Position Paper
of the German Bar Association by the Committee on Intellectual Property


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The German Bar Association (Deutscher Anwaltverein – DAV, Transparency Register identification number 87980341522-66) is the professional body comprising more than 66,000 German lawyers. Being politically independent the DAV represents and promotes the professional and economic interests of the German legal profession.

Summary

The DAV welcomes the Proposal of the Commission for the portability of online digital contents. It suggests to add an exception to copyright and to replace the one-sided order for the provider by a strict contract clause. The DAV furthermore suggests deleting the restriction of portability to a certain period of time and deleting the exclusion of portability in case of streaming services.

I. Support in principle

1. The German Lawyers Association (DAV) welcomes the Initiatives of the Commission to prepare for a Digital Interior Market as contained in the Communication “Towards a Modern, More European Copyright Framework” (COM (2015) 626, final of 9.12.2015). The DAV shares the opinion of the Commission that the Union may succeed in competing with other big market societies, especially the US and China, only, if the Interior Market is not only functioning for goods and services but also for Digital Communication.

2. The Proposal for a Regulation on ensuring the Cross-border Portability of Online Content Service in the Internal Market (COM (2015), 627, final of 9.12.2015) is a first step in realizing the proposals of the Commission to be expected within the framework of the said Initiatives. The DAV welcomes this Proposal, notwithstanding its critical comments on the basic legal concept and regarding certain details of the Proposal.

Portability of digital contents in the meaning of the Proposal would constitute a limited step forward for consumers/subscribers who want to make use of online digital content during a limited stay in a Member State other than the Member State of residence where they have concluded a contract with a provider of an online content service. Seen from the viewpoint of the provider of online content service, this should be possible without additional costs. The copyright owner and his licensees would not lose a substantial market chance since the consumer/subscriber, during a short term visit to another Member State, would anyway in most cases not conclude a second agreement on the same digital content with a second provider competent for the copyright in this other Member State (therefore, the fears of the film industry as cited by Schwarz, ZUM 2015, 950/951 ff. are not relevant for this specific proposal).
In summary, the Proposal of the Commission offers advantages for the consumer/subscriber without entailing substantial economic losses on the side of the copyright owner, his licensees and the providers of online content service. From an economic point of view, the Proposal is pursuing a limited and plausible aim.

3. However, against the background of the much larger Initiatives of the Commission for a Digital Interior Market, it is important that already this first proposal finds its right place in the overall legal system of the Union (contract law, copyright law, competition law, interior market law) and that the proposal is realized in conformity with the principles of this legal system. In this respect, the Proposal seems to need improvement in its basic structure (II.-V.) and further amendments in points of detail (VI.)

II. Legal Structure of the Proposal

4. The Proposal of the Commission does not seek the solution for Portability in the form of an exception to copyright approximating the national copyright laws of the Member States. It addresses in a somewhat forced way unilaterally the provider of online content service in his contract position vis-à-vis the consumer/subscriber (Article 3 (1)) and it interferes with the contract relationship between the owners of copyright positions on the one side and the provider of online content service on the other side (Article 5 (1)), not realizing that the contract partner of the providers of online content service usually is not the copyright owner himself, but the holder of a license. Thus, the copyright owner, despite being mentioned in Article 5 (1), in many cases is left out of the framework of the proposed Regulation.

5. The Proposal realizes the advantage of portability for the consumer/subscriber in the way of a direct interference with the freedom of contract of the provider of online content service in his contractual relationship with the consumer/subscriber.

Pursuant to Article 3 (1) the provider of an online content service shall enable a subscriber who is temporarily present in (another) Member State to access and use the online content service. This obligation is not realized in the form of a strict legal contract clause to be included in contracts between the provider and the consumer/subscriber but in the way of an order for the provider of online content service. In other words: The ordered behavior is not implanted into the contract by a clause of strict contract law. It is directed one-sidedly against the provider of the online content service. Thus, it has a similar legal quality as other obligations of business enterprises binding them by public law obligations. Whereas strict contract law clauses could be enforced by the partner of the contract, in this case by the consumer/subscriber, one-sided obligations of one of the partners of the contract must be enforced by other sanctions (such as public law penalties). Such sanctions are not provided for in the Proposal.

The Commission itself seems to be of the opinion that such sanctions are not necessary because the consumer/subscriber would have no difficulties to argue
within the contract for his freedom to use referring to the obligation of the provider contained in Article 3 (1). This shows that the order would better be realized within the framework of contract law (where it would have to be accompanied by a legal exception of copyright protection, see III. and IV.).

For this reason, the DAV recommends to change the construction of Article 3 (1) in providing that contracts between the provider of online content service and a consumer/subscriber must contain as part of strict law a provision according to which a subscriber who is temporarily present in a Member State other than the Member State of his residence must be free to access and use the online content service.

6. In the relationship between all persons providing the provider of online content service with a license to use rights on digital contents and the provider himself, such persons being called in this paper "provider of rights", Article 5 (1) does not contain a one-sided order (as in Article 3 (1)). Here, a contractual solution is proposed: Any contract clause in such contracts shall not be enforceable if it is contrary to Article 3 (1) and (4).

In principle, it is a good idea, not to use a one-sided order regarding one of the contract partners, but to use a contract form solution (unenforceability).

However, that contract law sanction, under general legal principles, is not available, since the order pursuant to Article 3 (1) is directed one-sidedly against the provider of online content service. According to general principles of law interfering with the sanctions of legal contracts, as in the case, unenforceability is possible only if both partners of the contract act against binding law. In such cases, moreover, the right consequence would not be "unenforceability" but invalidity of the clause.

Moreover, the legal consequence of unenforceability means that the legal obligation as such will stay alive. Therefore, the provider of online content service would violate the contract when enabling the consumer/subscriber to access and use the online content service in other Member States, if the contract with the provider of rights would not permit him to do so. The consequence of unenforceability would only be that his contract partner (the provider of rights) cannot sue him before a national court. Unenforceability also means that the contract cannot be canceled for the reason that the provider violates the contract in acting pursuant to Article 3 (1).

7. Seen from general law principles, there is no acceptable foundation to be seen why contract clauses should be unenforceable which exclude a behavior pursuant to Article 3 (1) and also why such clauses should only be unenforceable and not invalid.

III. Missing Copyright Provisions

8. These first remarks regarding the solution proposed by the Commission lead to a more fundamental defect of the Proposal. In view of the further Initiatives the Commission is planning to take in order to realize the Digital Internal Market it is
important to understand and to correct this defect. The copyright part of the Proposal is deficient. It is not regulated. Moreover, the solution proposed by the Commission does not show any copyright-conform reason for the order contained in Article 3 (1) and its consequences in Article 5(1) for the contractual relationship between the provider of the online content service and the provider of rights.

9. The provision contained in Article 5 (1) is only dealing with the law of obligation side of the contractual relationship between the provider of the online content service and the provider of rights (the copyright holder or his licensee): The contractual obligation of the provider of online content service not permitting him to act according to Article 3 (1) is ruled to be unenforceable. However, unenforceable of a contract clause does not change anything regarding the copyright obligation of the provider of online content service. Where a licensee does not act in conformity with a license contract, the provider of rights still has the absolute copyright authority not to permit the provider of online content service to act according to Article 3 (1). Therefore, the provision in Article 5 (1) would be effective only if it would also relate to the copyright obligation of the provider of online content service licensed to him by the provider of rights. It seems probable that the Commission has intended this. However, it has not provided for it.

10. What is even more important: the solution contained in Article 5 (1) is running into difficulties, because it apparently tries to intervene with all parts of the whole copyright chain between (1) the copyright holder and his licensee, normally being the provider of rights for the provider of online content service, (2) the provider of rights and the provider of online content service and (3) the provider of online content service and the consumer/subscriber. The holder of copyright and related rights is mentioned in Article 5 (1), but unenforceability makes only sense under the law of contracts where he is the contract partner of the provider of online content service, because only then he is directly involved in preventing the provider of online content service from fulfilling his duty pursuant to Article 3(1).

11. In other words: the Proposal of the Commission needs to address the copyright itself. This is necessary in order to justify the contractual consequences intended by the Proposal of the Commission in the whole copyright-distribution-chain.

IV. Copyright foundation

12. It follows from these arguments that the Proposal of the Commission needs a copyright exception-rule foundation and contractual consequences derived from that foundation.

13. Before we turn to copyright: Competition law (Article 101, 102 TFEU) is not applicable, (1) because according to the practice of the CJEU (C-418/01 ECLI:EU:C:2004:257 – IMS/Health) (a) the exclusive copyright, as such, does not constitute a dominant position in the market and (b) making use of the copyright to exclude others from use, in principle, is no misuse and (2) the Proposal of the
Commission wants to address the providers of online content service also where their repertoire does not afford them a dominant market position.

14. What the Proposal of the Commission does from the copyright point of view is: It limits the right to a territorially limited license. What could justify this limitation?

15. In Union law regarding intellectual property rights the rights-holder is generally and expressly permitted to grant territorially limited licenses not only limiting the license to certain Member States, but also limiting the license to territorial parts of one Member State (Art. 22(1) Regulation (EC) 207/2009 for the Community Trade Mark; Art. 3 (2), subparagraph 3 Regulation (EU) 1257/2012 for the Union Patent). This would not be different for a (not yet existent) unitary Union Copyright.

Permitting territorially limited licenses for intellectual property has many justifications: A Union wide license may be too costly for a single licensee. The copyright holder himself may have an interest in using his right within a certain territory. Marketing may need special regional know-how (languages, knowledge of local customs) which only a licensee close to the region may have, etc.

16. The copyright question to be asked from the outset is what kind of exception from this basic permission for territorially limited licenses may be justified under general law principles.

17. Within the territory of a national copyright it is an acknowledged principle that dividing up that right according to territories, time or contents is only possible by the means of the law of obligations not under the copyright law itself. Dividing up of the copyright itself is possible only where the parts are independent for technical or economic reasons and may be separated from other forms of use (BGH GRUR 2005,48 (49) – man spricht deutsch). The same may apply for splitting up the market under the so-called European Satellite-Distribution Directive (Directive 93/83/EWG of 27.9 1993, OJ Nr. L 248 of 6. 10. 1993, 15).

However, this principle (no dividing up of a unitary national copyright territory) is not applicable in the relationship between national copyrights of different Member States and their limited territorial effect (different: Stieper. GRUR 2015, 1145/1147).

Therefore, the foundation for the Proposal of the Commission is not to be found within existing copyright law.

18. The correct copyright-conform solution for the Proposal of the Commission would be a new copyright exception rule approximating existing national copyright law (Ohly, ZUM 2015, 942/949). Providing for a copyright exception seems to be the right solution not only because of the advantages and the not existing disadvantages in economic respect (see I. above). A copyright exception rule of that kind seems to be close to the exhaustion principles developed by the CJEU regarding the distribution of goods.
19. Where the digital contents would be handed to the consumer in an embodied form (CD, stick), that embodied form would be subject to the rules of the free movement of goods and with them their digital contents. This follows from the exhaustion principle relating to the free movement of goods. The digital content enclosed in the sale of the embodied form is regarded as part of the sellable good under the principles of exhaustion.

20. In the case of an online transmission of digital contents, there is no good which is sold. The provider provides a service to the consumer. The relevant contract is not a sales contract but a service contract. For the free movement of services Union exhaustion rules have not been finally established by the CJEU (Wiebe, ZUM 2015, 932/940).

21. An established CJEU practice exists, however, in the special field of the Software Program Directive (Directive 2009/24/EC of 23.4.2009, OJ Nr. L 111 of 5.5.2009, 16). There, the CJEU accepts exhaustion also in the case of an online provision of digital contents and the actual delivery of such contents (CJEU C-128/11 ECLI:EU:C:2012:407 mn 60 ff. = GRUR 2012, 904 – UsedSoft; BGH GRUR 2015, 772 mn 32 ff. – UsedSoft III; BGH GRUR 2015, 1108 mn 39 ff.– Green IT; Stieper, GRUR 2015, 1145/1146). This also applies regarding the online contents necessary for repair and service on the delivered digital contents (CJEU UsedSoft mn 67). Both are also services. This practice of the CJEU apparently is based on the neighborhood of this service (online provision of digital contents) to goods.

22. Understandably, it has been asked (AG Kokott C-403/08 und C-429/08 ECLI:EU:C:2011:43 mn 180 ff.; Stieper, cf.; Stieper, in: FS Köhler (2014), 729/738 f.) why these principles do not apply generally for content service provided online. The argument runs as follows: If all musical works or films in the repertoire of the provider would have been transferred to the computer of the consumer on a stick, they would have been subject to the principles of the free movement of goods. On the other hand, if they remain with the provider and may be used only online, why should the legal principles be different (Ohly, ZUM 2015, 942/949: clandestine deterioration of the position of the consumer; Wiebe, ZUM 2015,932/940; Lehmann, in: Campus, conference report Milano, EuCML 2015, 270/271). These arguments, again, are based on the neighborhood of the service of online distribution of contents to the distribution of goods, both being treated already in the same way regarding software programs.

23. However, it would not be justified to apply the rules on the free movements of goods in a sweeping way, without any change, to the service of an online provision of contents. In copyright law the different forms of use of copyright are protected independently from each other (see for software-programs: BGH Green IT mn 39 ff.: content may be sold but the seller must delete the contents remaining in his own computer). In respect of exhaustion each form of use must be considered separately, for itself.
24. Regarding **portability** the neighborhood to the free movement of goods and the exhaustion rules in the case of sale of goods seems to justify a limited application of the exhaustion principle in the field of the provision of **service** because of the strictly limited consequences.

The consequences of the Proposal of the Commission are not only limited under the aspect of time. They do not create a freedom of use on the market of digital contents: The consumer/subscriber will not be permitted to multiply the digital content or to distribute it or make it publicly available. Only the **personal use right of the consumer/subscriber** is broadened. It must be noted that the right of use of the consumer/subscriber already in the Member State of residence is independent from the actual seat of the consumer/subscriber. He may download the online content anywhere in his Member State of residence. This independence, according to the Proposal of the Commission, is now to be extended into other Member States. **Example:** If the German consumer/subscriber makes vacation in the Eifel/Germany, he may download the digital content provided to him online on the basis of the contract for Germany. However, if he moves 20 miles over to Luxembourg, under present copyright law, he would not be permitted to download these contents. The Proposal of the Commission wants to extend this use-right to other Member States.

25. Therefore, it appears that the Proposal of the Commission is justified under the aspect of an exception to copyright because it provides a limited step in the direction of an exhaustion of the copyright in the field of service copying in part the rules established for the free movement of goods.

**V. Proposal for a Solution in conformity with Copyright Law**

26. The foregoing systematic considerations show that what is necessary for realizing the Proposal of the Commission is an exception to copyright law. The national copyright laws should be subject to a harmonizing rule, according to which the consumer/subscriber has the right to use the online digital contents in a Member State other than the Member State of his residence under the same conditions as under the contract for his Member State of residence.

27. This copyright exception rule would extend to the whole chain from the copyright holder to his licensee, to the provider of online contents down to the consumer/subscriber. The contract rules as contained presently in Article 3 (1) and Article 5 (1) of the Proposal would follow from that exception rule automatically. The solution proposed here could be realized in a short regulatory text. The rules in Article 3 (2) and (3) could remain. Article 4 could be deleted. Article 5 (2) could be reformulated under the aspect of an exception to copyright. Articles 6 and 7 basically could remain unchanged.
VI. Comments regarding details of the Proposal

28. The copyright exception intended by Article 3 (1) and 5 (1) is limited to a temporary visit of a consumer/subscriber in a Member State other than the Member State of his residence. This limitation regarding the time of use should be reconsidered. The limitation is neither defined nor controllable. And it does not really serve the consumer/subscriber. **Example:** If a German pensioner wants to spend the winter in Mallorca, he should not be restricted to the download of online available contents in the first three weeks (if this would be the period of time for the temporary use). It should be sufficient to require that the consumer/subscriber who has his residence in Member State A presently stays in another Member State B.

29. The **exception from the exception** (Article 2 lit. e nr. 2) regarding online service provided without payment of money (except where the subscriber's Member State of residence is verified by the provider) should be deleted. This rule refers to a case of streaming (digital contents provided regarding actual events), which in certain Member States are offered without payment of money being necessary (Ohly, ZUM 2015, 942/944). If, as planned, radio and television providers would be allowed to offer streaming within the framework of the Satellite Directive (Ohly, ZUM 2015, 942/948), a service which would be received in the whole interior market, it would not be justified to exclude the consumer/subscriber from the advantage of portability regarding the same online content service.

30. In Article 3 (1) the form of a strict law contractual rule should be chosen. Such a rule would be the consequence of the copyright exception proposed by the DAV.

31. If Article 5 (1) would remain as presently framed the consequence should be the invalidity of the contractual limitation. In addition, a copyright-related rule would have to be introduced for which unenforceability could be the right consequence.