

COMMENT SECTION

From Copyright Licences to Risk Bargains: New Technical Uses and Old Contracts The Application of Article 31(4) of the German Copyright Act

ARNOLD VAHRENWALD

CentreBar, Munich, Professor at the ECAT Rome

This comment focuses on the problems which have arisen with new technical uses which can be made of works protected by copyright. If the copyright owner has authorised other persons to exploit his work, it may be controversial to whom the right for the exploitation of new uses belongs. The author discusses recent developments in the contractual practice in Germany and the United States.

New technical uses can be made of old-works but who has the power to grant the authorisation when the contracts between authors, producers and distributors or publishers do not contain a reference to the new uses? Clauses concerning the granting of electronic or multimedia rights have only been employed in recent years and each new technical method of exploitation of works gives rise to the question: who is the person with the power to grant a licence for this type of use with respect to existing or older works? The identification of the relevant person has become so cumbersome that it may effectively form a barrier to putting pre-existing works to new types of use. In a report related to French copyright law Professor Sirinelli¹ suggested instead the creation of new productions. Additional complications arise from the differences between national regulations which have to be observed in the case of a global exploitation and which may render importers of disturbing material liable without fault.²

The Communication Right of the WIPO's Draft Treaty on Certain Questions Concerning the Protection of Literary and Artistic Work

In response to the increase of possibilities for the exploitation of works it has been suggested that the exclusive rights which the copyright owner holds should be expanded. The US Information Infrastructure Task

This comment is based on the author's contribution to the conference 'Copyright: Fundamentals from an Advanced Perspective, the Los Angeles County Bar Association Intellectual Property and Entertainment Law Section Symposium 1996'.

1 Pierre Sirinelli, 'Le Régime Juridique et la Gestion des Oeuvres Multimédias', 1996, reported by Frédérique Genton, GRUR Int. 1996/693.

2 German Federal Supreme Court of 3 February 1976, VUS, GRUR 1977/114.

Force³ recommended in its report of 1995 the introduction of a broadly defined transmission right. The World Intellectual Property Organisation, which is responsible for the administration of the Berne Convention,⁴ took up this idea in the proposal of a Draft Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works.⁵ Article 10 of the Draft Treaty which concerns the 'Right of Communication' states that authors

shall enjoy the exclusive right of authorising any communication to the public of their works, including the making available to the public of their works, by wire or wireless means, in such a way that members of the public may access these works from a place and at a time individually chosen by them.

The Draft Treaty which is proposed for adoption by the Diplomatic Conference in December 1996 would thus make it clear that new types of uses of protected works would be covered by the exclusive rights of the copyright owner. To these rights belong interactive on-demand acts of communication. The notes to the Draft Treaty explain that technological developments have made it possible to make protected works available in many ways which differ from traditional methods. This has become a source of concern in connection with the categories of works not covered by the exclusive right of communication as regulated by the Berne Convention. The extension of the concept of communication by the Draft Treaty would increase the scope of copyright protection. The new rights will accrue to the copyright owners so that they will be the people to authorise the use of the work with respect to the increased communications rights. It may be expected that the new rights will be effective with the adoption of the Treaty.

Which works are affected by the new exclusive right? The reference to Article 18 of the Berne Convention in Article 15 of the Draft Treaty suggests that the Draft Treaty is applicable to all works which, at the time the Treaty enters into force, have not fallen into the public domain. The attribution of the right may create problems if the original copyright owners have transferred some of their exclusive rights to another person or if they have granted exclusive exploitation rights so that it may be necessary to draw a line between the rights which a licensee of the copyright has with respect to the communication of the work and the rights which the copyright owner obtains according to the new concept of the rights of communication.

The Contractual Practice with regard to New Uses of Works

In the US film industry it is common to include into contracts clauses by means of which an author grants to the

3 US Information Infrastructure Task Force, Report of the Working Group on Intellectual Property Rights, 'Intellectual Property and the National Information Infrastructure', 1995 at 217 and onward.

4 Berne Convention for the Protection of Literary and Artistic Works.
5 WIPO Committee of Experts on a Possible Protocol to the Berne Convention and on a Possible Instrument for the Protection of the Rights of Performers and Producers of Phonograms: Draft Treaty on Certain Questions Concerning the Protection of Literary and Artistic Work, WIPO document CRNR/DC/4 of 30 August 1996.

producer all rights for the use of all new technological uses whether now known or unknown and without stated rights to any remuneration therefrom.⁶ Time and space are unlimited: the grant is often in perpetuity and throughout the universe. Also publishing contracts contain comprehensive grants of rights for new uses and electronic publishing rights.⁷ Windfall profits deriving from the exploitation by the use of new technologies which were not known at the time of the conclusion of the contract will not benefit the author and not even the producer of a work if he has transferred the exploitation rights. It has been suggested that in order to achieve a fair participation of the authors in windfall profits a contractual or legislative correction should occur.⁸ But also countries which provide for the participation of the author in the windfall profits have discovered disadvantages of such a system. In Germany the uncertainties which are connected with the establishment of whether there is a new type of use may prevent the commercial exploitation of works.

The Right to Exploit the Work for New Types of Use

In the United States the question to whom the rights for the exploitation of new types of use belong will be answered by the terms of the licence contract. As Louise Nemschoff⁹ observed, the results which the US jurisdiction has achieved have been very specific to the facts of each case, relying heavily on the exact language used in the pre-existing contracts with regard to the generality of the grant of rights, the inclusion of a reference to rights in later-developed media, the reservation of rights not expressly granted, the intent of the contracting parties and the extent of their experience and sophistication in dealing with such business matters. In Germany, the matter is regulated by the mandatory provision of Article 31(4) of the German Copyright Act which states: 'The grant of an exploitation right for as yet unknown types of use and any obligations in that respect shall have no legal effect'. Thus the right to exploit the work for new types of use belongs to the author, even if he has transferred the exploitation right by contract, provided that the new type of use was not known at the time of the conclusion of the contract.

The German Copyright Act applies the principle according to which the author does not transfer more rights than necessary for the contractual purpose. This principle is based on Article 31(5) of the Act.¹⁰ It is of particular importance since the author cannot transfer the copyright – apart from the case of inheritance. The statutory regulation of Article 31(5) of the Act is qualified in the case of cinematographic works where Article 89(1) of the Act provides that a person who undertakes to participate

in the production of a film shall be deemed, when in doubt, to have granted to the producer of the film the exclusive right to also utilise the cinematographic work as adaptations or transformations in any known manner. But it should be observed that before the Copyright Act of 1965 entered into force on 1 January 1966 it was possible to stipulate contractually the acquisition of rights of use which were yet unknown.¹¹

Which are New Types of Use of a Work?

The new uses which can be made of works by means of digital technology are referred to as multimedia uses.¹² However, the individual type of a new use has to be identified and compared with the uses which were known at the time of the conclusion of the contract. Since it is the purpose of Article 31(4) of the German Copyright Act that the author shall be protected against the conclusion of agreements the economic importance of which he does not understand, a 'type of use' means, with regard to economic facts, any concrete technical and economic independent possibility of use of a work.¹³ Courts are not easily prepared to accept that a new technique also constitutes a new type of use. Thus it has been held that cable or satellite television did not constitute independent types of use but mere new technical means for broadcasting services.¹⁴ Therefore the mere use of the digital technology will not lead to a new type of use in the sense of Article 31(4) of the Act.

Which individual new techniques based on digital technology will qualify as independent technical and economic methods for the use of works is not yet clear¹⁵ and German courts have not had occasion to establish guidelines. It seems that CDs represent a type of new use with regard to the traditional record, taking into account the special equipment which they need. Also audio-visual CD-ROMs appear to qualify as a new type of use. By reason of its interactivity, pay-television-on-demand is likely to constitute a new type of use. With regard to communication by means of computers, databases, data networks and the Internet, the process of crystallisation of new services is not yet over so it may be premature to verify new types of use.

When is a New Type of Use of a Work Established?

Before a court, the date when a new type of use of a work, in the sense of Article 31(4) of the German Copyright Act, is established may have to be proved by expert evidence. Concerning new types of use with regard to existing

6 John M. Kernochan, 'Ownership and Control of Intellectual Property Rights in Motion Pictures and Audiovisual Works: Contractual and Practical Aspects', (1966) 20 *Columbia VLA Journal of Law & the Arts*, 379 to 459, at 447.

7 *Ibid.*, at 448.

8 Note 6 above.

9 Louise Nemschoff, 'Multimedia and the Experience of a US Lawyer: Critical Issues', Seminar paper of the Frankfurt Electronic Media Conference 1995, 1 to 27, at 7.

10 Article 31(5) of the German Copyright Act states: 'If the types of use to which the exploitation right extends have not specifically been designated when the right was granted, the scope of the exploitation right shall be determined in accordance with the purpose envisaged in making the grant'.

11 District Court of Munich of 25 January 1991, *Veit Harlan Video Rights*, GRUR 1991/377.

12 Thomas Dreier, 'Perspektiven einer Entwicklung des Urheberrechts', in *Urheberrecht und digitale Technologie*, Nomos, Baden-Baden, 1994, 123 to 153, at 147.

13 Federal Supreme Court of 11 October 1990, *Video exploitation*, GRUR 1991/133, at 136; of 5 June 1985, *GEMA-Vermutung I*, GRUR 1986/62, at 65.

14 Provincial Court of Hamburg of 11 May 1989, *Cable television*, GRUR 1989/590; District Court of Munich of 14 March 1986, *Satellite television*, ZUM 1986/484.

15 See, for example, Otto-Friedrich Freiherr von Gamm, 'Urheber- und urhebervertragsrechtliche Probleme des "digitalen Fernsehens"', ZUM 1994/591 to 596; Thomas Hoeren, 'Multimedia als noch nicht bekannte Nutzungsart', CR 1995/710 to 714; Wolfgang Maassen, 'Urheberrechtliche Probleme der elektronischen Bildverarbeitung', ZUM 1992/338 to 352.

practices of the use of works, German courts refer to the following dates:

- The use of works by television broadcasting is considered known since 1936.¹⁶
- Films were sold on video cassettes on an economic scale since 1978/1979.¹⁷
- The video technique for use in hotels and videobox has been practised in Germany since the early 1980s.
- The use of works of music by means of a CD became known in Germany after 1982.
- The sampling of music was an unknown production technique until the mid-1980s.
- The digitisation of photographs was not known until 1987.

Risk Bargains

In the case *Audiovisual methods*¹⁸ it was held that the parties may agree on the grant of rights with regard to a technically known but not yet economically practised type of use. According to the case *Video exploitation III*¹⁹ the parties conclude a risk bargain when they agree on the grant of a licence for a new type of use when the economic feasibility of the use is not yet proved. Risk bargains²⁰ concerning a technically known but economically still unimportant manner of use are permissible insofar as the new type of use is precisely identified in the contract and discussed by the partners and thus recognisably made a subject-matter of the bargain. The Federal Supreme Court held that Article 31(4) of the German Copyright Act is not applicable in this case. The decision may erode the otherwise firm position of German courts supporting the weaker party in licence contracts. With regard to the purpose of protection which Article 31(4) of the Act affords, the Court briefly observed that this purpose is not incompatible with the lawfulness of risk bargains during the preliminary phase of a first development of a technology towards an economic independent type of use.

The Court pointed out that according to Article 36 of the Copyright Act, an author may claim a participation in windfall profits in the case of a gross disparity between the performances of the parties. Article 90(2) of the Act contains a non-mandatory rule which excludes this possibility for film authors. But a participation in windfall profits may also be claimed on the doctrine of the lapse of the basis of the contract which is founded on the principle that contracts must be executed in good faith. The Court accepted

16 Federal Supreme Court, *Old Contracts* GRUR 1982/727, at 729; however, the District Court of Berlin, GRUR 1983/438, at 440, criticised that at that time the economic importance of the exploitation of works by television broadcasting was not a reality.

17 Provincial Court of Munich, ZUM 1989/146, at 148; the fact that the making of a multitude of copies of films was possible many years before does not play a role in this respect, because what matters is the mass media secondary type of use of films through the sale or rental of video cassettes; Federal Supreme Court of 11 October 1990, *Video exploitation*, Note 13 above.

18 Provincial Court of Munich of 10 December 1992, *Audiovisual methods*, GRUR 1994/115.

19 Federal Supreme Court of 26 January 1995, *Video exploitation III*, GRUR 1995/212.

20 Risk bargains are not particularly regulated in the German Civil Code; some aspects of risk bargains are regulated in the German Exchange Act, see Arnold Vahrenwald, 'Futures in Germany: the German Futures Exchange (Part 1)', [1994] 3 JIBL, 101 to 110, at 106, 107.

that risk bargains may be concluded by individual contracts or by using forms. It established, as a condition for the effectiveness of the risk bargain, that the new and economically as yet insignificant type of use is individually named, expressly stipulated and discussed by the parties and thus recognisably made the subject of the performance and counter-performance. If forms are used it may have to be examined whether the clauses contained in forms of contracts are compatible with the standards established by the German Act concerning General Terms and Conditions. According to Article 3 of this Act unexpected clauses are without effect. But the Federal Supreme Court doubted that similar clauses may be surprising. It argued that 'it is known in the field of business that film producers, by reason of the economic risks insist upon as comprehensive a grant of rights as possible so that they demand the transfer of any possible types of use'.

Conclusion

The increase in new types of use of works protected by copyright by the development of technology and the broadening of the scope of the exclusive right of communication as envisaged by the Draft Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works will augment the author's bundle of rights which are available for transfer or licensing. Ordinary contractual forms will grow to an impressive size if all possible uses are dealt with. The resort to general terms like 'multimedia uses' or 'electronic rights' does not permit a precise identification of the content of the contractual obligations. The art of drafting copyright contracts may, in terms of subtlety, supersede the object of its endeavours – the work protected by copyright. Are there some plain rules of law by means of which this development could be reversed? Interestingly, it seems that contractual practice in both countries, the United States and Germany, gives rise to tendencies which open up new possibilities for the solution of the conflicting interests of the parties. One possible solution may be the facilitation of the transfer of rights and the recognition of the principle that the author participates in the economic life not only as a creative personality which merits protection but also as a commercially-minded person. Thus it should be permissible that he passes with his copyright if he considers it appropriate.

Taking into account the considerable investments which a producer or publisher must undertake in order to market and distribute the work, it may be conceivable that he retains the windfall profits deriving from new types of use of the work which were unforeseen at the time of the conclusion of the contract. Also German law accepts these premises, taking into account the recent case law concerning the risk bargain in the presence of which the mandatory rule of Article 31(4) of the German Copyright Act, which declares as without effect the grant of exploitation rights for as yet unknown types of use, is not applicable. At the same time, US contract law seems to look for a corrective which would avoid excessive disproportions between the remuneration of authors and the income of the rightholder. It cannot be assessed which means will be available as remedies, but the globalisation of the techniques for new types of uses of works protected by copyright may facilitate the distribution of legal tools correspondingly.