European Court of Justice, 20 January 1981, Membran & K-Tel v GEMA

COPYRIGHT – EXHAUSTION

Free movement of goods

- **Also applies to sound recordings**

It should first be emphasized that sound recordings, even if incorporating protected musical works, are products to which the system of free movement of goods provided for by the treaty applies.

- **No exeption for copyright**

It is true that copyright comprises moral rights of the kind indicated by the french government. However, it also comprises other rights, notably the right to exploit commercially the marketing of the protected work, particularly in the form of licences granted in return for payment of royalties. It is this economic aspect of copyright which is the subject of the question submitted by the national court and, in this regard, in the application of article 36 of the treaty there is no reason to make a distinction between copyright and other industrial and commercial property rights.

Exhaustion

- **Neither the copyright owner or his licensee, nor a copyright management society acting in the owner's or licensee's name, may rely on the exclusive exploitation right conferred by copyright to prevent or restrict the importation of sound recordings which have been lawfully marketed in another member state by the owner himself or with his consent.**

Exhaustion of copyright

Disparities which continue to exist in the absence of any harmonization of national rules on the commercial ex-ploitation of copyrights may not be used to impede the free movement of goods in the common market.

Articles 30 and 36 of the treaty must be interpreted as precluding the application of national legislation under which a copyright management society empowered to exercise the copyrights of composers of musical works reproduced on gramophone records or other sound recordings in another member state is permitted to invoke those rights where those sound recordings are distributed on the national market after having been put into circulation in that other member state by or with the consent of the owners of those copyrights, in order to claim the payment of a fee equal to the royalties ordinarly paid for marketing on the national market less the lower royalties paid in the member state of manufacture.

Source: **Eur-Lex**

European Court of Justice, 20 January 1981, Membran & K-Tel v GEMA

(Mertens de Wilmars, Pescatore, Mackenzie Stuart, Koopmans, O' Keeffe, Bosco, Touffait)

Parties

In joined cases 55 and 57/80

Reference to the court under article 177 of the eec treaty by the bundesgerichtshof (federal court of justice) for a preliminary ruling in the actions pending before that court between

Musik-vertrieb Membran GmbH , Hamburg (case 55/80),

K-tel international , frankfurt (case 57/80)

And

GEMA - gesellschaft fur musikalische auffuhrungs- und mechanische vervielfaltigungsrechte (a german copyright management society), berlin ,

Subject of the case

On the interpretation of article 30 et seq . Of the eec treaty ,

Grounds

1 By two orders dated 19 december 1979 , which were received at the court on 13 february 1980 , the bundesgerichtshof (federal court of justice) referred to the court for a preliminary ruling under article 177 of the eec treaty a question on the interpretation of article 30 et seq. of the treaty .

2 That question has been raised in the context of two disputes between GEMA, a german copyright management society, and two undertakings which imported into the federal republic of germany sound recordings of protected musical works. In case 55/80 the imports consisted of gramophone records and musical tape cassettes from various countries, including other member states of the community and in case 57/80 the importation consisted of a consignment of 100 000 gramophone records from the united kingdom. It is common ground that the sound recordings from other member states had been manufactured and marketed in those member states with the consent of the owner of the copyright in the musical works concerned, and that the requisite licences had been granted by those owners and the appropriate royalties had been calculated only on the basis of distribution in the country of manufacture.

3 GEMA contends that the importation of those sound recordings into german territory constitutes an infringement of the copyrights which it is responsible for protecting in the name of the owners of those rights. As

a result it considers that it is entitled to claim payment of the royalties payable on sound recordings put into circulation on german territory less the amount of the lower royalties already paid in respect of distribution in the member state of manufacture.

4 The bundesgerichtshof has stated that under german law the fact that the composers involved consented to their musical works 'being reproduced in another member state of the community and put into circulation on the territory of that member state in return for a royalty calculated according to the number of copies sold and the retail selling price in that member state does not prevent them from claiming, pursuant to the exclusive exploitation right which they hold on the german market when sound recordings are distributed on that market, the royalties ordinarily paid on that market, which are calculated according to the number of copies sold and the retail selling price prevailing on the domestic market, less the royalties already paid in respect of distribution in the member state of manufacture.

5 However, the national court questions whether such an exercise of copyright is compatible with the provisions of the treaty relating to the free movement of goods. It has brought the matter before the court in order to clarify this point.

6 From the papers placed before the court it seems that in the two disputes before the german courts GEMA based its case on article 97 of the german law on copyright (urheberrechtsgesetz), a provision setting forth the various remedies which are available to an author should his copyright be infringed and which include actions requiring the person infringing the copyright to put an end to the infringement, to desist therefrom and to pay damages.

7 In those circumstances the question submitted by the national court is in effect whether articles 30 and 36 of the treaty must be interpreted as precluding the application of national legislation under which a copyright management society empowered to exercise the copyrights of composers of musical works reproduced on gramophone records or other sound recording in another member state is permitted to invoke those rights where such sound recordings are distributed on the national market after having been put into circulation in the member state of manufacturer by or with the consent of the owners of those copyrights in order to claim payment of a fee equal to the royalties ordinarily paid for marketing on the national market less the lower royalties paid in the member state of manufacture for marketing in that member state alone.

8 It should first be emphasized that sound recordings, even if incorporating protected musical works, are products to which the system of free movement of goods provided for by the treaty applies. It follows that national legislation whose application results in obstructing trade in sound recordings between member states must be regarded as a measure having an effect equivalent to a quantitative restriction within the meaning of article 30 of the treaty. That is the case where such legislation permits a copyright management society to object to the distribution of sound recordings originating in another member state on the basis of the exclusive exploitation right which it exercises in the name of the copyright owner.

9 However, article 36 of the treaty provides that the provisions of article 30 to 34 shall not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property . The latter expression includes the protection conferred by copyright, especially when exploited commercially in the form of licences capable of affecting distribution in the various member states of goods incorporating the protected literary or artistic work.

10 It is apparent from the well-established case-law of the court and most recently from the judgment of 22 june 1976 in **case 119/75 terrapin overseas ltd. (1976) ecr 1039** that the proprietor of an industrial or commercial property right protected by the law of a member state cannot rely on that law to prevent the importation of a product which has been lawfully marketed in another member state by the proprietor himself or with his consent.

11 In the proceedings before the court the french government has argued that that case-law cannot be applied to copyright, which comprises inter alia the right of an author to claim authorship of the work and to object to any distortion, mutilation or other alteration thereof , or any other action in relation to the said work which would be prejudicial to his honour or reputation. It is contended that , in thus conferring extended protection, copyright is not comparable to other industrial and commercial property rights such as patents or trademarks.

12 It is true that copyright comprises moral rights of the kind indicated by the french government. However, it also comprises other rights, notably the right to exploit commercially the marketing of the protected work, particularly in the form of licences granted in return for payment of royalties. It is this economic aspect of copyright which is the subject of the question submitted by the national court and, in this regard, in the application of article 36 of the treaty there is no reason to make a distinction between copyright and other industrial and commercial property rights.

13 While the commercial exploitation of copyright is a source of remuneration for the owner it also constitutes a form of control on marketing exercisable by the owner , the copyright management societies acting in his name and the grantees of licences. From this point of view commercial exploitation of copyright raises the same issues as that of any other industrial or commercial property right.

14 The argument put to the court by the belgian and italian governments that in the absence of harmonization in this sector the principle of the territoriality of copyright laws always prevails over the principle of freedom of movement of goods within the common market cannot be accepted. Indeed, the essential purpose of the treaty, which is to unite national markets into a single market, could not be attained if, under the various legal systems of the member states, nationals of those member states were able to partition the market

and bring about arbitrary discrimination or disguised restrictions on trade between member states.

15 It follows from the foregoing considerations that neither the copyright owner or his licensee, nor a copyright management society acting in the owner's or licensee's name, may rely on the exclusive exploitation right conferred by copyright to prevent or restrict the importation of sound recordings which have been lawfully marketed in another member state by the owner himself or with his consent.

16 GEMA has argued that such an interpretation of articles 30 and 36 of the treaty is not sufficient to resolve the problem facing the national court since GEMA's application to the german courts is not for the prohibition or restriction of the marketing of the gramophone records and tape cassettes in question on german territory but for equality in the royalities paid for any distribution of those sound recordings on the german market. The owner of a copyright in a recorded musical work has a legitimate interest in receiving and retaining the benefit of his intellectual or artistic effort regardless of the degree to which his work is distributed and consequently it is maintained that he should not lose the right to claim royalties equal to those paid in the country in which the recorded work is marketed.

17 It should first be observed that the question put by the national court is concerned with the legal consequences of infringement of copyright. GEMA seeks damages for that infringement pursuant to the applicable national legislation and it is immaterial whether the quantum of damages which it seeks is calculated according to the difference between the rate of royalty payable on distribution in the national market and the rate of royalty paid in the country of manufacture or in any other manner . On any view its claims are in fact founded on the copyright owner's exclusive right of exploitation, which enables him to prohibit or restrict the free movement of the products incorporating the protected musical work.

18 It should be observed next that no provision of national legislation may permit an undertaking which is responsible for the management of copyrights and has a monopoly on the territory of a member state by virtue of that management to charge a levy on products imported from another member state where they were put into circulation by or with the consent of the copyright owner and thereby cause the common market to be partitioned. Such a practice would amount to allowing a private undertaking to impose a charge on the importation of sound recordings which are already in free circulation in the common market on account of their crossing a frontier; it would therefore have the effect of entrenching the isolation of national markets which the treaty seeks to abolish.

19 It follows from those considerations that this argument must be rejected as being incompatible with the operation of the common market and with the aims of the treaty.

20 GEMA and the belgian government have represented to the court that, in any event, a system of free movement of sound recordings may not be permitted as regards sound recordings manufactured in the united kingdom because the provisions of section 8 of the united kingdom copyright act 1956 have the effect of instituting a statutory licence in return for payment of a royalty at a reduced rate and the extension of such a statutory licence to other countries is contrary to the provisions of the berne convention for the protection of literary and artistic works.

21 Section 8 of the copyright act provides in effect that the copyright of a composer of a musical work is not infringed by the manufacture of a sound recording of that work if the work has already been reproduced in the united kingdom on a sound recording for the purpose of retail sale by the author himself or with his consent and if, in addition, the manufacturer notifies the copyright owner of his intention to make a recording of the work for the purpose of sale and pays him a royalty of 625% of the retail selling price of the sound recording.

22 It appears from the papers before the court that the practical result of that system is that the royalty for any manufacture of a sound recording is established at 625% of the retail selling price since no prospective licensee is willing to agree to a higher rate. As the rate of 625% is thus the rate which is in fact agreed for contractual licences, the United Kingdom legislation has the effect of putting a ceiling on the remuneration of the copyright holder.

23 Where, therefore, a copyright management society exercising an exclusive right of exploitation in the name of an owner claims the difference between the rate of 625% already paid and that charged on its domestic market, it is in fact seeking to neutralize the price differences arising from the conditions existing in the united kingdom and thereby eliminate the economic advantage accruing to the importers of the sound recordings from the establishment of the common market.

24 As the court held in another context in its **judgment of 31 october 1974 in case 15/74 centrafarm bv and adriaan de peijper v sterling drug inc. (1974) ecr 1147**, the existence of a disparity between national laws which is capable of distorting competition between member states cannot justify a member state's giving legal protection to practices of a private body which are incompatible with the rules concerning free movement of goods.

25 It should further be observed that in a common market distinguished by free movement of goods and freedom to provide services an author, acting directly or through his publisher, is free to choose the place, in any of the member states, in which to put his work into circulation. He may make that choice according to his best interests, which involve not only the level of remuneration provided in the member state in question but other factors such as, for example, the opportunities for distributing his work and the marketing facilities which are further enhanced by virtue of the free movement of goods within the community. In those circumstances, a copyright management society may not be permitted to claim, on the importation of sound

recordings into another member state, payment of additional fees based on the difference in the rates of remuneration existing in the various member states.

26 It follows from the foregoing considerations that the disparities which continue to exist in the absence of any harmonization of national rules on the commercial exploitation of copyrights may not be used to impede the free movement of goods in the common market.

27 The answer to the question put by the bundesgerichtshof should therefore be that articles 30 and 36 of the treaty must be interpreted as precluding the application of national legislation under which a copyright management society empowered to exercise the copyrights of composers of musical work reproduced on gramophone records or other sound recordings in another member state is permitted to invoke those rights where those sound recordings are distributed on the national market after having been put into circulation in that other member state by or with the consent of the owners of those copyrights , in order to claim payment of a fee equal to the royalties ordinarly paid for marketing on the national market less the lower royalties paid in the member state of manufacture.

Decision on costs

The costs incurred by the belgian government, the government of the italian republic, the government of the french republic and the commission of the european communities, which have submitted observations to the court, are not recoverable. As these proceedings are, in so far as the parties to the main actions are concerned, in the nature of a step in the actions pending before the national court, the decision on costs is a matter for that court.

Operative part

On those grounds ,

The court ,

In answer to the question submitted to it by the bundesgerichtshof by two orders of 19 december 197 , hereby rules:

Articles 30 and 36 of the treaty must be interpreted as precluding the application of national legislation under which a copyright management society empowered to exercise the copyrights of composers of musical works reproduced on gramophone records or other sound recordings in another member state is permitted to invoke those rights where those sound recordings are distributed on the national market after having been put into circulation in that other member state by or with the consent of the owners of those copyrights, in order to claim the payment of a fee equal to the royalties ordinarly paid for marketing on the national market less the lower royalties paid in the member state of manufacture.