

NEWS LETTER

INTELLECTUAL PROPERTY

Copyright Law

A. Second Act on the Regulation of Copyrights and Related Rights in the Information Society

On 1 January 2008, the Second Act on the Regulation of Copyrights and Related Rights in the Information Society [Zweites Gesetz zur Regelung des Urheberrechts in der Informationsgesellschaft] took effect (the "Act"). The Act, also known as the "Second Basket", is the result of intense discussions in various working groups with experts and representatives from the relevant industries. It comes four years after the implementation of the mandatory rules of the EC Copyright Directive (2001/29/EC), usually referred to as the "First Basket". Despite extensive involvement of experts and interest groups, the provisions of the Act remained contentious to the very end. The long and controversial legislative process has received a lot of public attention and shows how digital information technology and the transition to an information society increases the importance of copyright law as well as the need for continuous legislative change. In fact, in this transition process, the Second Basket will be just another step in an ongoing process. The German Parliament has ordered the Federal Ministry of Justice to continue to review the new rules and additional issues in view of further amendments. After lengthy discussions leading up to the Second Basket, negotiations for a Third Basket are already well under way.

The following summarizes the most important provisions of the Act. These provisions include amendments to the rules on private copying and copyright levies (Part I), modifications to the rules on unknown future forms of commercial exploitation (Part II), and additional exemptions in favour of science and education (Part III).

I. Amendments Relating to Private Copies and Copyright Levies

1. Private Copying in a digital world

The freedom of users to copy protected works for their own personal purposes (so-called "private copies", see sec. 53 of the German Copyright Act ("Copyright Act")) constitutes by far the most important exemption under German copyright law. It is based on the assumption that it is virtually impossible to monitor and control private copying and that separate licences granted for each individual act of reproduction would result in unnecessary transaction costs. Therefore, as from 1965, the economic interests of rightholders have been secured through the imposition of levies on copying devices (in particular, magnetic tape recorders), which were collected by collecting societies and then distributed to authors. In 1985, such levies were extended to recording media and to operators of photocopy machines (such as libraries or copy shops). While this system reduces the author's right to prohibit reproduction of the work to a mere claim for equitable compensation, it facilitates access to protected works for non-commercial users. In view of the difficulties of collecting royalties for private copies, however, it has been described from the author's perspective with: "A bird in the hand is worth two in the bush".

Rightholders increasingly criticised, however, the applicable rates which had been adopted in 1985 and which had remained unchanged since then. They argued that the rates were too low and ultimately unsuitable in light

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of new digital copying technologies. Moreover, copyright owners, relying on the availability of modern technical security measures and digital rights management (DRM), which permit private copies to be monitored and licensed, generally question whether or not a private copying exemption is still warranted. Users, on the other hand, have come to view digital protection technologies and the legal protection afforded to such technologies as a threat to their general interests of access to information and have – primarily through consumer groups – insisted on a fundamental right to private use of copyrighted material, arguing that this right is based on a constitutional right of free access to information.

The reconciliation of these opposing positions was one of the most controversial topics of the Second Basket. The German Parliament ultimately followed the decision reached under the First Basket, and thereby took a middle-of-the-road approach: On the one hand, private copies, whether analogue or digital, are still legal even if made without the consent of the copyright owner. On the other hand, rightholders are free to prevent private copies through copy-protection technologies which themselves are protected against circumvention by the Copyright Act.

It was thereby clearly established that there is no “right” to make private copies. At the same time, however, the legislature rejected a number of demands for additional limitations of private copies such as proposals to limit private copies to off-line or analogue reproductions or to reproductions for time shifting, to prohibit recording software, to allow private copies only from a copy owned by the user, to restrict the number of copies to one, to prohibit copying by third parties or to allow private copies only after the lapse of a commercial exploitation window. Some of these requests will again be a topic of discussion in connection with the Third Basket.

The decision to retain the existing legal framework for private copies required only minor changes to the language of the Copyright Act. Only with respect to unauthorised downloads from the Internet did the Act remedy an ambiguity in the First Basket: Whereas the old law prohibited only copies made from an original that had obviously been produced unlawfully, the Act also prohibits

private copies made from an original to which access had been obviously provided in an unlawful manner (sec. 53 para. 1 Copyright Act). The courts will have to determine what exactly is considered “obvious” in this context.

Preliminary plans to include a minimum threshold for triggering the criminal provisions of sec. 106 Copyright Act were ultimately abandoned. Under the proposed threshold clause, any person who makes only a small number of unlawful copies would not have been subject to criminal prosecution. The majority of the personal uses Parliament felt that such a provision would send the wrong policy message. A statutory exemption from criminal prosecution, lawmakers reasoned, was not necessary to avoid “the criminalisation of schoolyard activities” since the provisions of the German Code of Criminal Procedure which allows prosecutors to abstain from prosecution, already provide sufficient flexibility in such cases.

2. New rules for copyright levies

The Second Basket fundamentally changed the old system of copyright levies for copy devices and recording media.

a) Copyright levies vs. enforcement of copyrights by individual copyright owners

At the outset of the discussions and deliberations preceding the Second Basket, it seemed almost impossible to resolve the conflict between copyright levies on the one side and the increasing use of copy protection technologies on the other side. Not only would it seem contradictory to charge users private copying levies but prevent them from making such copies through copy protection technologies, it would also seem inequitable to distribute the royalties to rightholders who have protected their works with such technologies. The Act allows both the copyright levy system and the individual licensing approach to co-exist and to compete. It provides that the collection as well as distribution of copyright levies must take into consideration whether and to what extent copy protection technologies are used by copyright owners.

b) Devices and recording media subject to copyright levies

In terms of when the obligation to pay copyright levies is triggered, lawmakers sought to find a solution that was as neutral to different technologies as possible. In the future, not only devices and recording media that are overtly intended to make private copies, but any device and recording medium which, by its very nature or in connection with other devices, can in fact be used to make private copies will be subject to copyright levies. The limitation initially included in the Draft Law – that the devices in question must be used “to a material extent” for copying within the meaning of sec. 53 Copyright Act – was rejected to create greater legal certainty and avoid long disputes. Disputes are expected, however, regarding the amounts of royalty rates.

c) Determining the amount of copyright levies

In order to facilitate a more flexible and practical response to technological developments and market needs, rates for copyright levies will in the future be negotiated by market participants and will no longer be set by the legislature. The new legislation, however, requires that market participants comply with certain requirements (sec. 54a Copyright Act).

As a key factor to measure levies, the Act identifies the extent to which devices and recording media are actually used to make private copies taking into account, however, the use of copy protection technologies. In particular, the determination of applicable rates must reflect the relevant features of each device and recording medium (e.g., printing speed or quality, capacity of recording media, etc.). For multifunction devices (e.g., scanners, PC's and printers) or devices with multiple components, rates must be structured so that they are reasonable as a whole. These criteria implement the principles established by the “Scanner Decision” of the Federal Supreme Court (BGH) (reported in NJW 2002, at p. 964). Lawmakers did, however, not incorporate a proposal in the Act which capped the levies at a certain ratio between the amount of levies and the price of the device or recording medium. The interests of manufacturers are nevertheless taken into account inasmuch as copyright levies may not unreasonably impair the interests of manufacturers and must be economically reasonable in proportion to the

price level of the device or recording medium (sec. 54a para. 4 Copyright Act). For purposes of determining reasonableness, however, the pricing structure of manufacturers must also be taken into consideration, for example if profits are generated primarily from the sale of device-specific supplies (e.g., printer toner cartridges). At the same time, the standard of reasonableness requires due consideration of the competitive situation of the manufacturers.

d) Dispute resolution procedure

To facilitate the quick resolution of anticipated disputes involving the amount of copyright levies, the Act provides for a multi-phase, accelerated dispute resolution procedure. As a first step, the collecting societies are obligated to negotiate equitable rates with the relevant manufacturer associations. If these negotiations fail, the collecting societies may establish tariffs. Before doing so, however, collecting societies must conduct empirical studies to determine the actual use of the devices and recording media (sec. 13a para. 1, Copyright Administration Act) and publish the expert reports or market research studies. The procedure for litigating disputes before the arbitration board [Schiedsstelle] has been accelerated, and, if no settlement can be reached, the Munich Court of Appeals (OLG München) is the court of first judicial instance with jurisdiction to decide the matter. In order to resolve disputes expediently, parties are also afforded an opportunity to engage in voluntary mediation as an alternative to a proceeding before the arbitration board.

II. Unknown Forms of Commercial Exploitations and Archive Access

The German Copyright Act contained a provision by which rightholders could not license exploitations of a work for commercial uses which were unknown at the time of the license agreement (so called unknown forms of commercial exploitation – unbekannte Nutzungsarten; sec. 31 para. 4 Copyright Act (old version)). Hence, under the old law, if new forms of use were developed (such as, e.g. the Internet), the necessary rights had to be licensed under an additional, individually negotiated contract. This process involved considerable transaction costs and in many cases – in particular for works created by a large number of authors – effectively blocked

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commercial exploitation. This prohibition has now been removed. The change had been vigorously advocated by the film industry.

The Copyright Act now allows the licensing of unknown forms of commercial exploitation by written contract and thereby follows international developments (sec. 31a Copyright Act). Nevertheless, the author has a right of revocation in the event that the licensee intends to begin with a new form of commercial exploitation. The right of revocation must be exercised within three months from transmission of a notice to the author. In order to avoid blocking commercial exploitation where two or more authors have collaborated in the creation of a single work or where the party exploiting a work has combined contributions from a number of different authors, the right of revocation may not be exercised contrary to the principle of good faith and fair dealing [Treu und Glauben] (sec. 31a para. 3 Copyright Act). For exploitation of film rights, however, no revocation right exists to avoid the difficulties of handling a multitude of rightholders involved in a film production. As a compensation, authors now have been conferred a right to additional, equitable compensation which cannot be waived in advance (sec. 32c Copyright Act). Special rules apply in favour of the Open-Source movement and Open Content.

To allow for the exploitation of archived works, for which rights to unknown forms of commercial exploitation could previously not be licensed, rights to unknown commercial exploitations are deemed to be included in the licence provided that the licence is exclusive and covers all material forms of exploitation known at the time of the licence agreement (sec. 137l Copyright Act). This new provision is intended to facilitate the publishing of media stored in archives. Authors have a right of revocation in this case, as well. For any forms of commercial exploitation known as of 1 January 2008, the right of revocation must, however, be exercised within one year (i.e., on or before 31 December 2008). In exchange for the use of the work, the author also has a right to reasonable compensation, which is payable to the collecting societies.

Attempts to enact a more comprehensive rule according to which film producers would automatically

acquire all rights to a film by operation of law, ultimately failed in the legislative process. However, existing rules of contract interpretation were expanded in favour of film producers. In the event of any uncertainty, producers now acquire the right to exploit films in all known and unknown forms of commercial exploitation (sec. 88 para. 1 and sec. 89 para. 1 Copyright Act).

III. Additional Exceptions and Limitations of Copyright

1. Fair use in favour of science and education

In addition to the issue of private copies and unknown forms of commercial exploitation, the exceptions and limitations of copyright in favour of science and education have been central topics of the Second Basket. Despite a long, and at times fierce, debate, no one seems to be completely satisfied with the outcome. While publishers of scientific publications – despite a number of concessions made during the legislative process – still fear losses of revenue, the scientific community criticises the compromises as inadequate. It has also become apparent that the economic background of information processes in the area of scientific publications requires additional investigation. This also applies with respect to open access models in the scientific community, which are receiving increasing attention.

a) Electronic reading terminals

The Act introduces a new rule to allow public libraries, museums and archives to provide access to their books from electronic reading terminals provided that only so many copies may be available electronically as are owned by the relevant institutions as a hard copy (sec. 52b Copyright Act). In view of this limitation, some commentators doubt whether the digitalization of works will prove worthwhile. With respect to digital information products, the law grants priority to contractual arrangements.

b) Document delivery services of public libraries

Among the most controversial provisions of the Second Basket is sec. 53a Copyright Act, according to which public libraries are entitled to send copies of individual articles or smaller parts of a work to their users by mail or facsimile on special order. This provision effectively writes

into law a decision the Federal Supreme Court (reported in BGHZ 141, at 13 – the “Kopienversanddienst” case). During the legislative process, a serious debate arose on the issue of whether and to what extent libraries should be permitted to send copies to users not only by mail and facsimile, but also by e-mail (see Munich Court of Appeals, reported in MMR 2007, at p. 525). According to the final compromise ultimately incorporated into the Act, transmission via e-mail will be permissible in the future for research and development purposes only provided that no commercial objectives are pursued and the transmitted information is limited to a graphic file. Moreover, e-mail transmission will be permissible only if the relevant article or title is not available online directly from the publisher. This priority of the publisher's online services will, however, apply only if the online offer is “obvious” to libraries and if downloads are available on “reasonable terms and conditions”. The criteria for reasonableness will have to be determined by courts in the future, a task which will require courts to assess the pricing policies of publishers. This provision raises the more general question as to which extent exceptions and limitations of copyright or the reason for such exceptions and limitations may serve as instruments of price control.

c) Additional restrictions on the archiving privilege

Under sec. 53 Copyright Act, users are also permitted to copy works – subject to strict limitations – in order to create their own archives (the so-called “archiving privilege”). For digital copies, however, the relevant archive must now also serve “the public interest” (sec. 53 para. 2, Copyright Act).

d) Freedom of quotation

The right of quotation [Zitierfreiheit] has also been expanded to some extent (sec. 51 Copyright Act). The Act eliminates the restriction to language and musical works as well as to quotations in scientific works and rephrased the exception in more general terms. Since German courts had already expanded this exception in previous decisions (see, e.g. Bundesgerichtshof, reported in GRUR 1987, at p. 362 – the so-called “Filmzitat” decision), the Act does not significantly modify the law.

2. Press review privilege

The scope of the press review privilege [Pressespiegelprivileg] has also been slightly expanded (sec. 49 Copyright Act). Following this change, sec. 49 para.1 Copyright Act now covers images published in connection with news reports. For electronic press reviews which had been a subject of heated debate in recent years, the legislature declined to expand the current scope of the exception. In view of an important decision of the Federal Supreme Court – allowing only in-house press reviews which do not permit full-text research (reported in BGHZ 151, at p. 300 – Elektronischer Pressespiegel) – there was, in the opinion of lawmakers, currently no need for additional change. Lawmakers specifically refused to allow commercial providers of press clipping services to invoke the press review privilege.

IV. Miscellaneous

1. Publishers' ability to share in proceeds

The Act further includes a provision permitting authors to assign their statutory royalty rights under sec. 54 et seq. Copyright Act to publishers in advance, provided that such rights are managed by collecting societies that manage the rights of both publishers and authors (sec. 63a Copyright Act). This option is intended to guarantee that publishers will continue to receive a share of the proceeds from copyright levies.

2. No share of proceeds for broadcasting companies

The legislature did not follow a demand by broadcasting companies which would give broadcasting companies a share in the distribution of proceeds from the levies on recording media or devices. The Draft Law noted that such a distribution would not be appropriate under German constitutional law or European law. In the case of recorded broadcasts, the Draft Law further noted, the focus is not so much on the efforts of the broadcasting companies, but rather on the recorded film or musical work. If the broadcasting companies, however, also act as film or recording producers, they already receive a share of the proceeds.

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3. Cable rebroadcasting

Despite extensive discussions, the provisions on cable rebroadcasting were not significantly amended. In particular, the legislature decided not to follow a demand for the repeal of sec. 20b para. 2 Copyright Act. The Act has amended sec. 87 para 5, however, to grant cable and broadcasting companies the right to demand joint negotiations with collecting societies (sec. 87 para. 5 Copyright Act). It is open whether the arbitration board [Schiedsstelle] will take substantive action as a result of the amendment and assess equitable remuneration based upon an overall assessment of the different right holders' claims. In any event, the new provision should strengthen the over-all assessment of royalties, which is also implied by the protective tendencies of the SatCab Directive. The Act will also strengthen objections to the separation of distribution contracts and broadcasters and contracts with collecting societies which has also been seen in the context of the licensing of DSL/IP-TV and mobile television rights. Additional requests – such as a more technology-neutral drafting of the statute – have been deferred to the Third Basket.

B. Implementation of the Enforcement Directive

In January 2007, the German Government passed a bill for an "Act to Improve the Enforcement of Intellectual Property Rights" (the "Draft Law"). The Draft Law will implement Directive 2004/48/EC on the Enforcement of Intellectual Property Rights (the "Enforcement Directive") which was directed at harmonizing the procedures and appeals processes for the enforcement of intellectual property rights in the European Union. The following is a short summary of the Draft Law. As there is, in German law, no statute specifically directed to the enforcement of intellectual property rights, the Draft Law for the most part provides for identical provisions in the relevant statutes, such as the Copyright Act, the Patent Act, the Trademark Act, the Utility Patent Act, the Design Patent Act, the Semi-Conductor Act and the Brand Protection Act.

V. Outlook

During the legislative process, the parliament expressly requested that a number of issues be made the subject of further legislative review. These issues include a possible ban on recording software, a technology-neutral rephrasing of the cable rebroadcasting right, commerce in used software, open access to scientific works, and the exceptions and limitations in favour of science and education. German copyright law will continue to be pressed to evolve in order to respond to the rapid development of technology.

I. Disclosure Rights

Much controversy had surrounded the question as to whether disclosure or discovery rights should exist not only against infringers of intellectual property rights but also against non-infringing third parties. Most importantly, it is debated whether and under which circumstances Internet access providers are required to disclose the identity of IP-address holders or Internet pseudonyms. Currently, German law – at least according to the majority view – does not recognize a general and unconditioned disclosure or discovery right. The court of justice has recently also been reluctant to grant far-reaching information rights in these cases (ECJ, 29.1.2008, *Promusicae/Telefónica*).

The Draft Law provides for a right to demand disclosure from third parties if they have in their possession

infringing copies in a quantity which would typically be used for commercial purposes, if they have taken advantage of infringing services, or if they have provided services that are used for infringing activities (see, in particular, sec. 101 Draft Copyright Act; sec. 140b Draft Patent Act; sec. 19, 128, 135 Draft Trademark Act). A right to disclosure, however, shall exist only in cases in which the underlying infringement was committed on a commercial scale and if the infringement is obvious or a legal action has been filed.

Discussions also focused on the extent to which stored data [Vorratsdaten] may be used for civil law disclosure actions. Under the Telecommunications Act, such data are stored in particular for anti-terrorism purposes for a period of six months by providers of telecommunications services. In response to demands made by the music industry, it was attempted to allow use of such data for civil law disclosure actions. The request has been rejected, however, so that the data continues to be stored for government use only.

II. Discovery of Evidence

In light of the requirements of Articles 6 and 7 of the Enforcement Directive, the Draft Law proposes that a copyright owner or other rights holder may compel a person who in all reasonable likelihood infringed intellectual property rights to present documents or to permit the inspection of property within his/her control, provided that such disclosure is required for the substantiation of legal claims (sec. 101a Draft Copyright Act; sec. 140c Draft Patent Act; sec. 19a, 128, 145 Draft Trademark Act).

III. Remedies

Under Article 10 of the Enforcement Directive, Member States must ensure that the competent judicial authorities may, in the event of an infringement of intellectual property rights, order a recall of the relevant products as well as of materials and devices primarily used to manufacture such products, as well as the complete removal from commerce and destruction of such products, materials and devices. In terms of the right to destruction, German law for the most part reflects the requirements of the Enforcement Directive. The right to order

a recall and the right to demand complete removal from commerce have not yet been specifically enacted into German law, but may under certain circumstances be construed as claims for specific performance. The Draft Law provides for the verbatim enactment of these remedies in all statutes relating to intellectual property rights.

The legislature rejected a request that the law expressly provides for double-damages (twice the amount of the licence fees) in the event of an infringement of intellectual property rights. In support of its rejection, the German government reasoned that such punitive damages would be inconsistent with general principles of German law. The Draft Law does not rule out, however, that compensatory damages may in some cases be higher than the amount of a licence fee.

IV. Limitation of Costs for Attorney Demand Letters

The Draft Law includes a proposal – which was not triggered by the Enforcement Directive – according to which a right to reimbursement of expenses for demand letters (Abmahnung) from legal counsel should be limited to EUR 100.00 if the case involves a first-time demand letter in what is reasonably regarded as a simple case of infringement and the infringement is only minor and has occurred outside the commercial arena (sec. 97a para. 2 Draft Copyright Act). This provision is intended to prevent attorneys from making a business out of abusively sending out mass demand letters and to avoid subjecting private users to liability for unreasonable attorneys' fees even for minor copyright infringements. Although the objective of such a provision has been positively received, the concrete proposal has been criticised.

V. Prospects for the Future

As the Enforcement Directive has an impact on several statutes, its implementation is complex. The deadline for implementation of the Enforcement Directive has lapsed, however, on 29 June 2006, so that it is expected that the implementation of the Enforcement Directive will be signed into law in the near future.

Contact partners for copyright and media law:

Dr. Albrecht Conrad

Telephone +49 (0) 30 2 03 74-187

E-mail albrecht.conrad@hengeler.com

Dr. Wolfgang Spoerr

Telephone +49 (0) 30 2 03 74-161

E-mail wolfgang.spoerr@hengeler.com

Additional contact partners for IP law:

Dr. Wolfgang Kellenter

Telephone +49 211 83 04-198

E-mail wolfgang.kellenter@hengeler.com

Dr. Markus Meier

Telephone +49 69 1 70 95-370

E-mail markus.meier@hengeler.com

Berlin

Charlottenstraße 35/36
D-10117 Berlin

Telephone +49 30 2 03 74-0

Telefax +49 30 2 03 74-333

Düsseldorf

Benrather Straße 18-20
D-40213 Düsseldorf

Telephone +49 211 83 04-0

Telefax +49 211 83 04-170

Frankfurt

Bockenheimer Landstraße 24
D-60323 Frankfurt am Main

Telephone +49 69 1 70 95-0

Telefax +49 69 72 57 73

Munich

Leopoldstraße 8-10
D-80802 München

Telephone +49 89 383 388-0

Telefax +49 89 383 388-333

Brussels

Square de Meeüs 40
B-1000 Bruxelles

Telephone +32 2 7885-500

Telefax +32 2 7885-599

London

30 Cannon Street
GB-London EC4M 6XH

Telephone +44 20 7429-0660

Telefax +44 20 7429-0666