

The Rt Hon Dr Vince Cable MP
Secretary of State
Department for Business, Innovation & Skills
1 Victoria Street
London SW15H 0ET

13 December 2013

Modernising Copyright Draft Statutory Instruments: Contract Override Provisions

Dear Secretary of State

When I and colleagues met with you and Viscount Younger last week to discuss the draft statutory instruments giving effect to new exceptions to copyright, I alluded to the view that the drafting of the contract override provisions may not be compliant with the UK's obligations under the Information Society Directive.

As I said, this is not to say that we disagree with the government's overall policy intent, but rather with the specific manner in which that policy is being given effect by the draft statutory instruments. Specifically there are concerns with the phrase that the term of a contract that purports to restrict or prevent an act otherwise permitted would be "*unenforceable*".

Members of The Publishers Association, together with our colleagues in the association International STM, have sought legal advice on this matter from Martin Howe QC. A copy of Mr Howe's opinion is attached to this letter.

Mr Howe is of the view that there are strong arguments that the government's proposals interfere with the operation of Article 6 (4), subparagraphs 1-4, of the Information Society Directive.

We write to request that this opinion be provided to Parliamentary Counsel for its consideration as they prepare the redrafting of the statutory instruments: first, to see if they agree with the opinion; and secondly, if so, to see if the opinion might accordingly guide their drafting.

We would like to reiterate that we are not in opposition to the underlying policy intention behind the provisions. Nor are we merely seeking to obstruct or delay reforms. We believe that there is a valid and important case to consider as to whether the current legislative drafting is compliant with EU law. Furthermore, we believe that the current drafting would have a negative effect on customer choice regarding existing offline and online services, hamper innovation and investment in new services and hinder cross-border trade in the EU and overseas.

This is so, because publishers would no longer be able to define or shape jointly with their customers by agreement how an exception applies in a particular use context and fitting the accompanying technical safeguards around the agreed bargain. Worse, the provisions would hamper innovation and investment in new publishing services by rendering all agreements unenforceable in a blanket way, even when they are perhaps an early release or pilot meeting the demand of early adopters. Binding contractual terms or voluntary agreements are often the only way to test the market for new services online and offline.

Finally the current provisions would also hamper cross-border trade as significant uncertainties remain how the provision would apply in these cases, ie either where the UK user is served via a platform abroad or conversely where a UK publisher platform makes works available on contractual terms in other EU countries or overseas.

Having said this, we maintain that the policy aim could be achieved through narrower drafting which did not engage contract law in such a dramatic fashion.

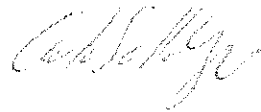
We appreciate that the IPO and parliamentary counsel are approaching the end of their drafting process, but hope that it is not too late in the day for them to give this important advice to be taken into consideration.

If it would be of any further use we would be happy to facilitate a discussion between our legal advisers and those of the government.

Yours sincerely



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**STM v.
Secretary of State for Business, Innovation and Skills**

OPINION

1. I am asked to advise the International Association of Scientific Technical and Medical Publishers ("STM") in connection with proposed regulations which the Secretary of State is minded to make under the European Communities Act 1972.
2. The effect of the proposed regulations would be to introduce a number of subsections into the Copyright Designs and Patents Act 1988 ("CDPA 1988") which would attach to a number of existing and new exceptions to copyright under the Act. These subsections would restrict the ability of rights owners to enforce contractual terms which would have the effect of preventing other parties performing acts within the scope of the exceptions.
3. These proposed subsections are in similar terms. To take for example the proposed wording of subsection 29A(3) on data analysis for non-commercial research:-

“(3) To the extent that the term of a contract purports to restrict or prevent the doing of any act which would otherwise be permitted by this section, that term is unenforceable.”

4. STM have a number of serious concerns about these intended provisions, which they have set out at length in communications responding to the BIS's consultation on these proposals. In particular, STM consider that this interference with the freedom of its members to contract with users of their works has seriously detrimental effects in cases where the precise

scope of an exception is unclear and the parties wish to agree upon a more precise definition of what acts may or may not be done without the need for a consent or additional fees.

5. I am asked to advise on whether the inclusion of these contract override provisions in the proposed regulations may be open to legal challenge by my clients.

1. Are the proposed subsections *intra vires* the European Communities Act 1972 as a matter of domestic law?

6. Since Parliament is supreme under UK constitutional theory, it could choose to insert these subsections into the CDPA 1988 by an amending Act of Parliament and they would then be unchallengeable as a matter of domestic law. However it is proposed to make these changes to the CDPA 1988 by means of regulations under section 2(2) of the European Communities Act 1972, which reads as follows:

(2) Subject to Schedule 2 to this Act, at any time after its passing Her Majesty may by Order in Council, and any designated Minister or department may by order, rules, regulations or scheme, make provision—

(a) for the purpose of implementing any EU obligation of the United Kingdom, or enabling any such obligation to be implemented, or of enabling any rights enjoyed or to be enjoyed by the United Kingdom under or by virtue of the Treaties to be exercised; or

(b) for the purpose of dealing with matters arising out of or related to any such obligation or rights or the coming into force, or the operation from time to time, of subsection (1) above;

7. And further, by subsection 2(4):

“(4) The provision that may be made under subsection (2) above

includes, subject to Schedule 2 to this Act, any such provision (of any such extent) as might be made by Act of Parliament, ..."

8. The power to make or amend law in subsection 2(2) has been the subject of considerable political, academic and judicial comment. In particular, the great width and extent of this power to make or amend almost any law by statutory instrument has resulted in it being referred to by some commentators as a 'Henry VIII' power. It has been argued by some that the courts should narrowly construe the scope of the power so that its exercise is limited to making changes to domestic law which are changes strictly required by an EU provision, with little or no scope for making more wide ranging changes to the law.
9. This viewpoint gained support from the way this power was presented by Ministers to Parliament in the course of the passing of the Bill which led to the 1972 Act. For example, Mr Geoffrey Rippon in the second reading debate (Hansard HC col 282, 15 Feb 1972) said:

"I fully appreciate the concern of the House at any new general power to make subordinate legislation, but I should like to reassure hon. Members about the prospect. On the basis of existing Community instruments, we foresee a need for not more than four instruments under clause 2(2) in 1972 and another 12 in 1973."

10. He then went on to suggest that any important changes would be incorporated in "the ordinary programme of departmental legislation". And Sir Geoffrey Howe, Solicitor-General, (Hansard, HC col 1313, 13 June 1972) said:-

"It is therefore sensible, in the interests of Parliament, that consequential amendments of a small, minor and insignificant kind should be capable of being effected by orders under clause 2(2)." (emphasis added)

11. Despite what seemed clear assurances given to Parliament at the time when the 1972 Act was passed, over time greater and greater use has been made by the executive of the powers under s. 2(2) of the Act to legislate by regulation. Further, the courts have rejected the suggestion that they should decide whether or not proposed regulations are “small or minor” on the grounds that no such limitation is contained in the wording of the section, and in any event judging whether or not something is small or minor is a matter of political judgement, not a legal test capable of judicial application.
12. A wide interpretation was given to section 2(2) by the decision of the Court of Appeal in *Oakley Inc v Animal Ltd* [2005] EWCA 1991; [2006] RPC 9, which held that regulations making extensive changes to the Registered Designs Act 1949 in order to transpose into UK law the Designs Directive 98/71/EC were *intra vires* s. 2(2) of the 1972 Act. What was in issue was a provision of the Directive which could optionally be implemented by Member States. The Court of Appeal held that where a Directive can be implemented in two or more different ways, it is a valid exercise of the powers under section 2(2)(a) for the purpose of “implementing an EU obligation” to make a choice between them.
13. Accordingly, the Court of Appeal did not strictly need to express views on the scope of section 2(2)(b), which enables regulations to be made “for the purpose of dealing with matters arising out of or related to” an EU obligation. Nonetheless it did so and although the individual judges differed in their precise wording, they all took a fairly expansive view about what can be said to be “related to” an EU obligation.

14. The principles governing the power under section 2(2)(b) were later summarised by Moses LJ in *R (Cukurova Finance International Ltd and another) v HM Treasury* [2008] EWHC 2567 (Admin) as follows:-

"53. In the *Oakley* case, the Court of Appeal ruled that transitional provisions in the Design Regulations 2001 were lawfully implemented under section 2(2)(a) because they were made for the purposes of implementing a Community obligation. The importance of that case in the instant application lies in their observations relating to section 2(2)(b). It is important to recall that they overruled the deputy judge who had held the Regulations *ultra vires* because the transitional provisions were not necessary for implementation. They were, as he ruled, permitted but not required.

54. The context of section 2 was identified by Waller LJ as being a context in which the United Kingdom had agreed to make Community legislation part of its laws (see paragraph 39). Jacob LJ said the meaning of the words in section 2(2)(b) depended on what he called their overall context. Both Waller LJ and May LJ explained the effect of the importance of context. Waller LJ said (C39):

"It seems to me that section 2(2)(b), from its position in section 2, from the fact that it adds something to both subsection (1) and (2) and from its very wording, is a subsection to enable further measures to be taken which naturally arise from or closely relate to the primary purpose being achieved. I accept that I will be accused of adding the words 'naturally' and 'closely' but I believe that describes the context which provides the meaning of the words."

55. May LJ said:

"There is a distinction between providing something which, although it is a choice, is a choice which the implementation of the Directive requires you to make and one which is not so required but which has the effect of tidying things up or making closely-related original choices which the Directive does not necessarily require." (Paragraph 47).

56. Jacob LJ referred, as I said, to the overall context and said that:

"One cannot put a gloss on the meaning" (Paragraph 80).

57. It is important to note that, prior to the decision in *Oakley*, Lord Johnston, in *Addison v Denholm Ship Management (UK) Limited* [1997] ICR 770, in the Employment Appeal Tribunal in Scotland did

not construe section 2(2)(b) so as to have a meaning which was wider or had greater implications than the parent allowed. Thus it could not be used to widen the benefit afforded by the Community legislation which had been implemented.

58. The Court of Appeal in *Oakley* ruled that was wrong. The rejection of Lord Johnston's judgment has importance when I come to consider the doubts expressed by commentators as to the *vires* of the Regulation. The rejection also establishes two important propositions which were not in dispute. Firstly, the mere fact that secondary legislation goes further than the Directive it is designed to implement does not necessarily mean that that secondary legislation is *ultra vires*. Secondly, the mere fact that the extension is a result of an independent domestic policy decision does not necessarily mean that the legislation is *ultra vires*. [Emphasis added]

59. I draw particular attention to the reference by May LJ to choice. As he explains, a Directive may permit a Member State to choose how to implement its provisions into domestic law. The exercise of that choice would be an exercise by virtue of s 2(2)(a) since it will be the exercise of a choice designed to further the purpose of the Directive. Section 2(2)(b) adds something to s 2(2)(a) as Jacob LJ observed (at para 76). It permits what May LJ described as an original choice, that is a choice which is not designed to further the purpose of the Directive, although of course it would be unlawful were it to be inconsistent or detrimental to that purpose. [Emphasis added] (See also that distinction made by Waller LJ in *R (on the application of Parker) v Bradford Crown Court* [2006] EWHC 3213 (Admin), [2007] RTR 369)."

15. These principles were applied by Floyd J (as he then was) in *ITV Broadcasting v TV Catchup Ltd* [2011] EWHC 1874 (Pat). There, the defendant (for whom I acted) challenged the *vires* of regulations which had been made under section 2(2) amending the CPDA 1988. Article 3(1) of Directive 2001/29 required Member States to introduce a right to authorise a communication to the public by wire or wireless means for owners of copyright in 'works', i.e. literary and artistic works under the Berne Convention. The Directive contained no provision requiring Member States to confer such a wide ranging right on other subject matter such as broadcasts, although Article 3(2) required that that subject

matter be given a more limited “making available” (or “on demand”) right.

16. However, the UK’s regulations which were made to implement Directive 2001/29 amended section 20 CDPA 1988 so as to confer a broad “communication to the public” right not only on Berne Convention copyright works but also on broadcasts and other subject matter. In this respect, the UK regulations clearly went beyond the requirements of the Directive. The defendant challenged the validity of using powers under section 2(2) of the 1972 Act to confer this “communication to the public” right on broadcasters. However the Secretary of State argued that this change was “related to” the change which the Directive required to be made to the rights of copyright owners in works, because it was desirable to keep the law consistent as it applied to the different classes of subject matter (Berne works, broadcasts and sound recordings etc) protected by the CDPA 1988.

17. Floyd J accepted this argument and rejected the challenge to *vires* for inter alia the following reason (at 77):

“... I think that given that the Directive requires a general and technologically neutral communication to the public right for Berne works, the question naturally arises whether there should be the same or different protection for related subject matter. Once a policy decision was taken, as it clearly was, to provide for such a general right for broadcasts, it made no sense to require the amendments for the two types of subject matter to be introduced by different parliamentary mechanisms. It seems to me that this is just the kind of related original policy choice which is intended to fall within section 2(2)(b).”

18. Where an exception to copyright protection is provided for or permitted by a directive, unless the directive expressly or by implication makes

provision for related contractual matters, the regulation of contract law remains a matter for Member States. A well known example where a directive does deal with contract law is Article 8 subpara 2 of Directive 2009/24 on computer programs, which states that any contractual provisions contrary to Article 5(2) and (3) are null and void. Article 5(3), as has been explained by the ECJ in Case 406/10 *SAS Institute v World Programming Ltd* (Grand Chamber, 2 May 2012), is intended to ensure that the ideas and principles which underlie any element of a computer program are not indirectly protected by the owner of the copyright by means of a licensing agreement. Since Article 5(3) itself partially overrides the contractual terms which might otherwise have been freely entered into by the licensor and licensee of a computer program, it is logical for the Directive to protect its provisions against being collaterally undermined by a contract term. Article 8 subpara 2 of the Directive has been duly transposed into the CDPA 1988 as section 296A(1), by regulations made under the 1972 Act.

19. There is of course no difficulty in using regulations under the 1972 Act to restrict freedom of contract in cases (such as the Computer Program Directive) where such a restriction is required to be imposed by the directive. My present instructions however raise the question of whether or not the 1972 Act may be used where a directive provides for or permits an exception to copyright, but on the assumption that the directive imposes no obligation either way on a Member State whether or not to restrict freedom of contract.
20. In my view this situation is closely analogous to that considered by Floyd J in the *ITV v TV Catchup* case, and the paragraph from his judgment

which I have quoted above could equally read on to this situation. The UK authorities having made a policy decision to restrict freedom of contract in order to improve the effectiveness (as they see it) of the exception, can s. 2(2)(b) of the 1972 Act be invoked because the restriction on freedom of contract is 'related' to the exception from copyright permitted by the Directive? One can of course argue that it is not quite so closely related as the parallel provision of similar rights to works and to broadcasts which was considered in that case, and that it raises a distinct issue of interfering with a different field of law namely contract law. But in my view such an argument is unlikely to succeed.

21. Accordingly I would not advise my clients that it is worthwhile to seek to pursue a challenge on this ground, unless their instructions were to pursue every possible ground even if weak. If so, I think such an argument might just get past the initial hurdle of "permission to apply" for judicial review, but its prospects thereafter when contested *inter partes* by the Secretary of State would be poor.

2. Are the proposed subsections in conflict with Directive 2001/29?

22. The above conclusion however is based on the important assumption that Directive 2001/29 leaves Member States free to decide whether or not to restrict freedom of contract under their own laws. If, on the other hand, the Directive obliges (whether expressly or by implication) Member States not to restrict freedom of contract, then any regulations under the 1972 Act which purported to do so would be *ultra vires* for the reason explained by Moses LJ in para 59 of the *Cukurova* case which I have quoted above, namely that it would be "inconsistent or detrimental to"

the purpose of the Directive. Such regulations would not be implementing, but rather would be conflicting with, an EU obligation of the United Kingdom.

23. My instructing solicitor invites attention in particular to Article 6(4) of Directive 2001/29. For convenience I have included the text of Article 6 and the Recitals associated with Article 6(4) in the Annex to this opinion.
24. Article 6(4) was introduced into the Directive in order to deal with a possible problem under Article 6, which gives legal remedies to rights owners against the marketing of devices which circumvent technological protection measures ("TPMs"). Since such TPMs often cannot distinguish between unauthorised acts which are infringements, and unauthorised acts which are not infringements because they are permitted by an exception, it was feared that TPMs might be used to prevent users from carrying out lawful permitted acts.
25. Article 6(4) was not in the Commission's original Proposal for the Directive (COM(97) 628 final), nor in its Amended Proposal (COM(1999) 250 final) which followed consideration of the draft Directive by the European Parliament. Article 6(4) and the associated Recitals (51) and (52) were introduced in the Council's Common Position (EC) No 48/2000 of 28 September 2000. The Council's Statement of Reasons explains (at para 43) that it has adopted a different approach from that in the Commission's Amended Proposal which would have made the exceptions prevail over the legal protection of TPMs, and has broadened the definition in Article 6(3) so as to "*make it clear that Article 6(1) protects against circumvention of all technological measures designed to prevent or*

restrict acts not authorised by the rightholder, regardless of whether the person performing the circumvention is a beneficiary of one of the exceptions provided for in Article 5."

26. The Council's Reasons then go on to explain that the Council has provided safeguards for the protection of the legitimate interests of beneficiaries of exceptions by adding a new paragraph 4 to Article 6, accompanied by new explanatory recitals 51 and 52. The Reasons then summarise the provisions of the new Article 6(4), and state in particular that it *"provides that agreed contractual terms for on-demand supply of works or other subject matter will prevail over the provisions of subparagraphs 1 and 2 of Article 6(4)."* This provision also extends to two existing Community Directives in the field of copyright and/or related rights (the Rental and Related Rights Directive and the Database Directive).
27. The Commission formally responded to the Council's Common Position in its Communication 2000/1734 final. Its observations on the new Article 6(4) and new Recitals are worth setting out in full:

"Secondly, under Article 6(2), consistent with amendment 47 of the European Parliament, Member States are required to provide adequate protection against the relevant circumscribed activities. The effect of this provision is likely to give rightholders significant control over the particular activities specified in Article 6(2). The Commission can support this solution as any other approach would have carried a high risk of abuse and piracy.

As a counterbalance to such broad protection, the Council has added a new paragraph 4 to Article 6, accompanied by new interpretative recitals (51 and 52), which takes account of the rights of rightholders and the legitimate interests of all other parties concerned, notably the interests of beneficiaries of any of the exceptions or limitations, in the context of the protection provided for under Article 6(1).

Article 6(4) subparagraph 1 sets out that rightholders have to

provide the beneficiaries of the exceptions and limitations listed in that subparagraph, (Article 5(2)(a),(2)(c),(2)(d),(2)(e), (3)(a),(3)(b) or 3(e)), with the means to benefit from the exception or limitation in question either voluntarily or by way of agreements with other parties. In the absence of voluntary measures taken by rightholders, Member States are obliged to ensure that such means will exist in practice.

Article 6 (4) subparagraph 2, provides for greater protection, as far as private copying is concerned. This is in line with what the Commission had suggested in its amended proposal (under Article 5(2)(b)(bis)) and the European Parliament in its amendment 37, although not in the context of Article 6. In subparagraph 2, once again in the absence of voluntary measures taken by rightholders, Member States, may (but are not obliged to) take appropriate measures to ensure that rightholders enable beneficiaries to engage in certain specific acts of private copying covered by Article 5(2)(b). In view of the detrimental effect private copying and in particular digital private copying may have on rightholders, a reference to Article 5(5), the so-called "three-steps-test", has been added. Furthermore, the text acknowledges that any such measures do not prevent rightholders from adopting measures which limit the number of reproductions.

Article 6(4) subparagraph 4 provides that agreed contractual terms for on-demand making available of works and other subject matter will prevail over the provisions set out under this paragraph. Article 6(4) subparagraph 5 provides that this paragraph shall also apply *mutatis mutandis* to technological measures used in the context of Directives 92/100/EEC and 96/9/EC.

The Commission takes the view that the solutions found in the Council to the difficult issues posed by Article 6 and in particular its relationship to Article 5 represent remarkable progress in the effort to ensure effective and adequate protection of rightholders whilst at the same time not neglecting the legitimate interests of beneficiaries of exceptions. It can therefore support it fully."

28. After the Commission's endorsement of the Council's Common Position, the only further relevant change in the text of the Directive was the insertion of Recital (53) (in addition to Recitals 51 and 52 which had been inserted by the Council). Recital (53) explains the reasons for the inclusion of Article 6(4) subparagraph 4 on on-demand services:

“(53) The protection of technological measures should ensure a secure environment for the provision of interactive on-demand services, in such a way that members of the public may access works or other subject-matter from a place and at a time individually chosen by them. Where such services are governed by contractual arrangements, the first and second subparagraphs of Article 6(4) should not apply. Non-interactive forms of online use should remain subject to those provisions.”

29. I shall deal first with on-demand services where the argument relating to freedom of contract seems strongest. Article 6(4) subpara 4 as a matter of literal language simply excludes the application of subparas 1 and 2 when its conditions are satisfied, i.e. when as part of on-demand services, works or other subject matter “*are made available to the public on agreed contractual terms*”. The effect of this provision is to remove, in respect of on-demand services provided on agreed contractual terms, the obligation or right of a Member State under subparas 1 and 2 to require right holders to cause their TPMs to permit users to benefit from the exceptions. It clearly follows that if the agreed contractual terms confer a right to make use of a work which is narrower than an exception, then a Member State is not entitled to require the right owner to make an exception to the operation of its TPMs which extends outside the scope of the agreed contractual terms. Hence the evident purpose and direct and immediate effect of the subparagraph is to permit the TPMs to be used to police compliance with the contractual terms, even if those terms confer rights narrower than a relevant exception.
30. The question then arises of whether a Member State is allowed via an amendment to its law of contract to prevent “agreed contractual terms” being concluded in such circumstances, i.e. when they are narrower than a relevant exception. It could be said that that Member State had not

done anything which contradicts the literal wording of that subparagraph of the Directive. However, it would have deprived it of having any actual effect, because the condition precedent for its operation would be prevented from arising.

31. The obligations of Member States arising from a directive extend more broadly than merely carrying out its literal terms. Member States are also, in the words of Article 4(3) TEU, required to "*facilitate the achievement of the Union's tasks and refrain from any measure which could jeopardise the attainment of the Union's objectives.*" Thus, for a Member State to frustrate the intended operation of a paragraph in a directive by preventing a condition precedent for its operation from arising (in this case by restricting or denying the ability of right owners to make available on-demand works on agreed contractual terms) is in my view strongly arguably a breach of the obligations of a Member State.
32. The Directive's purposes as made clear by its Recitals are to harmonise national laws so as to provide a high level of protection for rights holders in order to foster the development of information society services, in particular cross-border on-demand services for the supply of or access to works and other subject matter. It is clear as a matter of common sense that rights owners will be less willing to make their material available online if by doing so they lose effective control over the use of their materials. The digital environment is inherently prone to the dangers of easy multiplication of copies or access by potentially large numbers of users if precautions are not taken. But this consideration is explicitly confirmed by the words of Recital (53) which recognises the need for a "secure environment" for the provision of on-demand services. It seems

to me that it can be said that denying the possibility of contractual control of utilisation of a work which operates hand in hand with TPMs, contravenes the purposes of this part of the Directive.

33. I note however that the words of the proposed subsections would make the provisions of a contract “unenforceable” and that this contrasts with the use of the word “void” in the existing section 296A(1) relating to computer programs which I have already referred to above. There is therefore a possible argument that a contract term could *exist* (because it is not actually “void”), so allowing Article 6(4) subpara 4 to have its intended effect. This would involve reading the words “on agreed contractual terms” within section 296ZE(9) (which transposes Article 6(4) subpara 4 into UK national law) as including contractual terms which are rendered “unenforceable” by the new subsections which are intended to be inserted into the Act.
34. Even assuming that this rather odd construction were right, or could be rendered so by appropriately framing the regulations, I do not consider that it would solve the problem of frustration of the purpose of the Directive. It would create a rather bizarre scenario in which a rights owner would be fully entitled to use his TPMs at a technical level to prevent acts falling outside the scope of the agreed contractual terms, and would be able to enforce at the legal level his rights to prevent acts of circumvention under Article 6(1) or the marketing of circumvention devices etc under Article 6(2), but would be denied the legal right to enforce the contractual restriction itself. This would at minimum undermine the security of the “secure environment” contemplated by Recital (53). I cannot see that realistically the fact that the subsections

would render the contractual restrictions “unenforceable” rather than “void” is likely to affect the question of whether or not they are compatible with the Directive.

35. In conclusion, I consider that it is strongly arguable that the Secretary of State’s proposed subsections, to the extent that they interfere with freedom of contract between providers and users in respect of on-demand services protected by TPMs, interfere with the operation of Article 6(4) subpara 4; and that accordingly in adopting such provisions, the UK would be acting contrary to its obligations under EU law. If this argument is right, it would follow that the proposed regulations cannot lawfully be made under s. 2(2) of the 1972 Act because they would, to use the words of Moses LJ quoted above at para 59, be inconsistent with or detrimental to the purposes of the Directive.
36. If the proposed regulations were to be held invalid on this ground only, a further question would arise of whether or not they are partially valid insofar as the proposed subsections operate outside that particular field. However I understand that the field of on-demand use is itself of sufficient importance to my clients to potentially justify taking action.
37. A broader question is whether the reference to “voluntary measures” in Article 6(4) subpara 1 also implies a duty on Member States to refrain from interfering with freedom of contract across a broader field. In my view this argument is not as strong as that related to paragraph 4 but is still arguable. Subpara 1 refers to “measures”, not to contracts or agreements, and so may envisage voluntary steps taken by rights owners to relax their TPMs in order to allow users to take advantage of the

specified exceptions. Such voluntary measures do not necessarily imply the acceptance of contractual obligations by users, and the second half of subpara 1 requires Member States to take measures (in default of voluntary measures) to give users the full benefit of the exceptions. In my view it is harder to argue than in the case of subpara 4 that a provision excluding the right to contract out of the full benefit of the exemptions would be inconsistent with subpara 1 looked at by itself.

38. Subpara 3 however refers to “voluntary agreements” rather than “voluntary measures”. It is not totally clear whether this is a deliberate difference in choice of words from subpara 1 or whether this is simply a drafting anomaly of the kind which riddles much EU legislation and it is intended to refer to the same concept in both places. I tend to think the difference is intentional, because subpara 3 refers to TPMs “applied voluntarily by rightholders, *including those* applied in implementation of voluntary agreements ...” Thus, TPMs can be applied either unilaterally or by virtue of a voluntary agreement so as to permit users to benefit from the exceptions. In either case, those TPMs enjoy the legal protection of Article 6: i.e. TPMs applied for the purpose of limiting users to making use of the materials for the purposes of the exceptions but which prevent them from making use of materials outside the exceptions are plainly given legal protection.
39. The key question is whether the reference to “voluntary agreements” envisages that such voluntary agreements can either curtail, or at least define with more precision, the scope of the rights enjoyed by users under the exceptions. In my view it is difficult to argue that this subpara envisages contractual agreements that would substantially curtail the

rights of users under the exceptions. However, it is much more strongly arguable that it does envisage voluntary agreements which would respect the substance of the exceptions but which more clearly define in a practical manner the precise scope of use which may be made, e.g. by setting precise quantitative limits on the amount of material that may be used or the frequency of such use.

40. I should note that it is the view of some commentators, such as Ficsor in "The Law of Copyright and the Internet" (OUP, 2002) at p561 that "the purpose of this complex regulation [i.e. Article 6(4)] is clearly to give priority to contractual agreements, and this policy seems the correct one." If therefore a contractual agreement more clearly defines the boundaries of an exception, it seems to me in accordance with the intended policy of Article 6(4) that such a contractual agreement should be given effect.
41. If this interpretation of subpara 3 is correct, there is then a clear argument that the proposed subsections would interfere with its operation because they impose a blanket ban on freedom of contract. In my view this argument is not as strong as the argument based on subpara 4 relating to on-demand services, but it is a respectable argument and worth pursuing in conjunction with an argument based on subpara 4.

3. Do the proposed subsections contravene EU single market rules on free movement?

42. There is a basic argument that denial of freedom of contract will make rights owners more reluctant to make their materials available for use via online services, and so will adversely affect cross border trade. However it is not sufficient under EU law to show that a national measure may

adversely affect trade between Member States. That will *engage* the Treaty rules on the freedom to provide services, but the Member State may argue that the national measure is not inherently discriminatory and is necessary and proportionate to pursue an important legitimate objective.

43. Here, the Secretary of State would argue that the important objective is to secure the benefit of the copyright exceptions to users. The fact that corresponding restrictions on freedom of contract do not exist under the laws of some or all other Member States is not enough by itself to justify the conclusion that the UK is acting in contravention of the general rules of the Treaty on free movement of goods or services by introducing these measures.
44. It is not clear precisely how these subsections would operate in cross border contexts. If they are construed as only relating to contracts whose proper law is the law of a part of the United Kingdom then similar cross border contracts could be differently affected depending upon which contract law applies. E.g. if a purchaser in England downloads an electronic copy of a work from a website in France, the relevant subsection might apply or not apply depending upon whether English or French law is the proper law of the contract. And it might apply to acts of a user within France if a user in France downloads from an English website and English contract law applies.
45. I tend to think that the better interpretation of these subsections is that they would apply regardless of the proper law of the contract so long as the relevant acts are within the United Kingdom. This is because they

refer to exceptions from the scope of UK copyrights which are themselves territorial in nature, and are in the nature of public policy limitations on freedom of contract. However, assuming this is right, it is not certain that these restrictions arising from the public policy of the United Kingdom would be recognised and applied by the *lex fori* if a case were brought (e.g. under the Brussels Regulation or Lugarno Convention) in another EU or EEA member state. These are difficult issues and it could be argued that the very uncertainty created by these points may have a detrimental effect on cross border trade which is not warranted by any legitimate public policy purpose.

46. In all, I consider that it is worth my clients further developing the possible general arguments of interference with the operation of the EU/EEA single market, for possible introduction into a legal challenge in conjunction with the more focussed attack based on inconsistency with Directive 2001/29 which I have considered above. The argument that these measures will deter cross border provision of services is consistent with and covers much of the same ground as the arguments relating to the purposes of Article 6(4) and in particular the purpose of subpara 4 in the light of Recital (53).
47. In this opinion I have dealt with the legal merits. If this matter proceeds further, my clients will need further advice on procedure, timing and other practical aspects of a possible legal challenge.

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Martin Howe

13 December 2013

ANNEX - Article 6 of Directive 2001/29 and Recitals 51, 52 & 53

Note that numbers have been inserted for convenience in [] at the start of each subparagraph of Article 6(4) which do not appear in the original text of the Directive.

Article 6

Obligations as to technological measures

1. Member States shall provide adequate legal protection against the circumvention of any effective technological measures, which the person concerned carries out in the knowledge, or with reasonable grounds to know, that he or she is pursuing that objective.

2. Member States shall provide adequate legal protection against the manufacture, import, distribution, sale, rental, advertisement for sale or rental, or possession for commercial purposes of devices, products or components or the provision of services which:

- (a) are promoted, advertised or marketed for the purpose of circumvention of, or
- (b) have only a limited commercially significant purpose or use other than to circumvent, or
- (c) are primarily designed, produced, adapted or performed for the purpose of enabling or facilitating the circumvention of,

any effective technological measures.

3. For the purposes of this Directive, the expression 'technological measures' means any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works or other subject matter, which are not authorised by the rightholder of any copyright or any right related to copyright as provided for by law or the sui generis right provided for in Chapter III of Directive 96/9/EC. Technological measures shall be deemed 'effective' where the use of a protected work or other subject matter is controlled by the rightholders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject-matter or a copy control mechanism, which achieves the protection objective.

4. [1] Notwithstanding the legal protection provided for in paragraph 1, in the absence of voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, Member States shall take appropriate measures to ensure that rightholders make available to the beneficiary of an exception or limitation provided for in national law in accordance with Article 5(2)(a), (2)(c), (2)(d), (2)(e), (3)(a), (3)(b) or (3)(e) the means of benefiting from that exception or limitation, to the extent necessary to benefit from that exception or limitation and where that beneficiary has legal access to the protected work or subject-matter concerned.

[2] A Member State may also take such measures in respect of a beneficiary of an exception or limitation provided for in accordance with Article 5(2)(b), unless reproduction for private use has already been made possible by rightholders to the extent necessary to benefit from the exception or limitation concerned and in accordance with the provisions of Article 5(2)(b) and (5), without preventing rightholders from adopting adequate measures regarding the number of reproductions in accordance with these provisions.

[3] The technological measures applied voluntarily by rightholders, including those applied in implementation of voluntary agreements, and technological measures applied in implementation of the measures taken by Member States, shall enjoy the legal protection provided for in paragraph 1.

[4] The provisions of the first and second subparagraphs shall not apply to works or other subject-matter made available to the public on agreed contractual terms in such a way that members of the public may access them from a place and at a time individually chosen by them.

[5] When this Article is applied in the context of Directives 92/100/EEC and 96/9/EC, this paragraph shall apply *mutatis mutandis*.

The following Recitals 51, 52 and 53 from the preamble to the Directive relate to Article 6(4). Recitals 47, 48, 49 and 50 relate to the earlier parts of Article 6 or more generally to Article 6 as a whole and are not included here.

(51) The legal protection of technological measures applies without prejudice to public policy, as reflected in Article 5, or public security. Member States should promote voluntary measures taken by rightholders, including the conclusion and implementation of

agreements between rightholders and other parties concerned, to accommodate achieving the objectives of certain exceptions or limitations provided for in national law in accordance with this Directive. In the absence of such voluntary measures or agreements within a reasonable period of time, Member States should take appropriate measures to ensure that rightholders provide beneficiaries of such exceptions or limitations with appropriate means of benefiting from them, by modifying an implemented technological measure or by other means. However, in order to prevent abuse of such measures taken by rightholders, including within the framework of agreements, or taken by a Member State, any technological measures applied in implementation of such measures should enjoy legal protection.

(52) When implementing an exception or limitation for private copying in accordance with Article 5(2)(b), Member States should likewise promote the use of voluntary measures to accommodate achieving the objectives of such exception or limitation. If, within a reasonable period of time, no such voluntary measures to make reproduction for private use possible have been taken, Member States may take measures to enable beneficiaries of the exception or limitation concerned to benefit from it. Voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, as well as measures taken by Member States, do not prevent rightholders from using technological measures which are consistent with the exceptions or limitations on private copying in national law in accordance with Article 5(2)(b), taking account of the condition of fair compensation under that provision and the possible differentiation between various conditions of use in accordance with Article 5(5), such as controlling the number of reproductions. In order to prevent abuse of such measures, any technological measures applied in their implementation should enjoy legal protection.

(53) The protection of technological measures should ensure a secure environment for the provision of interactive on-demand services, in such a way that members of the public may access works or other subject-matter from a place and at a time individually chosen by them. Where such services are governed by contractual arrangements, the first and second subparagraphs of Article 6(4) should not apply. Non-interactive forms of online use should remain subject to those provisions.

STM v.
Secretary of State for Business,
Innovation and Skills

OPINION
of
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