable under a consumer contract is defined as the consideration that:

- (a) is provided, or is to be provided, for the supply, sale or grant under the contract; and
- (b) is disclosed at or before the time the contract is entered into;

but does not include any other consideration that is contingent on the occurrence or non-occurrence of a particular event.⁶⁴

A.41 The explanatory memorandum further illuminates the meaning of the exclusion:

5.63 Consideration includes any amount or thing provided as consideration for the supply of a good, service, financial service, financial product or a grant of land. It would also include any interest payable under a consumer contract.

5.64 The exclusion of upfront price means that a term concerning the upfront price cannot be challenged on the basis that it is unfair. Having agreed to provide a particular amount of consideration when the contract was made, which was disclosed at or before the time the contract was entered into, a person cannot then argue that that consideration is unfair at a later time. The upfront price is a matter about which the person has a choice and, in many cases, may negotiate.

5.65 The upfront price covers the cash price payable for a good, service, financial service, financial product or land at the time the contract is made. It also covers a future payment or a series of future payments.

5.66 The definition also requires that the upfront price must be disclosed at or before the time the contract was entered into by the parties. In the case of most transactions this is reasonably straightforward, as a key pre-condition of the transaction occurring is an understanding of the price to be paid.

5.67 A key consideration for a court in considering whether a future payment, or a series of future payments, forms the upfront price may be the transparency of the disclosure of such a payment, or the basis on which such payments may be determined, at or before the time the contract is made.

⁶⁴ ACL, s 26(2).

5.68 In the context of non-financial services contracts, another relevant consideration is compliance with section 53C of the TP Act (which commenced on 25 May 2009), which imposes specific obligations in relation to the disclosure of a single price in many cases.

5.69 Other consideration (that is, further forms of consideration which are not part of the upfront price) under the consumer contract that is contingent on the occurrence or non-occurrence of a particular event, is excluded from the determination of the upfront price.

5.70 Terms that require further payments levied as a consequence of something happening or not happening at some point in the duration of the contract are covered by the unfair contract terms provisions. Such payments are additional to the upfront price, and are not necessary for the provision of the basic supply, sale or grant under the contract.

A.42 This test is not confined to obligations to pay upfront in the true sense. For example, regular payments made under a contract for a gym membership or a mobile phone would be the “upfront price”, even though those payments (other than the very first one) are due after a part of the relevant services have been rendered. This is because they are disclosed before the contract is entered into and are not contingent on the occurrence of a particular event.⁶⁵ However, there are unresolved areas of uncertainty. For example, it is not clear whether obligations arising under a contract for a gym membership or a mobile phone which specify the contract term as one year together with an option to renew the contract for another year, or renews automatically if neither party “opts out”, would be the “upfront price” because they are contingent on the exercise of the “opt in” or failure to exercise the “opt out”.⁶⁶

A.43 However, the Australian interpretation of the rationale for the exemption and their application of it by segregating out price terms which are “upfront” lends support to the way in which we have understood the exemption to operate. The Australian test exempts from review the price which the consumer knew about and agreed to before the contract was entered into. This ensures that the upfront price term is regulated by competition whilst other monetary terms can be assessed against a standard of fairness.

⁶⁵ Sirko Harder, “Problems in interpreting the unfair contract terms provisions of the Australian Consumer Law”, (2011) 34 *Australian Bar Review* 306, p 314.

⁶⁶ Above, p 315.

- A.44 The assessment of fairness under the ACL is not confined to procedural matters - it extends to regulate terms that are unfair in substance.⁶⁷ In *Jetstar Airways Pty Ltd v Free*,⁶⁸ the Honourable Justice Cavanough said that the earlier Victorian regime regulating unfair contract terms⁶⁹ “proceeds on the assumption that some terms in consumer contracts, especially in standard form consumer contracts, may be inherently unfair ... regardless of how comprehensively they might be drawn to the consumer’s attention”.⁷⁰ Given the similarity of wording it is possible this approach will apply to the ACL too.
- A.45 Here, Ms Free bought two return air tickets from Melbourne to Honolulu for herself and her sister with Jetstar Airways. Prior to making the booking she viewed Jetstar’s fare rules as published on their website. Ms Free had paid a special, very cheap, “Jetsaver” fare of just \$437.39 per person for return travel, including all taxes and charges. Of that sum, the “Jetstar Base Fare” comprised only \$82 return. Nearly three months before the flight, Ms Free’s sister was unable to travel and so Ms Free decided that she would like to take her 11 year old niece on the trip instead and sought to change the name on her sister’s ticket. Jetstar referred Ms Free to its fare rules and told her it would cost approximately \$900 to make the change. Jetstar refused to waive the charge.
- A.46 The Victorian Civil and Administrative Tribunal (VCAT) held that the term imposing the charge was unfair. In applying the fairness test the VCAT weighed up the detriment to Ms Free and the benefits to Jetstar. In particular, the Tribunal considered the term to be unfair because it applied indiscriminately in two ways. First, the charge applied equally to name and date changes: Jetstar may suffer detriment if a customer changed the date of a flight, creating the possibility of an empty seat, but there was no such detriment where a name was changed. Instead Jetstar would gain a “windfall”, obtaining a higher price for the seat than was originally paid for.⁷¹ Second, whilst recognising there were legitimate reasons why Jetstar would want to discourage resale of tickets for a profit, the VCAT considered the term operated unfairly on a customer who sought to change a name for personal reasons with no view to financial gain.⁷²

⁶⁷ See Jeannie Paterson, “The Australian Unfair Contract Terms Law: The rise of substantive unfairness as a ground for review of standard form consumer contracts” [2009] *Melbourne University Law Review*, Vol 33 934 at 952 echoing the comments of Lord Steyn in *Director of Fair Trading v First National Bank* [2002] 1 AC 481, p 500.

⁶⁸ [2008] VSC 539.

⁶⁹ Fair Trading Act 1999, s 32W, later amended by Fair Trading and Other Acts Amendment Act 2009 (Vic), s 5.

⁷⁰ [2008] VSC 539 at [115]. See also *Director of Consumer Affairs Victoria v AAPT Ltd* [2006] VCAT 1493 at [48].

⁷¹ *Free v Jetstar Airways Pty Ltd (Civil Claims)* [2007] VCAT 1405 (27 July 2007) at [36].

⁷² Above at [38].

A.47 Jetstar appealed the VCAT's finding, claiming the Tribunal erred in law in two key respects, that: (a) it considered the "good faith" element of the fairness test to describe the extent of the imbalance in the parties' rights and obligations; and (b) it only considered the benefits and detriments of the single term in issue. Instead Jetstar claimed "good faith" should be a separate element of the fairness test to be considered and the VCAT should have considered the parties' rights and obligations under the contract as a whole.

A.48 On appeal the Honourable Justice Cavanough, sitting in the Supreme Court, found the VCAT had not erred in its interpretation of the role of "good faith". His Honour followed Lord Bingham's approach in *Director of Fair Trading v First National Bank* in holding that a term assessable for fairness was to be:

regarded as unfair if, in all the circumstances, it causes a significant imbalance in the parties' rights and obligations arising under the contract to the detriment of the consumer in a manner or to an extent which is contrary to the requirements of good faith.⁷³

A.49 However, the Supreme Court agreed that the VCAT had erred in failing to consider other terms of the contract in determining whether the fare rules were unfair. In particular, the VCAT should have had regard to the fact that the extremely low price was a special introductory fare which tended to counterbalance the offending term.⁷⁴ Further, the VCAT should have considered the availability of other more expensive, but more flexible, fares.⁷⁵ Without reaching a conclusion on the terms themselves, the Supreme Court upheld the appeal and referred the matter back to the VCAT for a determination according to the law as stated by the Supreme Court.⁷⁶

⁷³ [2008] VSC 539 at [107].

⁷⁴ Above at [128].

⁷⁵ Above at [133] to [135]

⁷⁶ Above at [143] to [145].

APPENDIX B

THE GREY LIST

UTCCR SCHEDULE 2

Indicative and non-exhaustive list of terms which may be regarded as unfair

1 Terms which have the object or effect of –

- (a) excluding or limiting the legal liability of a seller or supplier in the event of the death of a consumer or personal injury to the latter resulting from an act or omission of that seller or supplier;
- (b) inappropriately excluding or limiting the legal rights of the consumer vis-à-vis the seller or supplier or another party in the event of total or partial non-performance or inadequate performance by the seller or supplier of any of the contractual obligations, including the option of offsetting a debt owed to the seller or supplier against any claim which the consumer may have against him;
- (c) making an agreement binding on the consumer whereas provision of services by the seller or supplier is subject to a condition whose realisation depends on his own will alone;
- (d) permitting the seller or supplier to retain sums paid by the consumer where the latter decides not to conclude or perform the contract, without providing for the consumer to receive compensation of an equivalent amount from the seller or supplier where the latter is the party cancelling the contract;
- (e) requiring any consumer who fails to fulfil his obligation to pay a disproportionately high sum in compensation;
- (f) authorising the seller or supplier to dissolve the contract on a discretionary basis where the same facility is not granted to the consumer, or permitting the seller or supplier to retain the sums paid for services not yet supplied by him where it is the seller or supplier himself who dissolves the contract;
- (g) enabling the seller or supplier to terminate a contract of indeterminate duration without reasonable notice except where there are serious grounds for doing so;
- (h) automatically extending a contract of fixed duration where the consumer does not indicate otherwise, when the deadline fixed for the consumer to express his desire not to extend the contract is unreasonably early;
- (i) irrevocably binding the consumer to terms with which he had no real opportunity of becoming acquainted before the conclusion of the contract;
- (j) enabling the seller or supplier to alter the terms of the contract unilaterally without a valid reason which is specified in the contract;
- (k) enabling the seller or supplier to alter unilaterally without a valid reason any characteristics of the product or service to be provided;
- (l) providing for the price of goods to be determined at the time of delivery or allowing a seller of goods or supplier of services to increase their price without in both cases giving the consumer the corresponding right to cancel the contract if the final price is too high in relation to the price agreed when the contract was concluded;
- (m) giving the seller or supplier the right to determine whether the goods or services supplied are in conformity with the contract, or giving him the exclusive right to interpret any term of the contract;
- (n) limiting the seller's or supplier's obligation to respect commitments undertaken by his agents or making his commitments subject to compliance with a particular formality;

- (o) obliging the consumer to fulfil all his obligations where the seller or supplier does not perform his;
- (p) giving the seller or supplier the possibility of transferring his rights and obligations under the contract, where this may serve to reduce the guarantees for the consumer, without the latter's agreement;
- (q) excluding or hindering the consumer's right to take legal action or exercise any other legal remedy, particularly by requiring the consumer to take disputes exclusively to arbitration not covered by legal provisions, unduly restricting the evidence available to him or imposing on him a burden of proof which, according to the applicable law, should lie with another party to the contract.

2 Scope of paragraphs 1(g), (j) and (l)

- (a) Paragraph 1(g) is without hindrance to terms by which a supplier of financial services reserves the right to terminate unilaterally a contract of indeterminate duration without notice where there is a valid reason, provided that the supplier is required to inform the other contracting party or parties thereof immediately.
- (b) Paragraph 1(j) is without hindrance to terms under which a supplier of financial services reserves the right to alter the rate of interest payable by the consumer or due to the latter, or the amount of other charges for financial services without notice where there is a valid reason, provided that the supplier is required to inform the other contracting party or parties thereof at the earliest opportunity and that the latter are free to dissolve the contract immediately.

Paragraph 1(j) is also without hindrance to terms under which a seller or supplier reserves the right to alter unilaterally the conditions of a contract of indeterminate duration, provided that he is required to inform the consumer with reasonable notice and that the consumer is free to dissolve the contract.

- (c) Paragraphs 1(g), (j) and (l) do not apply to:
 - transactions in transferable securities, financial instruments and other products or services where the price is linked to fluctuations in a stock exchange quotation or index or a financial market rate that the seller or supplier does not control;
 - contracts for the purchase or sale of foreign currency, traveller's cheques or international money orders denominated in foreign currency.
- (d) Paragraph 1(l) is without hindrance to price indexation clauses, where lawful, provided that the method by which prices vary is explicitly described.

RE-WRITTEN GREY LIST FROM OUR 2005 REPORT

SCHEDULE 2

CONTRACT TERMS WHICH MAY BE REGARDED AS NOT FAIR AND REASONABLE

PART 1

INTRODUCTION

- 1 (1) A term of a consumer contract or small business contract may be regarded as not being fair and reasonable if it—
- (a) has the object or effect of a term listed in Part 2, and
 - (b) does not come within an exception mentioned in Part 3.
- (2) In this Schedule—
- (a) in relation to a consumer contract, “A” means the consumer and “B” means the business, and
 - (b) in relation to a small business contract, “A” and “B” mean, respectively, the persons referred to as A and B in section 11.

PART 2

LIST OF TERMS

- 2 A term excluding or restricting liability to A for breach of contract.
- 3 A term imposing obligations on A in circumstances where B’s obligation to perform depends on the satisfaction of a condition wholly within B’s control.
- 4 A term entitling B, if A exercises a right to cancel the contract or if B terminates the contract as a result of A’s breach, to keep sums that A has paid, the amount of which is unreasonable.
- 5 A term requiring A, when in breach of contract, to pay B a sum significantly above the likely loss to B.
- 6 A term entitling B to cancel the contract without incurring liability, unless there is also a term entitling A to cancel it without incurring liability.
- 7 A term entitling B, if A exercises a right to cancel the contract, to keep sums A has paid in respect of services which B has yet to supply.
- 8 A term in a fixed-term contract or a contract of indefinite duration entitling B to terminate the contract without giving A reasonable advance notice (except in an urgent case).
- 9 A term—
 - (a) providing for a contract of fixed duration to be renewed unless A indicates otherwise, and
 - (b) requiring A to give that indication a disproportionately long time before the contract is due to expire.
- 10 A term binding A to terms with which A did not have an opportunity to

become familiar before the contract was made.

- 11 A term entitling B, without a good reason which is specified in the contract, to vary the terms of the contract.
- 12 A term entitling B, without a good reason, to vary the characteristics of the goods or services concerned.
- 13 A term requiring A to pay whatever price is set for the goods at the time of delivery (including a case where the price is set by reference to a list price), unless there is also a term entitling A to cancel the contract if that price is higher than the price indicated to A when the contract was made.
- 14 A term entitling B to increase the price specified in the contract, unless there is also a term entitling A to cancel the contract if the business does increase the price.
- 15 A term giving B the exclusive right (and, accordingly, excluding any power of a court) to determine—
 - (a) whether the goods or services supplied match the definition of them given in the contract, or
 - (b) the meaning of any term in the contract.
- 16 A term excluding or restricting B's liability for statements or promises made by B's employees or agents, or making B's liability for statements or promises subject to formalities.
- 17 A term requiring A to carry out its obligations in full (in particular, to pay the whole of the price specified in the contract) in circumstances where B has failed to carry out its obligations in full.
- 18 A term entitling B to transfer its obligations without A's consent.
- 19 A term entitling B to transfer its rights in circumstances where A's position might be weakened as a result.
- 20 A term excluding or restricting A's right—
 - (a) to bring or defend any action or other legal proceedings, or
 - (b) to exercise other legal remedies.
- 21 A term restricting the evidence on which A may rely.

PART 3

EXCEPTIONS

Financial services contracts

- 22 (1) Sub-paragraph (2) applies where a term in a financial services contract of indefinite duration provides that B may terminate the contract—
 - (a) by giving A relatively short advance notice, or
 - (b) if B has a good reason for terminating the contract, without giving A any advance notice.
- (2) Paragraph 8 (termination without reasonable notice) does not apply to the term if the contract also provides that B must immediately inform A of the termination.

- (3) Sub-paragraph (4) applies where a term in a financial services contract of indefinite duration provides that B may vary the interest rate or other charges payable under it—
 - (a) by giving A relatively short advance notice, or
 - (b) if B has a good reason for making the variation, without giving A any advance notice.
- (4) Paragraph 11 (variation without good reason) does not apply to a term if the contract also provides that—
 - (a) B must as soon as practicable inform A of the variation, and
 - (b) A may then cancel the contract, without incurring liability.
- (5) “Financial services contract” means a contract for the supply by B of financial services to A.

Contracts of indefinite duration

- 23 Paragraph 11 (variation without good reason) does not apply to a term in a contract of indefinite duration if the contract also provides that—
 - (a) B must give reasonable notice of the variation, and
 - (b) A may then cancel the contract, without incurring liability.

Contracts for sale of securities, foreign currency, etc.

- 24 (1) None of the following paragraphs applies to a contract term if subparagraph
 - (2) or (3) applies—
 - (a) paragraph 8 (termination without reasonable notice),
 - (b) paragraph 11 (variation without good reason),
 - (c) paragraph 13 (determination of price at time of delivery),
 - (d) paragraph 14 (increase in price).
- (2) This sub-paragraph applies if the contract is for the transfer of securities, financial instruments or anything else, the price of which is linked to—
 - (a) fluctuations in prices quoted on a stock exchange, or
 - (b) a financial index or market rate that B does not control.
- (3) This sub-paragraph applies if the contract is for the sale of foreign currency (and, for this purpose, that includes foreign currency in the form of traveller’s cheques or international money orders).

Price index clauses

- 25 Neither paragraph 13 nor paragraph 14 (determination of price at time of delivery or increase in price) applies to a contract term if—
 - (a) the term provides for the price of the goods or services to be varied by reference to an index of prices, and
 - (b) the contract specifies how a change to the index is to affect the price.

SCHEDULE 3
EXCEPTIONS

Legal requirements

- 1 (1) This Act does not apply to a contract term—
 - (a) required by an enactment or a rule of law,

- (b) required or authorised by a provision in an international convention to which the United Kingdom or the European Community is a party, or
 - (c) required by, or incorporated as a result of a decision or ruling of, a competent authority acting in the exercise of its statutory jurisdiction or any of its functions.
- (2) Sub-paragraph 1(c) does not apply if the competent authority is itself a party to the contract.
- (3) “Competent authority” means a public authority other than a local authority.

Settlements of claims

- 2 (1) This Act does not apply to a contract term in so far as it is, or forms part of—
- (a) a settlement of a claim in tort;
 - (b) a discharge or indemnity given by a person in consideration of the receipt by him of compensation in settlement of any claim which he has.
- (2) In sub-paragraph (1)—
- (a) paragraph (a) does not extend to Scotland, and
 - (b) paragraph (b) extends only to Scotland.

Insurance

- 3 The following sections do not apply to an insurance contract (including a contract to pay an annuity on human life)—
- (a) section 1 (exclusion of business liability for negligence),
 - (b) section 9 (exclusion of liability for breach of business contract where one party deals on written standard terms of the other),
 - (c) section 11 (non-negotiated terms in small business contracts),
 - (d) section 12 (exclusion of employer’s liability under employment contract).

APPENDIX C

END USER LICENCE AGREEMENTS

INTRODUCTION

- C.1 In this Part we look at the effect of unfair terms legislation on End User Licence Agreements, or “EULAs”. Typically, a EULA gives a consumer a limited right to use computer software, subject to various terms and conditions. An increasing range of products is now supplied in digital form – films, music, books, games and social networking. As the range of digital products expands, so does the variety and importance of EULAs to govern the way in which we consume these media.
- C.2 The law governing EULAs can be complicated, as it involves both copyright law and contract law. Below we look briefly at the copyright and contract elements, before addressing when a EULA might have the status of a contract.

LICENCES UNDER COPYRIGHT LAW

- C.3 Copyright law grants a bundle of statutory protections to those who create original literary, dramatic, musical and artistic work. Under section 3 of the Copyright, Designs and Patents Act 1988 (CDPA), a literary work includes a computer program.
- C.4 As the word “copyright” suggests, one of the main protections given to a copyright holder is the exclusive right to copy the work.¹ This includes “the making of copies which are transient or incidental to some other use of the work”.² Other people are not entitled to copy the work unless they have permission to do so. This permission is generally referred to as a licence.³
- C.5 Clearly, a consumer could infringe copyright in a wide variety of settings, not just when using a computer: a consumer may infringe copyright by photocopying a book or a board game. Most EULAs, however, are about software. This is partly because it is impossible to run software on a computer without making a temporary copy in the computer’s RAM.⁴ It is also because copying software is particularly easy. Traders are much more concerned that consumers will copy computer games than that they will copy board games.

¹ Copyright, Designs and Patents Act 1988, s 16(1)(a).

² Above, s 17(6).

³ See *British Actors Film Co v Glover* [1918] 1 KB 229, pp 307 to 308.

⁴ For example, in *R v Higgs* [2008] EWCA 1324, [2009] 1 WLR 73 playing a pirated computer game on a console was considered to infringe s 17(6) because a transient copy was made in the RAM.

LICENCES UNDER CONTRACT LAW

- C.6 Under copyright law, a licence is simply a permission to do something which would otherwise be an infringement of copyright law. It does not necessarily have to be a contract: in some circumstances, tacit consent may be enough, whether or not the copyright holder intended to enter into a contract.⁵
- C.7 Most EULAs, however, are intended to operate as contracts. Partly, they aim to bolster the copyright holder's rights so that if the consumer infringes copyright the holder can sue in both copyright and contract. They may also contain clauses which have nothing to do with copyright, such as exclusion clauses.
- C.8 Where a trader simply wishes to prevent unlawful copying, it does not need to rely on a contractual EULA. If it wishes to enforce other terms, however, it would need to show that the term forms part of a valid contract. That contract would then be subject to the Unfair Terms in Consumer Contracts Regulations (UTCCR).
- C.9 Below we outline briefly the ways in which a EULA may (or may not) be a contract. Assuming EULAs are contracts, we then consider how the UTCCR apply to them.

THE REQUIREMENTS FOR A CONTRACT

- C.10 Under English law, a contract requires:
- (1) *An offer*: one party must express a willingness to contract on specified terms;
 - (2) *Acceptance*: the other party must agree to the terms by statement or conduct;
 - (3) *Consideration*: both sides must offer something to the other.
- C.11 In Scots law there is no requirement for consideration. Instead the parties' agreement must manifest objectively an intention to be legally bound.
- C.12 These principles produce different results, depending how the EULA was presented to the consumer. Below we outline three common ways in which EULAs are presented, though there may be others.

The online "click wrap" licence

- C.13 This form of EULA applies to a download which takes place entirely on-line. Before buying the download, the consumer is asked to "click" that they agree to the terms presented to them. Sometimes, the consumer is required to scroll through the terms. Sometimes the consumer may be allowed to click that they have "read and understood" the terms without actually looking at them.

⁵ See *Barnett v Universal-Island Records Ltd* [2006] EWHC 1009 (Ch), [2006] EMLR 21 at [362].

- C.14 In these circumstances, the courts would almost certainly find that there was a contract. The trader has offered the terms; the consumer has indicated agreement by clicking the button; and both sides have made a bargain. The trader gives something (the licence) in return for consideration from the consumer. This may be money, or may simply be agreeing to act in a certain way or to exclude certain rights.

Online “browse wrap” licences

- C.15 Here the consumer is told that by downloading material they will be taken to have agreed to the owner’s terms and conditions, but the consumer does not need to take any action. There is no box or icon to click.
- C.16 Browse wrap licences are ubiquitous, but are often given low profiles. A typical example would be the BBC News website. At the bottom of the screen is a link to “Terms and Conditions”. This eventually takes the consumer to a screen which states:

These terms of use ("Terms of Use") tell you how you may use BBC Online Services to access, view and/or listen to BBC Content for your personal and non-business use so please read them carefully.

- C.17 There is then a long list of terms which spell out the limited nature of the right to use the website. For example, Term 3.2.3(d) states:

you may not, and you may not assist anyone to, or attempt to, reverse engineer, decompile, disassemble, adapt, modify, copy, reproduce, lend, hire, rent, perform, sub-license, make available to the public, create derivative works from, broadcast, distribute, commercially exploit, transmit or otherwise use in any way BBC Online Services and/or BBC Content in whole or in part except to the extent permitted in these Terms of Use, any relevant Additional Terms and at law.

- C.18 The terms constitute a licence under copyright law, but we think that a court would be unlikely to find that they are a contract. There is no mechanism for the consumer to indicate agreement to the terms, so there would be no acceptance. Many people who use the website will be unaware that the terms exist.
- C.19 The US courts have held that licences of this type do not have contractual status.⁶ Simon Stokes comments that it is probable that the UK courts would take a similar approach.⁷

⁶ See *Specht and Others v Netscape Communications Corp and America Online Inc* 306 F.3d 17 (2d Cir. 2002) and *Ticketmaster Corp v Tickets.com, Inc* 2000 WL 525390, at 3 (C.D.Cal. March 27, 2000).

⁷ S Stokes, *Digital Copyright: Law and Practice* (3rd Ed2009), p 128.

- C.20 This means that such a licence may not be effective in defining what rights the consumer does or does not have to exploit copyright material. If a browse wrap EULA is not a contract, however, it cannot give the right holder any additional contractual rights outside the field of intellectual property law. If, for example, the licence purported to curtail the user's rights to sue for negligence or defamation, such a clause would be ineffective.
- C.21 If a browse wrap licence is not a contract, the UTCCR cannot apply. In our 2005 Report, however, we noted that the Unfair Contract Terms Act 1977 (UCTA) was not confined to contract terms. Section 2 also covered notices. If a notice purports to exclude or restrict liability for death or personal injury it is ineffective.⁸ If it excludes or restricts liability for other loss or damage caused by negligence it must be reasonable.⁹
- C.22 The 2005 draft Bill includes these provisions. We argued that even if exclusion notices are ineffective, they may be undesirable because they discouraged people from exercising their rights. We concluded that regulators should be entitled to take enforcement action against such notices. This would include the right to take enforcement action against terms in browse wrap licences which unfairly dissuaded consumers from exercising a right to sue for loss caused by the supplier's negligence.

Shrink wrap licences on products sold through retailers

- C.23 Typically shrink wrap licences apply where the consumer buys software on a CD-ROM from a retailer. The CD is usually in a box, which may make no mention of the licence agreement. Consumers may expect some form of licence agreement, but they only discover the details when they open the box. At this stage, they may be presented with a paper copy of the licence, and told that they agree to the terms by breaking the seal on the CD-ROM. Alternatively, they may only discover the licence when they attempt to install the software. At this stage, they may be presented with a licence on-screen and given a box to click.
- C.24 The legal effect of these licences may be complex because the consumer will already have entered into a contract with the retailer to buy goods, before finding out about the terms of the licence. This raises a fundamental question: when a consumer "buys" software from a retailer, have they bought the right to use the software for its intended purpose?
- C.25 The answer to this is uncertain and controversial. We explore it in more detail below, looking at the EU Directive and at a Scottish case.

⁸ UCTA, s 2(1) for England and Wales; s 16(1)(a) for Scotland.

⁹ UCTA, s 2(2) for England and Wales. In Scotland, s 16(1)(b) requires that a term restricting liability for breach of duty must be fair and reasonable. Little if anything seems to turn on the difference of wording.

The Software Directive

C.26 The issue was addressed by the Software Directive 1991, which was implemented by sections 50A-C of the CDPA. The 1991 Directive and the various amendments made to it were consolidated in the Computer Programs Directive 2009, which now forms the definitive text on the issue.¹⁰

C.27 Recital 13 explains that someone who has lawfully acquired a computer program is entitled to load and run the program. The acquirer may also carry out any other act necessary for its intended purpose, but this is subject “to specific contractual provisions”:

The exclusive rights of the author to prevent the unauthorised reproduction of his work should be subject to a limited exception in the case of a computer program to allow the reproduction technically necessary for the use of that program by the lawful acquirer. This means that the acts of loading and running necessary for the use of a copy of a program which has been lawfully acquired, and the act of correction of its errors, may not be prohibited by contract. In the absence of specific contractual provisions, including when a copy of the program has been sold, any other act necessary for the use of the copy of a program may be performed in accordance with its intended purpose by a lawful acquirer of that copy.

C.28 Article 4 of the Directive gives the rightholder various exclusive rights over a computer program. These include:

- (a) the permanent or temporary reproduction of a computer program by any means and in any form, in part or in whole; in so far as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorisation by the rightholder;
- (b) the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof, without prejudice to the rights of the person who alters the program.

C.29 These rights, however, are subject to a specific exception to allow a lawful acquirer to reproduce a program where this is necessary for its intended purpose. Article 5 states:

- (1) In the absence of specific contractual provisions, the acts referred to [above] shall not require authorisation by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.
- (2) The making of a back-up copy by a person having a right to use the computer program may not be prevented by contract in so far as it is necessary for that use.

¹⁰ Directive 2009/24/EC of 23 April 2009, OJ 2009 L 111/16.

- C.30 In other words, a lawful acquirer of a computer program is entitled to make a backup copy if this is necessary for its intended use.¹¹ A lawful acquirer is also entitled to carry out other acts necessary for the intended purpose, but this right may be subject to “specific contractual provisions”.
- C.31 There are two conflicting interpretations of this right, depending on the correct definition of a “lawful acquirer”.
- (1) On the first view, any consumer who buys a CD from a reputable retailer in good faith would be a lawful acquirer. Thus, on buying the CD the consumer obtains the right to use the program for its intended purpose. When they open the packet, they already have the right to load, display and run the program. Any subsequent licence agreement cannot take these rights away. Furthermore, unless the contract offers the consumer more than their existing legal rights, the contract is void, in England and Wales, for lack of consideration.
 - (2) The second view is that consumers only become lawful acquirers once they are given the right to use the program by the rightholder. On this view, the right to use the program is subject to any limitation in the licence agreement, to the extent permitted by the 2009 Directive. The licence agreement is therefore a valid contract.
- C.32 The way the Directive has been implemented into UK law favours the second interpretation. Sections 50A to C of the CDPA use the term “lawful user” rather than “lawful acquirer”. In normal speech, it is reasonable to think that a consumer lawfully “acquires” a computer program when they buy the CD from the retailer. They only “use” the program, however, when they put the CD into their computer – that is, after they have been told the terms of the licence agreement. Unhelpfully, the CDPA defines a lawful user as “a person who has a right to use the program”,¹² which fails to address the question of how this right is acquired.

Beta Computers v Adobe Systems

- C.33 The only case to consider the nature of the contract for software between a retailer and a buyer is a Scottish one, *Beta Computers (Europe) Ltd v Adobe Systems (Europe) Ltd*.¹³ This suggests that shrink wrap EULAs are valid contracts.
- C.34 The facts were these. Adobe Systems ordered software by telephone from the retailer, who sent it to them with a shrink-wrapped EULA inside the packaging. For reasons which were not explained, Adobe did not agree to the terms of the EULA and returned it to the retailers unopened. The retailers sued for the contract price.

¹¹ This has been interpreted restrictively. In *Kabushiki Kaisha Sony Computer Entertainment v Ball* [2004] EWHC 1738, [2005] ECC 24 it was held that where software is supplied on CDs, which are robust and cannot be erased, it is not necessary to make a back up copy.

¹² CDPA, s 50A(2).

¹³ 1996 SLT 604; 1996 FSR 367.

- C.35 In the Court of Session, Lord Penrose held that contracts for software were a special form of contract. The supplier undertook to provide both the medium (the disk) and the right to use the intellectual property embodied in it. On the other hand, the contract was not entirely within the control of the supplier. It needed the consent of the rightholder. Thus the contract could not be formed until the rightholder's conditions were tendered to the purchaser and the purchaser had accepted them.
- C.36 In other words, the primary contract is between the retailer and buyer, but is not formed until the buyer has seen the terms and undoes the shrink-wrap. At this stage, the contract between retailer and buyer incorporates the rightholder's terms. Lord Penrose found that although the rightholder was not a direct party to the contract, it was nevertheless able to take advantage of the Scottish doctrine of "*ius quaesitum tertio*",¹⁴ which allows a third party to enforce stipulations in the contract indirectly.
- C.37 The decision has been criticised on several grounds. First, the court was not referred to, and so did not consider, the Software Directive.¹⁵ It has also been pointed out that if no contract is formed until the software is delivered, the buyer is deprived of any right to demand performance.¹⁶
- C.38 As far as consumer protection is concerned, it is awkward to think of the EULA as forming a contract between a retailer and the buyer, when the retailer may have no responsibility for drafting the terms. If the EULA contains an unfair term, it would be better for enforcement action to be brought against the rightholder. Professor George Gretton comments that a more attractive solution is to analyse the situation in terms of a double contract, so that the buyer contracts with both the supplier and the software house.¹⁷
- C.39 The decision has been taken to support the validity of shrink-wrapped EULAs,¹⁸ but the full legal analysis of how they operate is far from clear. The issue is outside the terms of reference of the current project. Furthermore, software is increasingly supplied in the form of digital downloads, rather than on a hard medium from retailers, so the importance of the issue is decreasing. It may be that the shrink wrap licence disappears before its legal status is ever conclusively resolved.

¹⁴ Literally, this means "a right acquired by a third party". At the time of the decision, English law did not recognise such rights, but they are now available under the Contracts (Rights of Third Parties) Act 1999.

¹⁵ See J N Adams, "The Snark was a Boojum, you see", [1997] *Edinburgh Law Review* 386; and S J A Robertson, "The Validity of Shrink-Wrap Licences in Scots Law", 1998 (2) *Journal of Information, Law and Technology* 2.

¹⁶ See Adams, above. Also, H L MacQueen, "Software Transactions and Contract Law" in L Edwards and C Waelde (eds), *Law and the Internet: Regulating Cyberspace* (Hart Publishing, Oxford: 1997), pp 121 to 135.

¹⁷ G Gretton, "Software: binding the end-user", (1996) *Journal of Business Law* 524.

¹⁸ For example, in *Microsoft Corporation v Ling and Others* [2006] EWHC 1619 (Ch) at [10] the judge noted that it was common ground that a shrink wrap licence "is effective in law as an agreement".

ARE EULAS TRANSPARENT?

- C.40 The UTD requires contract terms to be expressed in plain, intelligible language,¹⁹ but the requirement appears to have been by-passed by much of the software industry. EULAs are widely criticised for their complexity, obscurity and legal jargon.
- C.41 In 2007, the National Consumer Council (NCC) carried out a shopping survey of 25 popular software products, all in shrink wrapped packaging from an online retailer.²⁰ They found that 14 of the products did not mention that installation depended on a licence agreement. Out of the 9 that did mention a licence agreement, only 4 gave a URL for an online copy. NCC commented that many licence agreements were in hard-to-read formats. Consumers who did attempt to read them were confronted by complex wording, legal jargon and frequent references to legislation in other countries.

TERMS WHICH SET OUT EXISTING COPYRIGHT LAW

- C.42 Despite the length and complexity of EULAs, most are unnecessary to protect the rightholder's intellectual property rights. In the absence of an express licence, the rights granted to a consumer are extremely limited. Under the Computer Programs Directive 2009, the consumer is only allowed to do that which is necessary for the intended purpose. A consumer does not acquire a right to lend the program to friends, to copy it for others or exploit it commercially.
- C.43 Thus many terms in EULAs merely set out the existing law. In our 2002 Consultation Paper we discussed whether a term which merely set out the default rule which would exist in the absence of the contract could be reviewed for fairness. We concluded that it was exempt from review.²¹
- C.44 To reach this conclusion we relied on Recital 13 which states that the exclusion in article 1(2) covering "mandatory statutory or regulatory provisions" also includes "rules which, according to the law, shall apply between the contracting parties provided that no other arrangements have been established".
- C.45 We thought that this point did not emerge clearly from the words used in Regulation 4(2) of the UTCCR. In our draft Bill we suggested alternative wording. Under clause 4(4) of the draft Bill, the assessment of fairness does not apply to a clause which is transparent and which "leads to substantially the same result as would be produced as a matter of law if the term were not included".

¹⁹ Art 5.

²⁰ C Belgrove, *Whose licence is it anyway?: a study of end user licence agreements for computer software*, NCC (January 2008).

²¹ Unfair Terms in Contracts (2002) Law Commission Consultation Paper No 166; Scottish Law Commission Discussion Paper No 119, paras 3.35 to 3.37.

TERMS WHICH MAY BE UNFAIR

- C.46 Even if the copyright terms cannot be considered as unfair, there are many terms in EULAs with the potential to be unfair. NCC lists problems with exclusion clauses, jurisdiction clauses and terms which allow the rightholder to withdraw the service.²² We discuss each of these below. This is not intended to be an exhaustive list. Given that EULAs are so often not in plain intelligible language, it will be rare for terms to fall within the exemption in Regulation 6(2).

Terms which exclude liability for negligence

- C.47 EULAs often contain wide-ranging exclusion clauses. Their main purpose appears to be to protect the trader from actions for negligence if the software damages the consumer's computer. A contemporary example, taken from the LoveFilm EULA of May 2012 is drafted as follows:

In no event shall LoveFilm, its affiliates, directors, employees or licensors be liable for any direct, indirect, incidental, special or consequential damages (including but not limited to any loss of data, service interruption or computer failure) arising out your use of or inability to use the Software or any errors, viruses or bugs contained in the Software, even if you have advised us of the possibility of such loss. Your only right or remedy with respect to any problems or dissatisfaction you have with the Software is to uninstall it or stop using it.

- C.48 Such a term is reviewable under the UTCCR. The grey list suggests that it is the sort of term which may be unfair. Schedule 2, para 1(a) includes terms which have the effect of "inappropriately excluding or limiting the legal rights of the consumer vis-à-vis the seller or supplier or another party in the event of ... inadequate performance".

- C.49 In business to business contracts, there is also a question about whether these terms must be fair and reasonable under section 2 of UCTA. In England and Wales, under Schedule 1, para 1(c), sections 2 to 4 of UCTA do not extend to:

Any contract so far as it relates to the creation or transfer of a right or interest in any ... copyright ... or other intellectual property, or relates to the termination of any such right or interest.

There is, however, no such limitation in Scotland with respect to the controls of sections 16 to 18 of UCTA.²³

²² C Belgrove, *Whose licence is it anyway?: a study of end user licence agreements for computer software*, NCC (January 2008).

²³ Note that this exemption applies only to England and Wales. There is no equivalent provision in Scotland: see HL MacQueen, "Software Transactions and Contract Law" in L Edwards and C Waelde (eds), *Law and the Internet: Regulating Cyberspace* (Hart Publishing, Oxford: 1997), pp 121 to 135.

- C.50 In *Salvage Association v CAP Financial Services Ltd* the English and Welsh exemption was interpreted restrictively.²⁴ A marine surveying company entered into contracts with the defendant for the design, development and supply of software. The software was not completed and contained numerous errors. The company sued, claiming repayment of the contract price and damages for wasted expenditure. The defendants sought to rely on an exclusion clause, which the company claimed was unfair. The question was whether the court could consider the fairness of the exclusion clause or whether it was prevented from doing so because the contract related to the creation or transfer of rights in intellectual property.
- C.51 The court held that it could consider the fairness of the term. It found that paragraph 1(c) only excluded those terms of the contract which related to the creation or transfer of the intellectual property right. It did not extend generally to all terms of the contract.
- C.52 In our Consultation Paper on Unfair Terms, we considered this case to be authoritative. We commented that “most intellectual property practitioners regard the point as definitively decided” by the case: one looks at the subject matter of the term, rather than the contract.²⁵

Other exclusion clauses

- C.53 In some cases, exclusion clauses may go further than simply excluding liability for negligence and breach of contract. They may also attempt to protect the right-holder against defamation or breach of privacy actions.
- C.54 Some exclusion clauses are drafted so widely that it is not clear what form of action the trader wishes to exclude. Digital technology is often at the forefront of social developments, and traders may fear new forms of possible legal action, which they cannot quite pinpoint.
- C.55 This is the exclusion clause from the Facebook contract (as of May 2012):

WE TRY TO KEEP FACEBOOK UP, BUG-FREE, AND SAFE, BUT YOU USE IT AT YOUR OWN RISK. WE ARE PROVIDING FACEBOOK AS IS WITHOUT ANY EXPRESS OR IMPLIED WARRANTIES INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT. WE DO NOT GUARANTEE THAT FACEBOOK WILL BE SAFE OR SECURE. FACEBOOK IS NOT RESPONSIBLE FOR THE ACTIONS, CONTENT, INFORMATION, OR DATA OF THIRD PARTIES, AND YOU RELEASE US, OUR DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS FROM ANY CLAIMS AND DAMAGES, KNOWN AND UNKNOWN, ARISING OUT OF OR IN ANY WAY CONNECTED WITH ANY CLAIM YOU HAVE AGAINST ANY SUCH THIRD PARTIES.

²⁴ [1995] FSR 654.

²⁵ Unfair Terms in Contracts (2002) Law Commission Consultation Paper No 166; Scottish Law Commission Discussion Paper No 119, Part 3, footnote 101 (p 37).

- C.56 It is written in such wide terms that it is difficult to pinpoint exactly what liability Facebook is attempting to exclude.
- C.57 Again, in consumer contracts, a term of this sort may be reviewed for fairness under the UTCCR. This would continue under the draft Bill. For business contracts, however, UCTA only prevents the exclusion of contractual and business liability. It does not deal with the exclusion of other forms of liability such as breach of privacy rights.

Exclusive jurisdiction clauses

- C.58 Some EULAs may purport to oust the jurisdiction of the consumer's local courts. In 2006, Ofcom looked at a term imposed by a mobile phone operator which stated that the parties agreed only to bring legal action in the English courts. The regulator regarded this as unfair because consumers should be entitled to have their disputes heard in the local courts, regardless of where in the UK they lived. The operator subsequently agreed to amend the contract to reflect this.

- C.59 Exclusive jurisdiction clauses remain however. This clause is taken from the Facebook contract as of May 2012:

You will resolve any claim, cause of action or dispute (claim) you have with us arising out of or relating to this Statement or Facebook exclusively in a state or federal court located in Santa Clara County ... You agree to submit to the personal jurisdiction of the courts located in Santa Clara County, California for the purpose of litigating all such claims.

- C.60 This clause is almost certainly void. The contract is made between a company domiciled in Ireland and a UK consumer, so falls wholly within the European Union. It is governed by the Brussels I Regulation.²⁶ Where a business directs its activities to the consumer's home state, the consumer is entitled to bring proceedings against a business either in the courts of the member state where the business is domiciled (Ireland) or in the courts where the consumer is domiciled (the UK).²⁷ These provisions can only be contracted out of in limited circumstances.²⁸
- C.61 The question is whether a void clause of this type is also unfair. There is a strong argument that regulators should be able to require that such terms are removed from contracts. They confuse consumers, by making it more difficult to understand what they are signing up to, and may discourage them from relying on their legal rights.

²⁶ Regulation No 44/2001.

²⁷ Above, art 16(1).

²⁸ Above, art 17.

- C.62 In our 2002 Consultation Paper we consider the argument that a clause can only be unfair under the UTCCR if it is both procedurally and substantively unfair.²⁹ It could be argued that the UTCCR require both procedural unfairness (contrary to the requirement of good faith) and substantive unfairness (a significant imbalance in the parties' rights and obligations). On this basis, it might be said that a void clause cannot be unfair because it does not create a significant imbalance in the parties' rights and obligations.
- C.63 We thought that this was a misreading of the Directive. We concluded that a clause may be unfair because it is procedurally unfair, and that regulators should be able to take action to remove them from contracts.³⁰ The test set out in our draft Bill would allow void terms to be unfair.³¹

Terms allowing the right-holder to withdraw the service

- C.64 Several complaints about unfair terms in EULAs relate to those which allow the supplier to withdraw the service, terminate the contract or destroy the consumer's data.
- C.65 The NCC report gives an example of a clause allowing the supplier to remove the consumer's data without notice. The clause stated:
- Symantec may, at its sole discretion, immediately suspend or terminate use of the Online Backup Feature for failure or suspected failure to comply with these terms.
- C.66 The clause then explained that following termination, the supplier "shall not be obligated to maintain any data" stored online. NCC noted that in 2006, Ofcom ruled that the destruction of the consumer's data without notice may be unfair. The supplier amended the contract to provide for notice.³²
- C.67 Other terms allow the supplier to suspend the service at any time. The grey list states that a term might be unfair where it authorises the supplier to dissolve the contract on a discretionary basis without giving the same facility to the consumer. Terms may also be unfair if they permit the supplier to retain sums for services not yet supplied, where the supplier dissolves the contract.³³
- C.68 It is possible that if a term limiting the duration of the service is sufficiently transparent, it may form the main subject matter of the contract, and therefore be exempt from review. To be sufficiently transparent, however, it would need more than a paragraph in the small print.

²⁹ See Unfair Terms in Contracts (2005) Law Com No 292; Scot Law Com No 199, draft Bill, clause 14 which sets out a general test of whether a term is fair and reasonable, taking into account both the extent to which the term is transparent and its substance and effect.

³⁰ Unfair Terms in Contracts (2002) Law Commission Consultation Paper No 166; Scottish Law Commission Discussion Paper No 119, para 3.69.

³¹ Unfair Terms in Contracts (2005) Law Com No 292; Scot Law Com No 199, draft Bill, clause 14 sets out a general test of whether a contract is fair and reasonable, to be determined by taking into account both its transparency and substance.

³² Ofcom, *Consumer complaint against UK online about unfair contract terms* (May 2006), CW/00887/01/06.

³³ Sch 2, 1(f).

CONCLUSION

- C.69 The move to plain language has by-passed much of the software industry. Every day, thousands of consumers click online buttons to say that they have read and understood documents which are unreadable and incomprehensible.
- C.70 One problem is that EULAs involve a mix of both copyright law and contract law, which makes their interpretation legally complex. This complexity may have deterred enforcement action against unfair terms in software contracts. Our draft Bill would clarify the effect of unfair terms legislation in two ways:
- (1) The draft Bill follows UCTA in covering notices which purport to exclude or restrict liability for negligence by the supplier. This would enable regulators to take action against such exclusion clauses in EULAs without worrying about whether they are contract terms. For example, action may be taken against exclusion clauses in browse wrap EULAs which do not have contract status.
 - (2) The draft Bill clarifies that a term may be unfair even if it is void. This would enable regulators to take action against complex and confusing terms, even if they are not allowed under other provisions, such as the Brussels I Regulation.
- C.71 At the same time, the draft Bill clarifies that the assessment of fairness does not apply to a clause which is transparent and which “leads to substantially the same result as would be produced as a matter of law if the term were not included”. Thus regulators cannot consider clauses which merely repeat the existing provisions of intellectual property law, provided that these clauses are not written in unduly obscure or misleading language.

APPENDIX D

COUNCIL DIRECTIVE 93/13/EEC ON UNFAIR TERMS IN CONSUMER CONTRACTS

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 100 A thereof,

Having regard to the proposal from the Commission,¹

In cooperation with the European Parliament,²

Having regard to the opinion of the Economic and Social Committee,³

1. Whereas it is necessary to adopt measures with the aim of progressively establishing the internal market before 31 December 1992; whereas the internal market comprises an area without internal frontiers in which goods, persons, services and capital move freely;

2. Whereas the laws of Member States relating to the terms of contract between the seller of goods or supplier of services, on the one hand, and the consumer of them, on the other hand, show many disparities, with the result that the national markets for the sale of goods and services to consumers differ from each other and that distortions of competition may arise amongst the sellers and suppliers, notably when they sell and supply in other Member States;

3. Whereas, in particular, the laws of Member States relating to unfair terms in consumer contracts show marked divergences;

4. Whereas it is the responsibility of the Member States to ensure that contracts concluded with consumers do not contain unfair terms;

5. Whereas, generally speaking, consumers do not know the rules of law which, in Member States other than their own, govern contracts for the sale of goods or services; whereas this lack of awareness may deter them from direct transactions for the purchase of goods or services in another Member State;

6. Whereas, in order to facilitate the establishment of the internal market and to safeguard the citizen in his role as consumer when acquiring goods and services under contracts which are governed by the laws of Member States other than his own, it is essential to remove unfair terms from those contracts;

7. Whereas sellers of goods and suppliers of services will thereby be helped in their task of selling goods and supplying services, both at home and throughout the internal market; whereas competition will thus be stimulated, so contributing to increased choice for Community citizens as consumers;

8. Whereas the two Community programmes for a consumer protection and information policy⁴ underlined the importance of safeguarding consumers in the matter of unfair terms of contract; whereas this protection ought to be provided by

¹ OJ No C 73, 24.3.1992, p 7.

² OJ No C 326, 16.12.1991, p 108 and OJ No C 21, 25.1.1993.

³ OJ No C 159, 17.6.1991, p 34.

⁴ OJ No C 92, 25.4.1975, p 1 and OJ No C 133, 3.6.1981, p 1.

laws and regulations which are either harmonized at Community level or adopted directly at that level;

9. Whereas in accordance with the principle laid down under the heading "Protection of the economic interests of the consumers", as stated in those programmes: "acquirers of goods and services should be protected against the abuse of power by the seller or supplier, in particular against one-sided standard contracts and the unfair exclusion of essential rights in contracts";

10. Whereas more effective protection of the consumer can be achieved by adopting uniform rules of law in the matter of unfair terms; whereas those rules should apply to all contracts concluded between sellers or suppliers and consumers; whereas as a result *inter alia* contracts relating to employment, contracts relating to succession rights, contracts relating to rights under family law and contracts relating to the incorporation and organization of companies or partnership agreements must be excluded from this Directive;

11. Whereas the consumer must receive equal protection under contracts concluded by word of mouth and written contracts regardless, in the latter case, of whether the terms of the contract are contained in one or more documents;

12. Whereas, however, as they now stand, national laws allow only partial harmonization to be envisaged; whereas, in particular, only contractual terms which have not been individually negotiated are covered by this Directive; whereas Member States should have the option, with due regard for the Treaty, to afford consumers a higher level of protection through national provisions that are more stringent than those of this Directive;

13. Whereas the statutory or regulatory provisions of the Member States which directly or indirectly determine the terms of consumer contracts are presumed not to contain unfair terms; whereas, therefore, it does not appear to be necessary to subject the terms which reflect mandatory statutory or regulatory provisions and the principles or provisions of international conventions to which the Member States or the Community are party; whereas in that respect the wording "mandatory statutory or regulatory provisions" in Article 1(2) also covers rules which, according to the law, shall apply between the contracting parties provided that no other arrangements have been established;

14. Whereas Member States must however ensure that unfair terms are not included, particularly because this Directive also applies to trades, business or professions of a public nature;

15. Whereas it is necessary to fix in a general way the criteria for assessing the unfair character of contract terms;

16. Whereas the assessment, according to the general criteria chosen, of the unfair character of terms, in particular in sale or supply activities of a public nature providing collective services which take account of solidarity among users, must be supplemented by a means of making an overall evaluation of the different interests involved; whereas this constitutes the requirement of good faith; whereas, in making an assessment of good faith, particular regard shall be had to the strength of the bargaining positions of the parties, whether the consumer had an inducement to agree to the term and whether the goods or services were sold or supplied to the special order of the consumer; whereas the requirement of good faith may be satisfied by the seller or supplier where he deals fairly and equitably with the other party whose legitimate interests he has to take into account;

17. Whereas, for the purposes of this Directive, the annexed list of terms can be of indicative value only and, because of the nature of the minimal character of the

Directive, the scope of these terms may be the subject of amplification or more restrictive editing by the Member States in their national laws;

18. Whereas the nature of goods or services should have an influence on assessing the unfairness of contractual terms;

19. Whereas, for the purposes of this Directive, assessment of unfair character shall not be made of terms which describe the main subject matter of the contract nor the quality/price ratio of the goods or services supplied; whereas the main subject matter of the contract and the price/quality ratio may nevertheless be taken into account in assessing the fairness of other terms; whereas it follows, *inter alia*, that in insurance contracts, the terms which clearly define or circumscribe the insured risk and the insurer's liability shall not be subject to such assessment since these restrictions are taken into account in calculating the premium paid by the consumer;

20. Whereas contracts should be drafted in plain, intelligible language, the consumer should actually be given an opportunity to examine all the terms and, if in doubt, the interpretation most favourable to the consumer should prevail;

21. Whereas Member States should ensure that unfair terms are not used in contracts concluded with consumers by a seller or supplier and that if, nevertheless, such terms are so used, they will not bind the consumer, and the contract will continue to bind the parties upon those terms if it is capable of continuing in existence without the unfair provisions;

22. Whereas there is a risk that, in certain cases, the consumer may be deprived of protection under this Directive by designating the law of a non-Member country as the law applicable to the contract; whereas provisions should therefore be included in this Directive designed to avert this risk;

23. Whereas persons or organizations, if regarded under the law of a Member State as having a legitimate interest in the matter, must have facilities for initiating proceedings concerning terms of contract drawn up for general use in contracts concluded with consumers, and in particular unfair terms, either before a court or before an administrative authority competent to decide upon complaints or to initiate appropriate legal proceedings; whereas this possibility does not, however, entail prior verification of the general conditions obtaining in individual economic sectors;

24. Whereas the courts or administrative authorities of the Member States must have at their disposal adequate and effective means of preventing the continued application of unfair terms in consumer contracts,

HAS ADOPTED THIS DIRECTIVE:

Article 1

1. The purpose of this Directive is to approximate the laws, regulations and administrative provisions of the Member States relating to unfair terms in contracts concluded between a seller or supplier and a consumer.

2. The contractual terms which reflect mandatory statutory or regulatory provisions and the provisions or principles of international conventions to which the Member States or the Community are party, particularly in the transport area, shall not be subject to the provisions of this Directive.

Article 2

For the purposes of this Directive:

(a) "unfair terms" means the contractual terms defined in Article 3;

(b) "consumer" means any natural person who, in contracts covered by this Directive, is acting for purposes which are outside his trade, business or profession;

- (c) “seller or supplier” means any natural or legal person who, in contracts covered by this Directive, is acting for purposes relating to his trade, business or profession, whether publicly owned or privately owned.

Article 3

1. A contractual term which has not been individually negotiated shall be regarded as unfair if, contrary to the requirement of good faith, it causes a significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer.

2. A term shall always be regarded as not individually negotiated where it has been drafted in advance and the consumer has therefore not been able to influence the substance of the term, particularly in the context of a pre-formulated standard contract.

The fact that certain aspects of a term or one specific term have been individually negotiated shall not exclude the application of this Article to the rest of a contract if an overall assessment of the contract indicates that it is nevertheless a pre-formulated standard contract.

Where any seller or supplier claims that a standard term has been individually negotiated, the burden of proof in this respect shall be incumbent on him.

3. The Annex shall contain an indicative and non-exhaustive list of the terms which may be regarded as unfair.

Article 4

1. Without prejudice to Article 7, the unfairness of a contractual term shall be assessed, taking into account the nature of the goods or services for which the contract was concluded and by referring, at the time of conclusion of the contract, to all the circumstances attending the conclusion of the contract and to all the other terms of the contract or of another contract on which it is dependent.

2. Assessment of the unfair nature of the terms shall relate neither to the definition of the main subject matter of the contract nor to the adequacy of the price and remuneration, on the one hand, as against the services or goods supplied in exchange, on the other, in so far as these terms are in plain intelligible language.

Article 5

In the case of contracts where all or certain terms offered to the consumer are in writing, these terms must always be drafted in plain, intelligible language. Where there is doubt about the meaning of a term, the interpretation most favourable to the consumer shall prevail. This rule on interpretation shall not apply in the context of the procedures laid down in Article 7(2).

Article 6

1. Member States shall lay down that unfair terms used in a contract concluded with a consumer by a seller or supplier shall, as provided for under their national law, not be binding on the consumer and that the contract shall continue to bind the parties upon those terms if it is capable of continuing in existence without the unfair terms.

2. Member States shall take the necessary measures to ensure that the consumer does not lose the protection granted by this Directive by virtue of the choice of the law of a non-Member country as the law applicable to the contract if the latter has a close connection with the territory of the Member States.

Article 7

1. Member States shall ensure that, in the interests of consumers and of competitors, adequate and effective means exist to prevent the continued use of unfair terms in contracts concluded with consumers by sellers or suppliers.

2. The means referred to in paragraph 1 shall include provisions whereby persons or organizations, having a legitimate interest under national law in protecting consumers, may take action according to the national law concerned before the courts or before competent administrative bodies for a decision as to whether contractual terms drawn up for general use are unfair, so that they can apply appropriate and effective means to prevent the continued use of such terms.

3. With due regard for national laws, the legal remedies referred to in paragraph 2 may be directed separately or jointly against a number of sellers or suppliers from the same economic sector or their associations which use or recommend the use of the same general contractual terms or similar terms.

Article 8

Member States may adopt or retain the most stringent provisions compatible with the Treaty in the area covered by this Directive, to ensure a maximum degree of protection for the consumer.

Article 9

The Commission shall present a report to the European Parliament and to the Council concerning the application of this Directive five years at the latest after the date in Article 10(1).

Article 10

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive no later than 31 December 1994. They shall forthwith inform the Commission thereof.

These provisions shall be applicable to all contracts concluded after 31 December 1994.

2. When Member States adopt these measures, they shall contain a reference to this Directive or shall be accompanied by such reference on the occasion of their official publication. The methods of making such a reference shall be laid down by the Member States.

3. Member States shall communicate the main provisions of national law which they adopt in the field covered by this Directive to the Commission.

Article 11

This Directive is addressed to the Member States.

Done at Luxembourg, 5 April 1993.

For the Council
The President
N. HELVEG PETERSEN

[The Annex is effectively identical to Schedule 2 to UTCCR. See Appendix B above.]