



# The reform of the Intellectual Property Act

C L I F F O R D  
C H A N C E

## The reform of the Consolidated Text of the Intellectual Property Act

Law 21/2014, of 4 November, amends the consolidated text of the Intellectual Property Act (or "LPI"), as well as certain precepts of the Civil Procedure Act (*Ley de Enjuiciamiento Civil* or "LEC") and the Reading, Books and Libraries Act (*Ley 10/2007, de 22 de junio, de la lectura, el libro y las bibliotecas*). This law entered into force on 1 January 2015 (with the exception of some specific precepts which will come into force in the coming months), in the midst of intense debate involving different agents from the cultural industries.

The reform affects a significant number of LPI articles and introduces several relevant amendments that we will be addressing briefly here and tackling in greater depth in future issues of this newsletter.

### Private copying and fair compensation for private copying

According to the new wording of the second section of Article 31, the private copying limitation will only be understood to cover reproduction carried out by a natural person, without the assistance of third parties, for private and not professional, business or commercial use, and provided it is done: (i) using a medium acquired by means of a sale and purchase transaction or (ii) using works which were accessed via a legitimate act of public communication, by means of the broadcast of images, sound or both, and where said reproduction is not obtained by means of unauthorised recording in an establishment or public space. Moreover, the copy obtained may not be used collectively or on a for-profit basis, and may not be distributed for a price.

In this way, the reform significantly reduces the number of acts of reproduction that are permitted under the private copying limitation and that, as a result, are eligible for fair compensation. Meanwhile, as was already the case before Law 21/2014, electronic databases and computer programmes remain excluded from the private copying limitation. However, in what is a new development, the reproduction of works made available to the public on demand is now also excluded.

## Content

- Private copying and fair compensation for private copying
- Transposition of Directive 2011/77/EU and Directive 2012/28/EU
- The limit on content aggregators (the "Google tax") and search engines
- The limit on quotation and reference for educational and scientific research purposes
- Enhancing mechanisms to combat on-line piracy
- The regulation of collecting societies
- Conclusion

The fair compensation linked to the private copying limitation is still financed using the General State Budget<sup>1</sup>, despite the widely-held opinion that this arrangement would not be in line with European Union law, as it fails to respect the necessary balance between the holders of the rights affected and the users who benefit from the private copying limitation<sup>2</sup>.

### Transposition of Directive 2011/77/EU and Directive 2012/28/EU

Directive 2011/77/EU<sup>3</sup> and Directive 2012/28/EU<sup>4</sup> have been transposed into the Spanish legal system by Law 21/2014.

In relation to the first directive (Directive 2011/77/EU), the consequences of the transposition are essentially the following: (i) the extension of the duration of the rights of producers of phonograms from 50 to 70 years in certain cases, and the adoption of measures to ensure that performers also benefit from this extension, and (ii) the establishment of mechanisms to strengthen the position of

<sup>1</sup> On 14 November 2014, *Order ECD/2166/2014 establishing the amount of the fair compensation for private copying corresponding to the 2013 financial year, financed by the General State Budget and the distribution of the same among the three types of reproduction referred to by law* was issued, which set the amount of the fair compensation for private copying corresponding to the 2013 financial year at 5,000,000 euros.

<sup>2</sup> In a Ruling dated 10 September 2014, Chamber 3 (Section 4) of the Supreme Court referred a request for a preliminary ruling to the Court of Justice of the European Union, currently pending, to determine whether a system of fair compensation for private copying financed using the General State Budget is compatible with Directive 2001/29/EC.

<sup>3</sup> Directive 2011/77/EU of the European Parliament and of the Council of 27 September 2011 amending Directive 2006/116/EC on the term of protection of copyright and certain related rights.

<sup>4</sup> Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works.

performers in terms of the assignment of their rights to the producers of phonograms (for example, in the form of recognition of an unwaivable right to terminate the assignment agreement, provided a series of requirements established by law are met).

Meanwhile, the transposition of Directive 2012/28/EU has meant that, for the first time, the Spanish LPI has regulated orphan works (defined as works for which no rightholder is identified or, even if identified, is not located despite a "diligent search" having been performed). It is worth highlighting that the reform introduces a new exception to the rights in relation to orphan works (Article 37 bis LPI), authorising educational establishments, museums, libraries, publicly accessible newspaper and periodicals libraries, public-service broadcasting organisations, archives, record libraries and film libraries to carry out certain acts of reproduction of certain orphan works or make them available to the public, provided this is done: (i) on a non-profit making basis and (ii) in order to achieve aims related to the public-interest missions of the bodies, entities and institutions mentioned above.

### The limit on content aggregators (the "Google tax") and search engines

Article 32.2 LPI is one of the precepts that Law 21/2014 has amended the most.

What has become known as the "Google tax" or "AEDE<sup>5</sup> fee" is one of the most controversial measures of the reform and the one that has attracted most media attention, heightened by the closure of Google News in Spain.

This tax or fee, in what is a new development, is regulated in Article 32.2 of the LPI, and establishes a new limit which allows providers of electronic services of content aggregation, without authorisation, to make available to the public non-significant fragments of content released in periodic publications or on periodically updated websites, as long as the aim is to provide information, create public opinion or for entertainment. In exchange, the reform grants the editor or, if applicable, other rightholders, the unwaivable right to receive fair compensation, executed via the collecting societies.

According to the current wording of Article 32.2 LPI, images, photographic works or mere photographs are excluded from this limit, and third parties will have to obtain authorisation in order to make them publicly available.

Meanwhile, the reform establishes a new exception in the second paragraph of Article 32.2 LPI according to which the act of making content available to the public by service providers that supply "tools to search for isolated words" released in periodic publications or on periodically updated

websites shall not be subject to authorisation or eligible for fair compensation, provided that such acts: (i) are not for commercial purposes, (ii) are strictly circumscribed to that which is essential to offer search results in reply to queries previously made by a user on a search engine and (iii) include a link to the page from which the content originated.

### The limit on quotation and reference for educational and scientific research purposes

The second relevant amendment of Article 32 of the LPI is in relation to the exception for quotation and reference for educational or scientific research purposes, the main reason for which are the reasonable aspirations of the academic world which criticised the restrictive scope of the limit and the problems of interpretation generated by the previous wording.

The reform essentially broadens the scope of the limit in relation to acts involving the exploitation of small fragments of works or isolated works of a plastic or figurative photographic nature (provided they meet a series of requirements envisaged by law). These acts do not imply a right to remuneration for authors and editors. The limit, in addition to applying to professors of the formal education system as until now: (i) also covers certain acts of exploitation carried out by the personnel of Universities and Public Research Bodies performing their scientific research functions, and (ii) is not circumscribed to "classrooms", also covering distance learning.

This extension is supplemented by the introduction of a new limit in relation to acts involving the exploitation of chapters of books, magazine articles or similar publications, with a length comparable to 10% of the total work, for which an unwaivable fair compensation is envisaged for authors and editors unless there is a specific prior agreement between the holder of the intellectual property right and the university or research entity and unless said university or entity is the holder of the intellectual property rights over the works.

### Enhancing mechanisms to combat on-line piracy

The reform introduces a series of measures whose objective is to combat the infringement of intellectual property rights in the digital environment more effectively, in view of the insufficiency of the measures introduced by the Sustainable Economy Act (*Ley 2/2011, de 4 de marzo, de Economía Sostenible*).

In this regard, the LPI (Article 138, paragraph two) regulates the figure of the "indirect infringer" for the first time, in line with the different forms of liability recognised under US case law. Thus, in addition to the (direct) infringer, the person (indirectly) responsible for the infringement is: (i) whoever knowingly causes it, (ii) whoever cooperates with it, aware of the infringing conduct or reasonably expected to

<sup>5</sup> Spanish Association of Press Editors (*Asociación de Editores de Diarios Españoles*)

have been aware of it and (iii) whoever, having a direct financial interest in the results of the infringing conduct, has the power to control the infringer's conduct; all notwithstanding, where applicable, the liability limits established in the Information Society Services Act<sup>6</sup>. This measure translates as an amendment of both the LPI and certain rules of the LEC in relation to the application for pre-trial examination proceedings ("*diligencias preliminares*").

With the same aim, the reform strengthens the powers of Section 2 of the Intellectual Property Commission, with the intention of equipping it with more effective mechanisms to react to infringements committed by information society service providers who do not voluntarily comply with the requests for removal that they receive. For example, in cases where the infringer refuses to voluntarily remove content, and in order to ensure the effect of the resolution handed down, Section 2 can: (i) after receiving judicial authorisation, request the collaboration of the intermediate service providers, electronic payment providers and advertising services providers to suspend the service they are providing to the infringer and (ii) ask the registration authority to cancel the corresponding domain name, provided that it is a ".es" or another first-level domain registered in Spain.

Along the same lines, the reform increases the penalties that may be imposed due to a failure to remove content that has been declared to constitute an infringement, establishing fines of up to 600,000 euros.

## The regulation of collecting societies

The reform entails substantial changes in the LPI rules that regulate the functioning and obligations of collecting societies, placing particular emphasis on the efficiency and transparency of the system. The reform establishes: (i) a detailed catalogue of the obligations of the collecting societies, (ii) a table of infringements and penalties and (iii) a precise delimitation of the spheres of executive responsibility of the Central Government and that of the Autonomous Communities.

Moreover, the reform extends the powers of Section 1 of the Intellectual Property Commission, including the function of setting rates for exploiting collective management rights, and enhancing its control function to oversee that the general rates established mandatorily by the collecting societies are fair and non-discriminatory.

Another relevant new development contained in the reform is the obligation for the management entities to create a "one-stop shop" for billing and paying, managed by a private legal person, whose decision-making is not controlled by any particular collecting society.

## Conclusion

The reform implemented by Law 21/2014 of 4 November has introduced substantial changes to the LPI, the practical effect of which will have to be assessed in the light of the future court decisions in which the new rules are applied.

The decision that will eventually be handed down by the Constitutional Court regarding constitutional appeal number 681/2015, filed by the Socialist Parliamentary Group against certain provisions of Law 21/2014, will also have to be taken into account. The appeal refers, essentially, to the system of compensation for private copying, and to the "one-stop shop" established for collecting societies.

The decisions of the European Union Court of Justice regarding the referrals submitted by the Supreme Court in its Rulings dated 10 September 2014 (3<sup>rd</sup> Chamber) and 12 January 2015 (Civil Chamber) will be equally relevant. The referrals are related to the system of compensation for private copying and to the possibility of requesting a compensation for moral damages when the "hypothetical royalty" criterion has been used to request a compensation for patrimonial damages.

Moreover, the text of Law 21/2014 announces an "overall reform" of the LPI in Additional Provision Four. As such, it would seem that we will soon be seeing significant new developments in the field of intellectual property that we will be highlighting in future issues of this newsletter.

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<sup>6</sup> Ley 34/2002, de 11 de julio, de servicios de la sociedad de la información y de comercio electrónico.

The following table contains a summary of the main new developments introduced by Law 21/2014 in the LPI:

Subject matter	Articles	Changes introduced by the reform
Fair compensation for private copying	25	Financed from the General State Budget Payment via the collecting societies
Private copying exception	31	Restriction of the private copying limitation
"Google tax" or "AEDE fee"	32.2, 1 <sup>st</sup> par.	New limit for providers of electronic services of content aggregation Unwaivable fair compensation for the editor (or other rightholders, as the case may be)
Search engine service providers	32.2, 2 <sup>nd</sup> par.	New limit (exception) not subject to payment of fair compensation
Limit on quotation and reference for educational and scientific research purposes	32.3	Extension of the limit for acts of exploitation of small fragments of works or of isolated plastic or figurative photographic works
	32.4	New limit for chapters of books, magazine articles or similar publications subject to payment of fair compensation
Directive 2012/28/EU (orphan works)	37 <i>bis</i> A.P. <sup>7</sup> 6	New limit on the use of orphan works by cultural institutions and public-service broadcasting organisations in certain cases
Directive 2011/77/EU (duration of rights)	110 <i>bis</i>	Extension of the duration of the rights of producers of phonograms
	112.2	Unwaivable right of the performer to terminate an agreement assigning rights in some cases
	119.1	Additional annual remuneration for performers
Enhancing mechanisms to combat on-line piracy	138	
	158 <i>ter</i>	New subjects (indirectly) responsible for infringement
	D.A 5 256 and 259 LEC	Enhancing the powers of Section 2 of the IP Commission
Collecting societies	151 to 159 162 to 162 <i>quáter</i>	Transparency
		Regulation of obligations
		Increased powers of Section 1 of the IP Commission
		Penalty regime
		Distribution of executive powers between the Ministry of Education, Culture and Sport and the Autonomous Communities
Obligation to establish general rates		
One-stop shop for billing		

<sup>7</sup> Additional Provision.

The Copyright team is part of Clifford Chance Spain's Intellectual Property Department, comprised of 16 lawyers integrated in a global network of 3,440 lawyers and a total of 6,200 professionals in 26 countries worldwide:

**Ana Benetó**

**Xisca Borrás**

**Juan Cuerva**

**Carlos Díaz**

**Júlia Hernández**

**Elena Raya**

**Miquel Montaña** - Partner, Global Head of Intellectual Property

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