OPINION OF MR ADVOCATE GENERAL MANCINI
delivered on 26 January 1988 *

Mr President,
Members of the Court,

1. The Østre Landsret, Copenhagen, has referred a question to this Court concerning the compatibility with Community law of Danish legislative provisions which confer on the owner of the copyright in a film the right to prohibit the hiring-out of cassettes of that film despite having consented to their sale.

The Court is thus called upon for the second time to ascertain the limits which, within the Common Market, may be set on the free movement of video-cassettes. In the first dispute (Joined Cases 60 and 61/84 *Cinéthèque* v *Fédération nationale des cinémas français*) the matter at issue was the prohibition imposed on French producers and distributors, restraining them from selling or hiring out cassettes — including those originating in France itself — while the film was being shown in French cinemas. As the Court will recall, it held (judgment of 11 July 1985 [1985] ECR 2605, at paragraph 22) that '... the application of such a system may create barriers to intra-Community trade in video-cassettes because of the disparities between the systems operated in the different Member States and between the conditions for the release of cinematographic works in the cinemas of those States'.

None the less, the Court considered the prohibition to be compatible with Community provisions because it was dictated solely by the need to protect the economic interests of an industry, namely the cinematographic industry, which is also an important producer of culture. Moreover, adopting a distinction already drawn in the first *Coditel* judgment of 18 March 1980 in Case 62/79 ([1980] ECR 881), the Court held that films 'belong to the class of artistic works which may be transmitted to the public either directly by showing the film on television or in cinemas, or indirectly by means of recordings such as video-cassettes. In the latter case the transmission to the public merges with the putting of the works on the market' (paragraph 9).

The problem raised in the present case is different. The obstacle to the free movement of the cassettes imposed by the national legislation is situated not at the beginning but at the end of the process of showing the film, because, as will be seen more clearly below, the prohibition on hiring-out relates to film recordings which have already been shown in cinemas for some time. In this case, therefore, it is not a question of tempering the principle laid down in Article 30 of the EEC Treaty — and hence the rights of whoever imports cassettes — with the protection of a public interest such as the safeguarding of the cinematographic industry; rather, the Court will need to ascertain the extent to which the importer's claim to the unrestricted use of the cassette which he has purchased in the Common

* Translated from the Italian.

Market must yield to the opposing claim on the part of the copyright owner, namely to make the hiring-out of the recording subject to his consent.

2. It is generally known that, owing to technological advances in the recording and reproduction of sound and images on tape, the market for video-cassettes has been developing continously for many years. It should also be said that, for reasons of convenience which are self-evident, the average consumer purchases cassettes only in special cases (educational and children's films, pornographic films, musical comedies, operas and cinema classics) and usually he tends to hire them. It is, however, the film companies which decide in each case where and how — whether by sale or by hire — the film is to be marketed, once it has completed its run in the cinemas.

In the light of those factors it is natural that the owner of a film and those entitled under him should have an interest in defining the sale and the hiring-out of the cassettes in question as *distinct and autonomous* forms of exploitation, so that the first form may exclude the right to use the second. It is precisely in that context that the question referred to the Court arises. If it is assumed that consumers' preference for hire remains unchanged by technological progress and hence by the foreseeable decline in the cost of the product in the years to come, it is necessary to ascertain whether the autonomy referred to above affects the Community principle of the exhaustion of copyright. If it does, then the copyright owner who has sold the cassette recording of a film of his in one Member State without surrendering the rental right will be able to restrain the importer of the recording in another Member State from exploiting the work by hiring it out.

3. Before the facts of the case are set out it is appropriate to inquire how the Member States regulate copyright in the field of cinematography, the hiring-out of video-cassettes and the exhaustion of the rights in question. In Great Britain the Copyright Act 1956 confers on the maker of a film the right to prohibit its reproduction, public performance and broadcast by television. As far as cassettes are concerned, it is always for the maker of the film to decide whether to proceed with sale first and hire later or vice versa. In the case of sale, however, his right must be considered exhausted: that is to say, he will not be able to restrain the subsequent hiring-out of the work by third parties or demand any compensation when they do so. On the other hand, he can protect himself by inserting in the contract a clause which obliges the purchaser to refrain from hiring out the recording or by fixing the price so as to take account of the prospect of the cassette's being hired out.

Analogous principles underlie Irish, Netherlands and German legislation. In the Federal Republic of Germany in particular, two judgments of the Bundesgerichtshof (Federal Court of Justice) of 6 March and 15 May 1986, reported in *GRUR* 1986, pp. 736 and 743, have established that the owner of the right to market cassettes containing musical or cinematographic works which are sold with his consent cannot prohibit third parties from hiring them out. Paragraph 27 of the Urheberrechtsgesetz (Copyright Law) of 9 September 1965 does, however, confer on such a person the right to fair compensation.

The opposite principle is adopted by Denmark and France. In Denmark the hiring-out to third parties of cassettes lawfully available for purchase on the market is always subject to the prior authorization of the owner of the work, whose rights are not exhausted by its sale (see Articles 2 and 23 of Law No 158 of 31 May 1961, the latter article as amended by Law No 274 of 16 June 1985). In France, Article 26 of the Law of 3 July 1985 confers directly on the videogram *manufacturer* the right to authorize hiring-out and, according to academic legal writing, that right is not subject to exhaustion even if the recording has been sold.

Finally, as far as Greece, Italy, Luxembourg, Portugal and Spain are concerned, the matter has not so far been resolved by specific provisions. In principle, however, it is recognized in case-law and in legal literature that the author has a rental right analogous to the right provided by legislation in the case of phonograms.

4. On 4 July 1984 Mr Erik Viuff Christiansen arranged for an advertisement to appear in a Copenhagen daily newspaper, announcing that the cassette of the film 'Never Say Never Again' in its original version (that is, without Danish subtitles) was available for hire from his shop. The local James Bond fans were delighted because until then the cassette had not been obtainable on the Danish market. Indeed, Christiansen had purchased it a few days earlier in London, where it had just been released for sale by the producers of the film, Warner Brothers Inc.

When they heard of Christiansen's offer, Warner Brothers and the undertaking managing the Danish rights in Warner Brothers' cassettes (Metronome Video ApS) sought an injunction from the Copenhagen City Court to restrain the dealer from hiring out the recording, claiming that they had not granted any authorization, either express or implied, for that purpose. Their application was granted and, in subsequent proceedings for confirmation of the injunction, the Østre Landsret (Eastern Division of the High Court), by an order dated 11 June 1986, referred the following question to the Court of Justice for a preliminary ruling:

The Danish court asked whether, for the purposes of Articles 30 and 36 of the EEC Treaty, the owner of the exclusive rights in a video-cassette lawfully put into circulation, with his consent, in a Member State whose law does not allow the transferor to prohibit its resale or hiring-out, forfeits the right to restrain the hiring-out of that recording in another Member State into which it has been lawfully imported, where the copyright legislation of that second State allows such prohibition but does so without distinguishing between domestic and imported video-cassettes and without impeding the actual importation of video-cassettes as such.

5. In the proceedings before the Østre Landsret, written observations were submitted by the parties to the main proceedings, the Commission of the European Communities and the Governments of Denmark, the United Kingdom and France, all of which, apart from the last two, also presented argument at the hearing.

The Commission begins by pointing out that in the greater part of the Community 90% of the consumption of video-cassettes takes the form of hire. It follows that to give the owner of copyright in the recorded work the right to prohibit that form of exploitation even after the sale of the product is tantamount to impeding intra-Community trade in videograms. Indeed, if the owner

were systematically to withhold authorization or to make it subject to excessively onerous conditions, importation might cease altogether. Christiansen is in agreement on that point. Although, he states, the court order obtained by the applicant companies relates to the hiring-out of the cassette and not also to its entry into Denmark, there is no doubt that since Danish consumers are not interested in purchasing the recording, the order will ultimately remove any incentive for its importation from the United Kingdom. It is thus obvious that Article 30 of the Treaty is infringed.

That being so, it is not lawful from the Community point of view, maintains Christiansen, for a copyright owner protected by the legislation of one Member State to avail himself of that legislation so as to prevent the importation and subsequent marketing of a product lawfully offered for sale in another State by himself or with his consent. To allow him to rely on those provisions is possible only if one postulates a partitioning of the national markets, which the Court has consistently considered incompatible with the aims of the Treaty (see judgment of 14 July 1981 in Case 187/80 *Merck* v *Stephar BV* [1981] ECR 2063, at paragraphs 12 and 13).

But that, Christiansen goes on, is not all. In the judgment of 20 January 1981 in Joined Cases 55 and 57/80 (*Musikvertrieb Membran* v *GEMA* [1981] ECR 147, at paragraph 25), it is stated that 'in a common market distinguished by the free movement of goods ... an author, acting directly or through [his assigns], is free to choose the place, in any of the Member States, in which to [market] his work .... He may make that choice according to his best interests, which involve ... the level of remuneration provided in the Member State in question ...'. In this case it is not in dispute that Warner Brothers decided quite freely to sell the cassette of 'Never Say Never Again'; furthermore, in setting the price, it undoubtedly took account of the rights over its exploitation by way of hire. Even in that respect, therefore, it is contrary to Articles 30 and 36 of the Treaty to allow Warner Brothers to restrain Christiansen from hiring out in Denmark the recording which he has lawfully purchased in the United Kingdom.

6. The other participants in the proceedings before the Court defended the opposite point of view. Here, I propose to confine myself to setting out that viewpoint by reference to the arguments adduced by the Commission.

After admitting, as we have seen above, that conferring on the author the right to prohibit hiring-out may impede imports, the Commission adjusts its line of approach by focusing on the serious problems caused by the unrestricted hiring-out of cassettes. It observes that it is an increasingly frequent practice to take out a cassette on hire for a few hours for the sole purpose of transcribing the work on to another tape which is then kept for personal use or, still worse, duplicated to make further copies which in turn are sold or hired out without, of course, the author's receiving any remuneration. In fact, however, nothing of the kind is in point in the present case. Christiansen is not an 'audio-visual pirate' but a normal dealer who has legally purchased the videogram of a James Bond film from the copyright owner and, far from duplicating it, wishes to use it by hiring it out to third parties.

Having made that preliminary observation, the Commission, following the Court's reasoning in the *Cinéthèque* judgment, maintains that the prohibition imposed by Danish legislation applies equally to cassettes produced in Danish territory and thus does not seek to influence the patterns of trade between the Member States. But these trade patterns may be adversely affected by that prohibition. The contested provision will therefore be compatible with the principle of the free movement of goods only if (a) the obstacles to intra-Community trade raised by that provision do not exceed what is strictly necessary for the attainment of the objective pursued, and (b) that objective is justifiable under the Treaty. And that is precisely the situation in the present case.

As is well known, the asset constituted by copyright falls into two parts: the right to perform the work and the right to reproduce it. Since it constitutes an act of commercial exploitation which is recurrent by nature, the hiring-out of a cassette is more closely identifiable with the first part. However, the first *Coditel* judgment, cited above, established that inasmuch as the right to control the performance of a film is an essential incident of copyright, Community law cannot disregard it.

That same principle must equally apply to a performance by means of a cassette: the owner of a cinematographic work cannot derive revenue from that form of communication unless he enjoys the right to hire out the recording, in the same way as the film will afford him a pecuniary benefit only because he is able to show it in the cinema. In other words, the aim which Danish legislation pursues in protecting the author against the hiring-out of cassettes without consent accords with the same logic as the principle that he may prohibit a public performance of his film. In conclusion, the hiring-out of cassettes is to be seen as a central feature of the exclusive right vested in the owner of copyright in the work, and it follows that making the exercise of that right conditional on his authorization is compatible with the Treaty.

7. The viewpoint summarized above cannot be accepted. I consider that the two premises on which it is based — namely that the author has the exclusive right to authorize the hiring-out of cassettes and that that form of exploitation is merely a manifestation of his broader right to perform the work — are, respectively, irrelevant to the issue before us and indefensible.

In particular, the assimilation of the hiring-out of a film to its public performance is unfounded. In order to understand this it is useful to bear in mind that, under many national legal systems, the pursuit of the activity of hiring-out becomes unrestricted as soon as the cassette is offered for sale or, as in Germany, entails at most an obligation to pay the author fair compensation. The determining factor, however, is that even in those States in which the author, following sale of the recording, retains the right to control every other form of exploitation of the work, the hiring-out of the cassette remains a purely commercial transaction: the risk which it carries — namely that the persons hiring the cassette may see the film several times, only once or not at all — is not borne by the owner of the right to perform it but by the person who has hired the cassette.

Thus, as far as the first premise is concerned, it does not seem to me that the

Court is called upon to establish whether, from the Community viewpoint, the maker of a film circulating in cassette form still has the exclusive right to conduct the business of hiring out his work. Rather, the Østre Landsret is asking this Court whether the purchaser of a cassette sold in one Member State by the owner of copyright in the film (or with his consent) may hire it out to third parties in another Member State against the copyright owner's will; in short, the Danish court wishes to know whether the principle of the exhaustion of copyright is applicable also in this instance.

8. I would point out in the first place that, according to the consistent case-law of the Court, 'All trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions.' (judgment of 11 July 1974 in Case 8/74 *Procureur du Roi* v *Dassonville* [1974] ECR 837, at paragraph 5).

With reference to the present case I have already said on several occasions that although the contested provision is not concerned with the importation of cassettes it may nevertheless obstruct their entry into Denmark. Furthermore, whilst it is true that Article 36 of the EEC Treaty exempts prohibitions justified by the protection of industrial and commercial property, and hence copyright, it is also established that, in pursuance of the principle of the exhaustion of copyright, neither the copyright owner nor his licensee 'may rely on the exclusive exploitation right . . . to prevent or restrict the importation of . . . recordings which have been lawfully marketed in another Member State by [those persons] themselves or with [their] consent' (*GEMA* judgment, at paragraph 15).

This last principle is decisive, and I consider the argument put forward by Warner Brothers and Metronome, to the effect that hiring-out is a form of economic exploitation distinct from and independent of sale (see Section 2 above), to be totally at odds with it. The reasons are obvious. Once the maker of a film has sold the cassette to a third party, thereby transferring permanently his *proprietary right* over the recording and permitting it to circulate freely, he may not thereafter avail himself of the provisions of another State so as to assert his *exclusive right over the work* recorded on the cassette and thereby in practice prevent it from entering that State. Such a claim is motivated by the same economic interests which underlay the original disposal of the work; and, if that is so, the claim must yield to the rule under Article 30. To quote the *GEMA* judgment once again: 'the essential purpose of the Treaty . . . could not be attained if, [on account of] 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' (paragraph 14).

In short, it may properly be said that, although sale and hiring-out are different in nature (the first entailing a transfer of title in the goods and the second conferring possession for a limited time), they none the less have the common characteristic that they necessarily involve making the product commercially available to the consumer. It follows that any exclusive right to hire out a cassette may never nullify the effect — the free movement of the article throughout the Community — brought about by its sale in another Member State. To argue to the contrary would imply taking away from consumers, in this case from Danish

citizens, what they may obtain as of right under the Treaty.

All this does not, of course, imply that where a cassette which has already been lawfully sold in another Member State is hired out the property rights of the owner of the copyright in the cinematographic work are left completely unprotected. Mention has been made, for example, of the right to compensation and of the possibility for the author to safeguard his position by inserting appropriate clauses into the contract of sale. One point, however, remains firmly established, and that is that, whatever its form or content may be, the protection granted to the author may not obstruct the free movement of cassettes once they have been marketed.

In that connection the Court requested the United Kingdom to state whether the purchase price of a video-cassette in the United Kingdom includes a copyright component and, if so, what inferences are to be drawn in regard to hiring it out in the other Member States. The replies given are vague and contain figures which are not capable of comparison. However, the Commission observes that the information could not have been more accurate. The marketing of cassettes varies appreciably from one country to the next. In Great Britain, for example, the last four years have seen a large increase in sales whereas in Denmark such recordings continue to be distributed mainly by way of hire.

What, then, is the conclusion to be? One can only repeat what the Court has already established: an author may choose freely, and in accordance with various factors, where in the Community he will put his work into circulation but he may not take advantage of the 'disparities which continue to exist in the absence of any harmonization of national rules on the commercial exploitation of copyrights [so as] to impede the free movement of goods in the Common Market' (*GEMA* judgment, cited above, paragraph 26).

9. In the light of the foregoing considerations I propose that the Court should give the following reply to the question referred to it by the Østre Landsret, Copenhagen, by order of 11 June 1986 in the proceedings pending before it between Warner Brothers Inc., Metronome Video ApS and Mr Erik Viuff Christiansen:

Articles 30 and 36 of the EEC Treaty must be interpreted as meaning that legislation of a Member State under which the owner of the copyright in a video-cassette may prevent it from being put into circulation by way of hire in that State even after he has lawfully sold it, or consented to its sale, in another Member State is incompatible with those articles.