Alternative Compensation Models for Large-Scale Non-Commercial Online Uses

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Thursday, 18 June 2015: LEGAL MODELS TO ASSURE REMUNERATION FOR USE
Session 2: Considerations de lege ferenda
Panel 3: Remuneration based on the national budget (examples: Spanish and Israeli private copy system)
or alternative models: potential for development?

1 Introduction
This panel has so far discussed the private copying systems in Spain and Israel (based on the national budget), as well as the private copying system in Japan, as legal models that assure remuneration for use. De lege ferenda, this presentation will briefly discuss an alternative legal model to assure remuneration for non-commercial mass online uses by individuals, covered by the exclusive rights of reproduction and communication/making available to the public in Directive 2001/29/EC. In doing so, it will report on the results of an ongoing interdisciplinary research project on such alternative compensation systems (“ACS”).

ACS intersect with the previously discussed models not only because they are often designed as an extension of the private copying system, but also as some proposals rely on remuneration based on the national budget. The study of ACS has both normative and empirical justifications. Currently, a significant number of individuals’ online uses are restricted by copyright. Enforcement of these uses is either impossible (de facto or due to high transaction costs) or undesirable, as it might clash with fundamental rights: of individuals, such as freedom of expression and information online, privacy and protection of personal data; of online service providers, in what concerns freedom to conduct a business. Criminalization and strict enforcement alienate end-users – with file-sharers being among the best clients of the content industries – and diminish the respect for, and legitimacy of, copyright law. Furthermore, emerging online legal channels, like streaming platforms, are increasingly criticized by rights holders for their failure to provide adequate remuneration.¹

2 Alternative compensation systems
Simply put, ACS are legal mechanisms that forsake the need for direct authorization of end-user acts under the aforementioned rights – downloading, uploading, sharing, modifying –, while simultaneously ensuring compensation to creators (i.e. authors and performers) or all rights rights

¹ For a list of scholarly literature on ACS, see IViR Home/Research/Copyright in an Age of Access: Alternatives to Copyright Enforcement, http://www.ivir.nl/onderzoek/acs and ACS Literature, http://acs-companion.tumblr.com/lit. On criticism to emerging online business models, see (Vallbé, Balazs, Handke, & Quintais, 2015, pp. 1–2, 18) with further references.
holders of works included in the scheme. These mostly copyright-internal models entail a loss or severe restriction to exclusivity and/or exercise of rights, but offer the assurance of remuneration. The previously unauthorized use becomes “permitted-but-paid”.

Since the early 2000’s legal and economics scholars, advocacy groups and political parties have come forward with ACS proposals under different labels: tax-and-royalty systems, *license globale*, content/culture flat-rate, creative contribution, file-sharing or broadband levies, sharing license, or alternative reward systems. ACS-type legislative proposals have been presented in the national parliaments of Portugal, France, Germany, Belgium and Italy; recently, a proposal to regulate online uses through a “radio” model was advanced by the Dutch consumer association.

In the EU copyright field, recent interest in these models can be tied to judicial and institutional developments related to digital private copying. At the judicial level, two recent cases on private copying – *ACI Adam* and *Copydan* – raised the need to reconsider the private copying system in the digital environment, beyond a rekindling of the debate on phasing out levies. Both cases provide a restrictive interpretation of the limitation that fails to reach a fair balance of competing interests and may have negative effects from the perspective of the Internal Market.

In *ACI Adam*, the Court excluded copies from *unlawful sources* (e.g. downloading films from unauthorized websites) from the scope of the private copying limitation, thereby causing a significant number of end-user acts to be qualified as infringing, and simultaneously disallowing a type of private copying for which there was a strong economic case. In *Copydan*, the Court’s ruling on the *use of third party devices for copying* – which it considered to be outside the scope of the Directive – may have implications for the legal status of Cloud services that provide technical means for users to make or request their own copies, such as virtual storage spaces and online ‘personal video recorders’ for audiovisual works.

At the institutional level, it is important to recognize the Commission’s efforts to update and reform the private copying system, as well as those of the EU Parliament. The latter, which in 2011 commissioned a study on content flat-rates, passed in 2014 a Resolution recommending the examination of the possibility to levy Cloud services, a scenario which would approximate

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2 On the notion of “permitted-but-paid”, see (Ginsburg, 2014). There is significant research on schemes external to copyright but with similar effects, such as (Aigrain, 2008, 2012; La Quadrature du Net & Aigrain, 2013). For the sake of simplicity, “ACS” is adopted here as an umbrella term to refer also to those proposals.


6 For a detailed analysis of *ACI Adam*, see (Quintais, 2015b). For a case note on *Copydan*, see (Quintais, 2015a) noting that Member states’ laws already qualify copies made by third parties differently; furthermore, the identification of the copier in the context of PVR services has been subject to contrasting decisions in France and Germany. Cf. (Depreeuw & Hubin, 2014, pp. 53–54).

private copying to an ACS for certain digital reproductions. Indeed, an early version of the draft resolution mentioned the need “to examine the possibility of legalizing works sharing for non-commercial purposes so as to guarantee consumers access to a wide variety of content and real choice in terms of cultural diversity”. In other words, it posited the need to examine the viability and feasibility of ACS.

3 Legal models and challenges

ACS can be implemented through different voluntary or compulsory legal models imposing varying degrees of restriction on the nature or exercise of exclusive rights. Among the most relevant discussed in scholarship are voluntary collective licensing, extended collective licensing, mandatory collective management, legal (compulsory or statutory) licenses, and state-run remuneration, compensation or reward systems.

These models are either offered as stand-alone solutions to regulate the uses in question or combined in myriad ways, such as to regulate different rights involved in mass uses. A common configuration is the extension of the private copying limitation to all acts of reproduction (irrespective of lawfulness of source) and the application of obligatory or extended collective licensing to the making available right.

From the legal standpoint, there is debate as to whether imposed forms of collective management – including ‘compulsory’ extended collective licenses (i.e. without opt-out) – go beyond a restriction on the options of the exercise of the right and affect a change on its exclusive nature, translating into a (compensated) copyright limitation. The consequence is that, for the type of blanket license desired to implement an ACS, a model which does not qualify as an exception or limitation is not subject to the three-step test, but rather to the arguably less stringent requirements attached to collective right management. In addition, imposed collective management is better suited to address (substantive and territorial) fragmentation and participation problems typically attached to voluntary collective licensing.

4 The IViR research project

Since 2012 the IViR is conducting an interdisciplinary research project on the legal and socio-economic feasibility of ACS. The empirical research was based on two surveys conducted in November 2013 with a panel constituted by a representative sample of the Dutch population, aged 16+, including those with and without Internet.

The first survey regarded individual media consumption habits for three types of content – music, audiovisual and books – in relation to different online and offline (lawful and unlawful) channels. In the second survey we conducted a discrete choice experiment, defining the ACS payment mechanism as a surcharge on the Internet subscription fee of households, and the functioning of the system under statutory regulation. In simple terms, different types of ACS were defined through a combination of attributes abstracted from legal analysis of existing

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8 On the study referred see (Modot et al., 2011). See also EP Resolution Levies 2014 (2013/2114(INI)), adopted 11.2.2014 and, for the report preceding it, the Castex Report, (2013/2114(INI)), 17.2.2014, para 30. The topic has been picked up by some scholars, but only tentatively. See, e.g., (Quintais, 2015b; Senftleben, 2010).

9 See Castex Report, para. 27. The suggestion was dropped in the final version of the document.

10 Generally identifying these models, see, e.g. (Bernault & Lebois, 2005; Colin, 2011; Dusollier & Colin, 2011; von Lewinski, 2005)

11 Representative examples of this debate can be found in (Geiger, 2007, 2014a, 2014b; Mihály Ficsor, 2010; von Lewinski, 2004, 2005). For the ALAI’s position, see (ALAI, 2006). Specific discussions on the legal nature of extended collective licensing can be found in (Riis & Jens Schovsbo, 2010; Rydning, 2010).

12 For additional information on the project, see supra note 1.
proposals: *allowed uses* (downloading, sharing and modification), *subject matter* (music, audiovisual, and books), *catalogue completeness* (complete, partial, temporal restrictions), *monitoring* (anonymous or no monitoring), *distribution of revenues* (freedom of contract or minimum 50% for creators) and *price* (six 5-euro price points from €5 to €30).\(^{13}\)

As this panel focuses on legal license models, it is appropriate to report the results of research as they apply to mandatory ACS on the rights holders side and user-side, which would translate into a remunerated legal license to the rights of reproduction and communication/making available to the public.

In a *first paper* we used the results of our research to examine whether an ACS for recorded music would be welfare increasing. Our main findings were the following.\(^{14}\)

- A well-designed ACS for recorded music makes users and rights holders better off, increasing their total welfare compared to the status quo even when the results are corrected for overestimation, in the best case scenario by about €600 million.
- A €1.74 surcharge on ISP subscription for all households with Internet connection would equal the entire revenues in the Dutch *physical and digital* market for recorded music in 2012, including all conventional purchases of recorded music of approximately €144 million.\(^{15}\)
- Users’ willingness to pay ("**WTP**") is €9.25 for a mandatory ACS, despite low-risk associated with private copying from unlawful sources (as the survey preceded *ACI Adam*) and widespread availability and use of online music subscription platforms.
- Results were calculated on the basis of a 100% substitution effect of the net revenues of rights holders identified above. Even if the measured €9.25 price point overestimates WTP by a factor of 3, the proposed ACS would improve the current revenues of the recorded music industry in the Dutch market.
- The calculations made assumed that an ACS would substitute all physical and digital purchases as well as all streaming revenues of the recorded industry in the Dutch market. In practice, the assumption is unrealistic. Therefore, the results presented are likely to underestimate the possible welfare gains of such a system.
- For *rights holders* in general, there will be economic advantages of monetizing previously unenforced and uncompensated uses, as well as savings in copyright enforcement. For *authors*, a mandatory claim of fair compensation (e.g. 50% of collected sums) would prove a substantial improvement over the status quo.

In a *second paper* we studied whether the idea of an ACS enjoys public support in the Netherlands and attempted to identify how that support is structured. Our main findings were the following.\(^{16}\)

- Five significant groups of consumers were identified in the data through cluster analysis: *non-consumers, bookworms, occasional consumers, digital consumers, and pirates.*
- Nearly half (49%) of Dutch consumers do not use digital access channels to consume music, audiovisual content and books. This is mostly due to hold-out groups, characterized by older

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\(^{13}\) For a more detailed explanation of the methodology, see (Handke, Balazs, & Vallbé, 2015; Vallbé et al., 2015)

\(^{14}\) See (Handke et al., 2015).

\(^{15}\) *Revenues* are calculated resorting to industry statistics, such as (IFPI, 2013) which estimates rights holders revenues in the Dutch recorded music market at €143.6 million. The focus is on revenues rather than profits, due to the lack of reliable information on *costs*. Data on private copying levies collected in the Netherlands for recorded were taken from (WIPO/World Intellectual Property Organization, 2013). The results assume not only the unlikely scenario that an ACS substitute all current sales of recorded music (perfect substitution) and provide no cost-savings. See (Handke et al., 2015).

\(^{16}\) See (Vallbé et al., 2015).
less educated people that do not consume culture (non-consumers, 29%) and older educated people who prefer print (but not e-) books (bookworms, 20%).

- Age is the dividing line for digital uses. Younger generations show “promiscuous” consumption patterns that include use of free/paid and legal/illegal channels. They can be divided into the following clusters: occasional consumers (28.88%), digital consumers (6.36%), and pirates (16.02%).

- Occasional consumers are infrequent and low intensity digital consumers, mostly focused on free sampling (complemented by purchase of physical copies).

- Digital consumers and pirates account for a disproportionate large share of the overall cultural consumption, and it is almost impossible to separate pirates from digital consumers. Indeed, pirates are a subset of digital consumers.

- There is substantial consumer support for ACS, especially among those already using legal access channels, namely pirates and digital consumers, but also occasional consumers. In fact, increased usage of legal channels indicates increased inclination to support ACS, and higher WTP.

- The likely reason is discontent with the status quo. Possible sources of discontent are linked to the insufficiencies of current offers in what concerns allowed uses/user rights and subject matter/types of content. In a nutshell, users want to be able to do more than download or stream music (established as the baseline model); they desire the freedom to share (make available) that extends to additional content, offered to them by piratical channels.

5 Concluding remarks

Enforcement alone is not a solution to digital piracy or to regulate unauthorized uses by consumers. The emerging streaming model as a prevailing legal access channel is proving inadequate to compensate creators and other rights holders. ACS provide a different option to regulate and remunerate large-scale non-commercial uses through legal models that are internal to copyright and familiar to the European legal culture and tradition.

A mandatory ACS can be implemented through a legal license for online acts of reproduction and communication/making available by individuals for non-commercial uses, combined with imposed collective management. Such a system could be based on a compensated limitation for these uses, which would require articulation with existing compensated and uncompensated limitations in the Directive (temporary and transient copy, private copy, quotation, incidental inclusion, parody) and duly take into consideration de minimis uses. It would also require regulation of the relationship with the legal protection of technological measures (art. 6 Directive). The resulting fair compensation ought to require a mandatory and inalienable claim for creators, which would not only better align the system with the aims of copyright but also constitute a marked improvement over the status quo. Naturally, where a ACS relies on a compensated limitation, it must pass the three-step test, for which purpose the recognition of a non-economic motivation is key (here: freedom of expression and information, privacy and personal data, freedom to conduct a business for certain intermediaries) but also a careful delimitation of scope which does not pose a conflict with the normal exploitation of works. To meet the conditions of the test, it is likely that a liberal interpretation of the same would have to be followed.17

The IViR research project provides interesting empirical research that may inform the political debate on this type of copyright reform, but also quantitative elements necessary for legal

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17 Along the lines suggested by (Geiger, Gervais, & Senfleben, 2014; Geiger, Hilty, & Griffiths, 2008; Geiger & Schönherr, 2014; Senfleben, 2014).
analysis, namely in the definition of normal exploitation, adequate compensation and measurement of competing legitimate interests to be balanced in a proportionate manner. Chief among the findings are the willingness of users to pay for and participate in an ACS, its quantification and, using the case-study of recorded music, the realization that such a model by far and large holds the promise of being welfare increasing. It also illuminates the significant amount of remuneration rights holders and especially creators – due to their weakened bargaining position – have left on the ‘virtual’ table. In other words, the *price of exclusivity*.

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