

Flogging a Dead Artist

Intellectual Property and Private International Law – IPPIL

The Classification of Droit de Suite¹

For private client practitioners, intellectual property (IP) becomes ever more important. IP becomes more valuable and more commonplace as wealth and the economy dematerialise. However, the situs of intangible movable property is always a topic which shows up the differences between legal systems. If a copyright is the right to sue someone who copies your work, then the situs of it will be in each jurisdiction where litigation is necessary. Dealing with probate in every jurisdiction to enable copyright to be enforced, is clearly to be avoided where possible.

The EU Directive 2004/48/EC of 29 April 2004 on the enforcement of intellectual property rights is an example of the EU attempting to simplify such enforcement. That Directive has been implemented in the United Kingdom by the Intellectual Property (Enforcement, etc.) Regulations 2006 SI 2006 No.1028.

Resale Rights, Resale Royalties and the 2001 EU Directive

In addition to copyright, royalties, trade marks and patents, the EU introduced the concept of Artists Resale Rights (commonly referred to as “Droit de Suite” by auction houses and dealers) throughout the EU by way of an earlier Directive, 2001/84/EC of 27 September 2001. In the UK this was implemented by the Artist's Resale Right Regulations 2006 SI 2006 No. 346 (the “2006 SI”) which came into force on 14 February 2006 for living artists and set the date for entry into force for deceased artists as 1 January 2010.

Droit de Suite or Resale Right is the right of an artist (referred to as “the Author” in both the 2001 Directive and the 2006 SI) to receive a percentage of the revenue from the resale of their works in the art market, the Resale Royalty. The Resale Right was first introduced in

¹ The Arts Council Research Report by Clare McAndrew and Lorna Dallas-Conte - Implementing Droit de Suite In England, <http://www.artscouncil.org.uk/media/uploads/documents/publications/325.pdf> and the IP Institute Study of January 2008 by Katy Graddy, Noah Horowitz and Stefan Szymanski <http://www.ipo.gov.uk/study-droitdesuite.pdf> are recommended and acknowledged.

France in 1920 on auction sales and was included as an option in Art.14^{ter} of the Berne Convention² in 1948. By the time of the 2001 Directive, 11 of the EU Member States already

had such a Resale Right, although it was effectively only enforced in eight. Austria, Ireland, the Netherlands and the United Kingdom, did not have the concept of an enforceable Resale Right or Royalty.

The 2001 Directive was introduced to counter any possible trade distortion in the internal market caused by the absence of the Resale Right in some Member States and by the variability of its enforcement.

The Directive was supposed to be implemented from 1 January 2006 to benefit living artists, and extended to benefit heirs and estates of deceased artists by 1 January 2012 at the latest. Under the 2001 Directive it was possible for Member States to introduce the Resale Royalty earlier than these deadlines.

United Kingdom 2006 Statutory Instrument

In the United Kingdom, qualifying individuals do now have the right to a sum like a royalty on the resale of one of their works. The Resale Right subsists in circumstances where the right to copyright also subsists. The Resale Right cannot generally be assigned or charged, waived or shared. The Resale Right can be assigned from one charitable body to another and the definition of a charitable body under Reg.7(c) of the 2006 SI includes a foreign charity that has its central administration in a European Economic Area ("EEA") state or a country listed in Schedule 2 of the 2006 SI. Qualifying individuals are nationals of the EEA or a Sch.2 country.

The primary liability to pay the Resale Royalty is jointly and severally on the seller and the agent but the buyer can be made liable. Under the 2001 Directive collective management can be optional or compulsory. In the UK collection must be by a collecting society such as the Design and Artists Copyright Society³ or the Artists' Collecting Society.⁴ The DACS represent almost 60,000 visual artists and their beneficiaries, including Damien Hirst, Richard Hamilton, and the Estate of Francis Bacon. The ACS was established as a collecting society in June 2006 solely to collect Resale Royalties on behalf of artists in the UK in response to requests from artists and from their dealers for artists to be provided with a choice of collecting society for the management of Resale Rights. The ACS publishes a list of its members which include the heirs of Winston Churchill, Eduardo Paolozzi and Augustus John, whilst DACS allows its database to be searched to check if an artist is a member. Both DACS and ACS currently charge a 15% administration fee.

Under Reg.4 of the 2006 SI "work" means any work of graphic or plastic art such as a picture, a collage, a painting, a drawing, an engraving, a print, a lithograph, a sculpture, a tapestry, a ceramic, an item of glassware or a photograph. However, a copy of a work is not to be regarded as a work unless the copy is one of a limited number which have been made by the author or under his authority.

²Berne Convention for the Protection of Literary and Artistic Works. See the World Intellectual Property Organisation (a specialised agency of the United Nations) website http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html

³ <http://www.dacs.org.uk/index.php?m=15>

⁴ <http://www.artistscollectingsociety.org.uk/default.ASP>

The Resale Royalty is calculated using a sliding scale of percentages of the sale price, net of tax. The percentages start at 4% for the first tranche of the sale price up to €50,000 (some EU member states are permitted and use a 5% rate for this first tranche), 3% for the tranche between €50,000 & €200,000, 1% for the tranche between €200,000 & €350,000, 0.5% for the tranche between €350,000 & €500,000 and 0.25% for the tranche between €500,000 & €2,000,000.

The portion of the sale price above €2,000,000 is, in effect, exempt since the resale royalty is subject to a maximum of €12,500.

On an auction sale, the sale price is the hammer price (i.e. without any premium).

Resale Right does not apply:

- If the sale price is less than €1,000, or
- If neither the buyer nor the seller nor their agent is acting in the course of a business of dealing in works of art: or
- To sales where the seller has acquired the work directly from the artist and resells within 3 years for less than €10,000.

The amount payable on any one sale therefore varies between €40 and €12,500. Resale Royalty is not subject to VAT.

For those practitioners, who are less directly affected by local EU issues, it should be borne in mind that Resale Rights also apply to numbers of non EEA nationals as defined by Sch.2 to the 2006 SI. Thus in addition to citizens of the EU, Iceland, Liechtenstein and Norway, nationals from such diverse states as Algeria, Brazil, Burkina Faso, Chile, Congo, Costa Rica, Ecuador, Guinea, Iraq, Ivory Coast, Laos, Madagascar, Mali, Monaco, Morocco, Peru, Philippines, Russian Federation, Senegal, Serbia and Montenegro, Tunisia, Turkey and Uruguay are also included. The Resale Right apply to these states, since they have reciprocal arrangements under Art.7 of the 2001 Directive.

Although Liechtenstein is in the EEA, Switzerland is not. Nationals of Switzerland, China, Canada, India and the USA are not qualifying individuals and do not have the benefit of Resale Rights.

Australia introduced a Resale Right with effect from 9 June 2010 under the Resale Royalty Right for Visual Artists Act 2009 (Cth) and the Tax Laws Amendment (Resale Royalty for Visual Artists) Act 2009 (Cth). New Zealand has decided not to do so. It is unclear as to when the UK will amend the 2006 SI to include Australian nationals.

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Initially, in the United Kingdom, under Reg.17 of the 2006 SI, Resale Rights were not to be exercised on behalf of the estates of deceased artists save in relation to contracts on or after 1 January 2010 (and only for 70 years after death, the same period as copyright). Practitioners may not have spotted that the application to deceased estates was deferred (as permitted under Art.8(2) of the 2001 Directive) in October 2009 by two years until 1 January 2012 by virtue of the Artist's Resale Right (Amendment) Regulations 2009 No. 2792.

There is still some concern as to whether the full implementation on 1 January 2012 may drive some auction sales to the United States. However, others argue that the amount of the Resale Royalty is not significant and is unlikely to cause movement out of the EU.

Under Art.6 of the 2001 Directive, the Resale Royalty “shall be payable to the author of the work and after his death to those entitled under him”.

Therefore, although, the Resale Right cannot be assigned by the Author, under Reg.9 of the 2006 SI, on his death and provided that under Reg.10(2) he is at that time a qualifying individual, the Resale Right in respect of a work is transmissible as personal or moveable property by testamentary disposition or in accordance with the rules of intestate succession; and it may be further so transmitted by any person into whose hands it passes. The Resale Right may be so transmitted only to a natural person or a qualifying charitable body but it can be transmitted as *bona vacantia*.

Reg.10 also makes it clear that the Resale Right can only be exercised by a person who is a qualifying individual or a qualifying body at the date of the contract.

In addition Reg.11 of the 2006 SI makes it clear that nothing in Regs. 7, 9 or 10 prevents a resale right from being held, and exercised in respect of a sale, by any person acting as trustee for the person who would otherwise be entitled to exercise the right (“the beneficiary”); or transferred to such a trustee, or from the trustee to the beneficiary. Trustees do not need to be qualifying individuals.

Reg.16 provides transitional provisions dealing with the succession to the Resale Rights of artists who had died prior to the 2006 Regulation coming into force on 14 February 2006. The Resale Rights pass with the copyright in the Work, but if the deceased artist did not own the copyright then the Resale Rights pass with the Work itself, but if the deceased artist owned neither, then the Resale Right passes with the residue of the artist’s estate.

Reg.16 applies to artists dying before 14 February 2010 and Reg.9 to artists dying after 13 February 2006. The Resale Rights under either Reg.9 or Reg.16 cannot be exercised until a contract for sale is made after 31 December 2011. Individual beneficiaries and trusts for such beneficiaries are advised to register their Resale Rights in good time with a collecting society and they may already be entitled to Resale Royalties in relation to non-UK Resale Rights. The DACS Booklet⁵ is a useful resource for beneficiaries.

From 1 January 2012, under the various laws in the United Kingdom, nationals of the EEA and Sch.2 countries will have the right to exercise the Resale Royalties, if they hold the copyright in a “Work” provided that the original Author was a qualifying individual; a national of the EEA or a Sch.2 country at the date of his death. Nationality at the date of the original creation of the Work is irrelevant. For example a Work created by De Kooning in the Netherlands will not qualify if he died a US and not a Dutch citizen. Did Laszlo Moholy-Nagy die a US or a Hungarian citizen? Did Max Beckmann die a German or a US citizen? There will be also be interesting questions as to whether, for example, a citizen of the USSR at the date of his death, qualifies as a citizen of the Russian Federation under the 2006 SI.

⁵ A Guide to the Artists’ Resale Right for artists’ heirs and beneficiaries.
<http://www.dacs.org.uk/pdfs/Beneficiaries%20booklet%20for%20email.pdf>

Private International Law

It is to be borne in mind that the position set out above is that of the UK implementation of the 2001 Directive and will be different from the implementation of the 2001 Directive in other Member States. Thus it is vital to consider the local implementation of the 2001 Directive whenever considering Resale Rights or Royalties in another state.

From a private international law perspective however, the vital question is one of classification. Which legal class or category is involved? This must be decided before it is possible to pinpoint the relevant applicable law and ascertain whether a qualifying individual has the right to the Resale Royalty. Is the matter categorised as a question of the relevant succession law for movables for the deceased Author (as under the UK 2006 SI) or as a question as to the application of the 2001 Directive and a matter of Resale Rights or property rights in each Member State?

Do the words “after his death to those entitled under him” in Art.6 of the 2001 Directive mean:

- entitled under the relevant applicable succession law or
- entitled under the relevant Resale Right law of the *situs*?

The 2001 Directive does not specify which interpretation is correct. Some EU states such as France, Denmark and Finland restrict the succession of the Resale Rights to family members of the deceased only, whereas other Member states do not. Usually, these restrictions do not apply to other intellectual property.

Enter the ECJ

The April 2010 ECJ decision of *Fundación Gala-Salvador Dalí, Visual Entidad de Gestión de Artistas Plásticos (VEGAP) v Société des auteurs dans les arts graphiques et plastiques (ADAGP)*, Juan-Leonardo Bonet Domenech, C-518/08 attempted to answer this question and is an example of the interaction of succession law with the Resale Right as enacted in France.

Salvador Dalí died on 23 January 1989 in Spain, leaving five heirs under Spanish law. By his will dated 20 September 1982, he had appointed his intellectual property rights to the Spanish State as sole legatee, within the meaning of the French law of succession. Those rights are administered by the Fundación Gala-Salvador Dalí, a foundation established by Dalí under Spanish law in 1983.

Article L. 123-7 of the French Intellectual Property Code (which was not amended by the French implementation of the 2001 Directive) states that: ‘After the death of the author, the Resale Right referred to in Article L. 122-8 shall pass to the author’s heirs and in usufruct – provided for in Article L. 123-6 – to his or her spouse, **to the exclusion of any legatees and successors in title**, for the remainder of the year of the author’s death and the next 70 years thereafter.’

Under Spanish succession law the Resale Rights belong to the Fundación. Under French Resale Rights law they belong to the five heirs. Was France permitted to restrict the persons entitled on succession to French Resale Rights to heirs only, and thus override the otherwise valid gift in the Will to the Fundación?

The ECJ in its usual language held that the 2001 Directive must be interpreted as not precluding a provision of national law, which reserves the benefit of the Resale Right to the

artist's heirs at law alone, to the exclusion of testamentary legatees. However, it also stated that it is a matter for the French court **to take due account of all the relevant French rules of conflicts of laws relating to the transfer on succession of the Resale Right.**

The question will now be as to how the French Court classifies the transfer of the Resale Right. If the French Court following the oblique hint from the ECJ applied the usual French conflict rules, then the succession of movables would be governed by the law of the deceased's *domicile* (as defined under French law as a concept similar to that of habitual residence). One would expect this to mean that Spanish law should apply to the transfer of the French Resale Rights and that the gift to the Fundación would be valid.

However, it may well be that the French Court would take the view that having taken due account of the relevant French rules of conflicts of laws relating to the transfer on succession of the Resale Right, this is not a matter of succession law but local intangible property law and that the restrictions in the French Resale Right apply whenever the French Resale Royalty is payable.

If not and if the restrictions on succession of the Resale Right only applied to successions governed by French law i.e. to Resale Rights belonging to qualifying individuals with French *domicile*, it could be argued that the French Restrictions were in breach of the right to free movement under the Treaty of the European Union and the Treaty on the Functioning of the European Union .

This does all seem highly unsatisfactory. Under the laws of the UK, provided that it was not in breach of the applicable succession law, UK Resale Rights can be passed on death to any person. French Resale Rights, however, can only pass to the heirs subject to a usufruct for a surviving spouse (but probably not for a surviving Civil Partner). If a Work is sold in the UK, the Resale Royalty belongs to one person. If the Work is sold in France the Resale Royalty belongs to another person.

More litigation is inevitable.

Brussels IV and an interesting 2011/12

The draft Succession Regulation might possibly help clarify these issues as and when it comes into force. However, Article 22 of the original draft Regulation COM(2009)154 final gives an exemption to Special succession regimes:

The law applicable in accordance with this Regulation shall not prejudice the special succession regimes to which certain immovable property enterprises, enterprises or other special categories of property are subjected by the law of the Member State in which they are located on account of their economic, family or social purpose where, according to that law, this regime is applicable irrespective of the law governing the succession.

It is unclear as to whether and the extent to which this draft Article 22 will survive the lengthy negotiation process. National interest versus freedom of movement will be a continuing theme.

The ability to exercise Resale Rights in the UK from 1 January 2012 will add an extra asset to the wealth of individuals. The cross border implications however clearly have a number of difficulties. Do we need a new intellectual property private international client practitioner special interest group to think about these things?

Summary

Since 2006 Resale Rights have applied in the UK but only to living artists. From 1 January 2012 the Rights will be extended to include the sales of work of artists who have died in the previous 70 years. The beneficiaries and estates of dead artists will then be entitled to receive Resale Royalties. Any estate, charity or beneficiary that might be entitled as the owner of copyright of an artist with the relevant nationality who died in the last 70 years should be taking advice and registering now, so that they will receive these Resale Royalties from January 2012 onwards.

For practitioners drafting Wills for testators with potential Resale Rights, it is important to remember that the Rights can only be enforced by beneficiaries with relevant nationality. In some jurisdictions the rights must pass to reserved heirs. Including a specific gift to a relevant national may therefore be necessary to avoid a risk of negligence.

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