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## Chapter 13

# An Essential Brick in the Building of European Copyright: Regulation of Copyright Transactions

Jacques de Werra\*

[ ... ] *an important focus of legal reform should be on means of reducing intellectual property transaction costs* [ ... ] (Richard Posner)<sup>1</sup>

### 13.1. INTRODUCTION

The dissemination of knowledge and culture is an important aspect of the mission of intellectual property regulations and most particularly of copyright law. Various methods and mechanisms can be used to achieve this goal, including the use of collective copyright management schemes<sup>2</sup> and recourse to exceptions for the purpose of promoting adequate access and use of protected content by third parties.

From a broader perspective, the goal is to adopt a regulatory environment which will facilitate transactions concerning copyright-protected content. As stated by Judge Posner (in the quote in the introduction to this paper), one important objective of the intellectual property regulatory

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1. R. A. Posner, 'Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property', 4 *J. Marshall Review of Intellectual Property Law* 325 (2005), at 327 <<http://www.jmripl.com/Publications/Vol4/Issue3/posner.pdf>>.
2. See, for instance, L. Guibault and S.J. van Gompel, 'Collective Management in the European Union', in Daniel Gervais (ed.), *Collective Management of Copyright and Related Rights* (2nd edition, Alphen aan den Rijn: Kluwer Law International, 2010), 135 seq.

## Chapter 13

architecture should thus be to reduce intellectual property transaction costs.<sup>3</sup> This has been particularly noted with respect to online copyright licensing transactions, a topic on which the European regulatory bodies have been working<sup>4</sup> intensively (in the broader context of the Digital Agenda for Europe project<sup>5</sup>), particularly with respect to the distribution of audio-visual content, for which discussions are in progress on how to improve the existing regulatory framework. New fundamental policy options (going way beyond the specific issue of the online use of audio-visual content) have been put forward, including the adoption of a European Copyright Code and the creation of a unitary European copyright title.<sup>6</sup> In this respect, the remarkable European Copyright Code that has been drafted by the members of the Wittem Group obviously deserves careful attention.<sup>7</sup>

In the light of these ongoing efforts and projects, the goal of this chapter is to show that any regulatory measures taken to harmonize copyright law at

3. For a general analysis of intellectual property from a law and economics perspective, see R. A. Posner, 'Intellectual Property: The Law and Economics Approach', *Journal of Economic Perspectives*, Vol. 19, Number 2, Spring 2005, 57 seq.; see also the presentation made by Hal Varian (chief economist of Google) at WIPO: <[http://www.wipo.int/edocs/mdocs/copyright/en/wipo\\_ip\\_econ\\_ge\\_4\\_10/wipo\\_ip\\_econ\\_ge\\_4\\_10\\_www\\_142277.pdf](http://www.wipo.int/edocs/mdocs/copyright/en/wipo_ip_econ_ge_4_10/wipo_ip_econ_ge_4_10_www_142277.pdf)>.
4. See the Communication issued by the European Commission: A Single Market for IPRs, Boosting creativity and innovation to provide economic growth, high quality jobs and first-class products and services in Europe, May 24, 2011, COM(2011) 287 final <[http://ec.europa.eu/internal\\_market/copyright/docs/ipr\\_strategy/COM\\_2011\\_287\\_en.pdf](http://ec.europa.eu/internal_market/copyright/docs/ipr_strategy/COM_2011_287_en.pdf)> at 6: 'The fragmentation of the IPR landscape in the EU has implications for Europe's growth, job creation and competitiveness. Licensing transactions are impaired by high costs, complexity and legal uncertainty for creators, users and consumers. This is one reason why e-commerce has not realised its full potential in the EU and why it is often the biggest players who can navigate the rules and truly benefit from the Single Market. High transaction costs disincentivise innovation and creation. Innovative SMEs struggle to benefit from IPR and develop IPR-based strategies. The circulation of cultural goods and services remains below its potential'.
5. For the purpose of creating a digital single market (in which Action 1 aims at '[s]implifying pan-European licensing for online works'), see <[http://ec.europa.eu/information\\_society/newsroom/cf/pillar.cfm?pillar\\_id=43&pillar=Digital%20Single%20Market](http://ec.europa.eu/information_society/newsroom/cf/pillar.cfm?pillar_id=43&pillar=Digital%20Single%20Market)>.
6. See the Green paper on the online distribution of audio-visual works in the EU: opportunities and challenges towards a digital single market COM(2011) 427 (final) of July 13, 2011; see the dedicated page <[http://ec.europa.eu/internal\\_market/consultations/2011/audiovisual\\_en.htm](http://ec.europa.eu/internal_market/consultations/2011/audiovisual_en.htm)> and the Green Paper: <[http://ec.europa.eu/internal\\_market/consultations/docs/2011/audiovisual/green\\_paper\\_COM2011\\_427\\_en.pdf](http://ec.europa.eu/internal_market/consultations/docs/2011/audiovisual/green_paper_COM2011_427_en.pdf)>; the Green Paper contained a list questions including '(13) What are your views on the possible advantages and disadvantages of harmonising copyright in the EU via a comprehensive Copyright Code?' and '(14) What are your views on the introduction of an optional unitary EU Copyright Title? What should be the characteristics of a unitary Title, including in relation to national rights?'.
7. <<http://www.copyrightcode.eu/>>; the ECC is available at <[http://www.copyrightcode.eu/Wittem\\_European\\_copyright\\_code\\_21%20april%202010.pdf](http://www.copyrightcode.eu/Wittem_European_copyright_code_21%20april%202010.pdf)>.

*An Essential Brick in the Building of European Copyright*

the European level<sup>8</sup> (particularly a European Copyright Code and/or European copyright title)<sup>9</sup> must regulate the status of copyright transactions.<sup>10</sup>

In terms of definition, copyright transactions are meant to cover situations which involve different persons / legal entities in which a work protected by copyright is created by an author or several authors within the framework of a contractual relationship with a third party (process of creating a work and thus of *generating* a copyright) *or* in which such copyrights are used by or transferred to third parties with the consent of the copyright owner (process of *using* the relevant work). Copyright transactions therefore cover all contractual transactions relating either to the *creation* of a protected work or to the *exploitation* of such work.

The need to build an efficient system of regulation of copyright transactions results from the present era in which cross-border collaborative creative endeavours and open innovation projects<sup>11</sup> increase intellectual property transactions, and particularly copyright transactions, whereby such projects can materialize in various forms (for instance joint product creation

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8. This chapter cannot analyse the general issue of the harmonization and future evolution of copyright law in Europe as such, for which reference can be made to the following publications: L. Guibault/M.M.M. van Eechoud/P.B. Hugenholtz/S. van Gompel/N. Helbeger, *Harmonizing European Copyright Law: The Challenges of Better Lawmaking*, Information Law Series 19 (Alphen aan den Rijn: Kluwer Law International 2009); E. Derclaye (ed), *Research Handbook on the Future of EU Copyright* (Edward Elgar Publishing, 2009).
  9. This chapter will not analyse the political and legal feasibility of such projects. It can be noted here that a remarkable study conducted for the European Commission and published in 2002 led to the conclusion that the lack of harmonization between copyright contracts in the EU did not affect the functioning of the internal market (in the absence of an economic survey conducted among the stakeholders), see P. B. Hugenholtz & L. M.C.R. Guibault, Study on the Conditions Applicable to Contracts Relating to Intellectual Property in the European Union <<http://www.ivir.nl/publications/other/final-report2002.pdf>> at 151: ('It is impossible, without conducting an economic survey among the stakeholders, to assert with any certainty whether the existing differences in the law of copyright contracts in the Member States of the European Union affect the functioning of the Internal Market. The limited time and means to produce the present study did not allow for such an assessment. Intuitively, we would tend to believe that the disparities we found may not be so important as to affect the efficient functioning of the Internal Market. A first indication that the impact on the Internal Market may be somewhat limited is that, to our knowledge, neither the European Court of Justice nor the national courts have had to decide a case where the application of the rules on copyright contracts of one Member States raised problems in another Member State').
  10. The focus of this chapter will be on copyright as such, whereby a similar reasoning can apply by analogy to neighbouring rights.
  11. See H. Chesbrough, 'The Logic of Open Innovation: Managing Intellectual Property', *California Management Review* (2003), 45:3 (Spring 2003), 33-58; see also J. Philipps, 'Open minds, open innovation' (2012) *Journal of Intellectual Property Law and Practice*, vol. 7, issue 1, 1 (referring to Henry Chesbrough's 2003 book, *Open Innovation: The new imperative for creating and profiting from technology*).

## Chapter 13

and development between business partners, research and development in the computer software industry, etc.)<sup>12</sup>

In view of this evolution, this chapter will discuss selected issues relating to copyright transactions: first to *copyright-generating* transactions (i.e., transactions relating to the generation of protected works, see section 13.2 below) and second to *copyright-use* transactions (i.e., transactions relating to the use of protected works, see section 13.3 below), whereby a specific and extended focus will be devoted to licensing law issues, in view of the key importance of licensing within the copyright framework (see section 13.4 below). It should be noted from the outset that certain issues (such as the protection and waivability of moral rights) can arise in both types of copyright transactions, so the distinction between copyright-generating and copyright-use transactions should therefore not be overstated.<sup>13</sup>

Finally, this chapter will discuss the issue of dispute-resolution mechanisms for solving copyright transaction disputes (see section 13.5 below), which must also be taken into account as they too have a significant impact on transaction costs.

### 13.2. COPYRIGHT-GENERATING TRANSACTIONS

Many, if not most, copyright-protected creations do not originate from individual authors creating their works completely independently, without any instructions or guidance from third parties,<sup>14</sup> but are created as a result of cooperative processes under which the creators basically create on behalf of third parties. However, the current regulatory framework does not fully reflect this reality. To start with, there is no uniform European framework

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12. See OECD, Policy Brief, Nov. 2008, Open Innovation in Global Networks <<http://www.oecd.org/dataoecd/48/35/41721342.pdf>>, 1: 'Confronted with increasing global competition and rising research and development (R&D) costs, companies can no longer survive on their own R&D efforts but look for new, more open, modes of innovation. Companies' innovation activities are increasingly international, and they are embracing 'open innovation' – collaborating with external partners, whether suppliers, customers or universities, to keep ahead of the game and get new products or services to market before their competitors'.

13. It could, in fact, be appropriate to adopt the same rules and principles for these two settings; for instance, a party commissioning the creation of a work in the course of what would be a copyright-generating transaction, will also have an interest in being in a position to efficiently use the newly generated work at a later stage, so that it will have an interest in resolving all issues relating to such subsequent use in the copyright-generating transaction (for instance, with respect to moral rights), so that the conditions for potential waivability of moral rights should be identical, irrespective of whether such a waiver intervenes in a copyright-generating transaction or in a copyright-use transaction.

14. As brilliantly illustrated by the German painter Carl Spitzweg in his famous painting 'The Poor Poet' ('Der arme Dichter'), <[http://de.wikipedia.org/wiki/Der\\_arme\\_Poet](http://de.wikipedia.org/wiki/Der_arme_Poet)>.

governing the legal status of authors creating in the course of an employment agreement, other than in the case of computer software products, for which a uniform solution has been adopted.<sup>15</sup> Such a status should be unified in order to promote the free movement of creative employees, while protecting the position of their employers.<sup>16</sup>

A common European framework should also be created to adopt a uniform solution for the frequently encountered situations in which the creation of a work is commissioned by a third party. Experience, indeed, shows that disputes frequently arise over this issue when the parties have not clearly addressed it by contract.<sup>17</sup> What therefore appears to be needed is a set of default rules and principles defining whether and to what extent the commissioning party should obtain the relevant copyrights on (or a corresponding license to use) the work at issue.<sup>18</sup> From a broader policy perspective, it would also be appropriate to adopt a Europe-wide framework regulating the allocation of all IPRs (particularly designs and patents) and not only copyrights, the creation of which is commissioned by a third party (i.e., an allocation of IPRs relating to commissioned creations).<sup>19</sup>

15. See Art. 2 para. 2 of Directive 2009/24/EC of the European Parliament and of the Council of 23 Apr. 2009 on the legal protection of computer programs (Codified version) which provides as follows: 'Where a computer program is created by an employee in the execution of his duties or following the instructions given by his employer, the employer exclusively shall be entitled to exercise all economic rights in the program so created, unless otherwise provided by contract.'
16. See N. Binctin, 'Pour un Code communautaire de la propriété intellectuelle' in *Droits de propriété intellectuelle, Liber amicorum Georges Bonet*, (Paris, Litec, 2010), 51 seq., at 61 seq.
17. See the decision of the UK Court of Appeal of 26 Nov. 1999, *Lakeview Computers v. Steadman* (unreported), admitting an assignment in equity; see the comment on this decision by Kit Burden, *Equitable Assignment of Copyright Raised in Software Dispute: Lakeview Computers v. Mr Charles Steadman*, *Computer Law & Security Report*, Vol. 16, Issue 3, May-June 2000, 190 seq.; see the other examples discussed by Jacques de Werra, 'Les pièges de la due diligence en matière de propriété intellectuelle et de technologie', in *Entreprise et propriété intellectuelle: travaux de la journée d'étude organisée à l'Université de Lausanne le 3 juin 2009*, Lausanne CEDIDAC (2010), 13 seq., at 26 <<http://archive-ouverte.unige.ch/unige:12171>>.
18. See Art. 2.6 of the ECC which provides that '[u]nless otherwise agreed, the use of a work by the commissioner of that work is authorized to the extent necessary to achieve the purposes for which the commission was evidently made'.
19. This can be illustrated with respect to designs by the decision of the CJEU of 2 July 2009 (Case C-32/08), in the matter of *FEIA v. Sté Cul de Sac Espacio Creativo*, in which the CJEU held that the national courts are not precluded 'from applying the law on contracts in order to determine who owns the right to the unregistered Community design', thereby evidencing the difficulties resulting from an absence of harmonised solutions; it may be noted that the Draft Common Frame of Reference (DCFR) Principles, Definitions and Model Rules of European Private Law <[http://ec.europa.eu/justice/contract/files/european-private-law\\_en.pdf](http://ec.europa.eu/justice/contract/files/european-private-law_en.pdf)> contained a short chapter proposing a regulation of design contracts defined as (IV. C. – 6:101: Scope) 'contracts under which one party, the designer, undertakes to design for another party, the client:  
(a) an immovable structure which is to be constructed by or on behalf of the client; or

In this respect, a general rule of contract interpretation based on the purpose of the relevant copyright transaction could be developed, which would provide that in case of doubt, the nature and extent of the commissioning party's right of use shall be assessed in accordance with the purpose envisaged by the parties for the relevant transaction. This issue would make it appropriate to adopt guiding rules and principles which would apply both to copyright-generating transactions and to copyright-use transactions.

This also raises the issue of the formal condition of the validity of a copyright assignment. While there are obviously strong arguments in favour of the imposition of a written form for copyright assignment transactions<sup>20</sup> intended to protect authors as initial owners of copyrights, and weaker parties, the conflicting interests of the other parties to the relevant copyright transactions (including employers and commissioning parties) may also appear fully legitimate and should not be neglected. In particular, this may lead to the admission of an assignment of the relevant copyrights over a work created by an employee to their employer, even where there is no formalized assignment of copyright.<sup>21</sup> In such a case, the employer's interests appear to be of higher relevance with a view to justifying an informal assignment of copyright.

Collaborative innovation across national borders frequently leads to situations of co-ownership of copyrights. This may give rise to difficulties, given that the legal regime governing co-ownership of copyrights varies from one country to another,<sup>22</sup> such that cross-border use of the collective work may potentially be hindered, should a rule of unanimity between the co-owners be found to apply in all circumstances.<sup>23</sup>

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(b) a movable or incorporeal thing or service which is to be constructed or performed by or on behalf of the client' (emphasis added); this chapter however, regrettably, did not contain any rule on the allocation of IPRs relating to the 'incorporeal thing' created under the design agreement.

20. As this is proposed in the ECC, see Art. 2.3 para. 3.

21. See Art. 2.5 of the ECC, whereby the comment relating to this provision confirms that the formal condition of assignment does not apply to the informal assignment of copyright from an employee to their employer.

22. For a recent analysis, see M. Perry/Thomas Margoni, 'Ownership in Complex Authorship: A Comparative Study of Joint Works' (2012) *EIPR*, vol. 34, issue 1, 22 seq. <[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1992610](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1992610)>; see also A. Peukert, 'Individual, Multiple and Collective Ownership of Intellectual Property Rights – Which Impact on Exclusivity?' in A. Kur & V. Mizaras (eds.), *The Structure of Intellectual Property Law: Can one size fit all?* (Edward Elgar, 2011).

23. This will also depend on the regime of private international law held to apply to the relevant co-ownership status over the relevant work.



### 13.3. COPYRIGHT-USE TRANSACTIONS

The issue of the harmonization and unification of copyright-use transactions is not new and has been widely discussed in the legal literature from various angles and perspectives, such that it cannot be presented in detail here.<sup>24</sup>

Among the various issues calling for European harmonization, those relating to adequate remuneration of the author<sup>25</sup> and to the validity of assigning copyright over unknown methods of exploitation certainly deserve careful consideration.

Moving on to moral rights, it would also be highly desirable to adopt a standard clarifying whether, how and to what extent moral rights can be waived by the author. By way of illustration, the ECC provides that '[t]he author can consent not to exercise his moral rights. Such consent must be limited in scope, unequivocal and informed' (Article 3.5). A subsequent issue remains, however, as to whether hypothetical consent given by an author in accordance with the relevant conditions (in terms of clarity and limited scope) can be subsequently revoked by the author and, if so, under what conditions (whether the author be held liable for damages as result of the revocation of his or her consent). Here, it appears that if the author's consent has been incorporated into a contract, the author should be bound by such consent unless the contract as such can be terminated by the author (e.g., as a result of a breach of contract committed by the other party).

### 13.4. EUROPEAN COPYRIGHT LICENSING LAW

The need to create a Europe-wide online copyright licensing platform and the advantage of having a 'Single EU Market for Content'<sup>26</sup> have understandably attracted a lot of attention: there is not much to debate regarding the advantage of all stakeholders having a system that facilitates the cross-border use of (online) content in Europe. What is much less debated is the fact that

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24. See M. Markellou, *Le contrat d'exploitation d'auteur: Vers un droit d'auteur contractuel européen, Analyse comparative des systèmes juridiques allemand, belge, français et hellénique*, (Brussels Larcier, 2012); for an interesting analysis from the standpoint of private international law, see T. Azzi, 'Les contrats d'exploitation de propriété littéraire et artistique en droit international privé: état des questions' (2007) *RIDA*, no. 214, 2 seq.

25. See M. P. Markellou, 'Est-il nécessaire de consacrer un droit d'auteur contractuel au niveau européen?' in *The Work of George Koumantos and the Current Issues in Copyright*, Symposium in Memoriam of George Koumantos (Athens, Sakkoulas, 2011), 299 seq., at 303 (approving as a potential model the German solution providing for a mandatory right of remuneration of the author, as anchored in para. 32 and 32a of the German Copyright Act (Gesetz über Urheberrecht und verwandte Schutzrechte (Urheberrechtsgesetz) of 9 Sept. 1965).

26. See the report of Prof. Hargreaves, *Digital Opportunity, A Review of Intellectual Property and Growth* published in May 2011 <<http://www.ipo.gov.uk/ipreview-finalreport.pdf>> at 4.40 35 seq.



a new Europe-wide licensing system for online content will be based on licensing contracts: not much (if any) attention has been devoted to the *content* of such online licensing contracts, which will largely remain governed by the various national relevant contract and copyright laws,<sup>27</sup> in spite of the recent proposal aimed at the creation of a Common European Sales Law,<sup>28</sup> which will also regulate ‘digital content’ transactions,<sup>29</sup> given that such an instrument is designed to remain optional (i.e., if it is adopted, it will have to be voluntarily chosen by the parties in order to apply).<sup>30</sup>

The continuing application of national licensing law rules and legal principles is quite problematic because it significantly impacts on the creation of a European copyright licensing framework: this can be illustrated by reference to the issue of whether copyright exceptions can be overridden by contract, which is addressed at national level (subject to the exceptional cases in which European regulations contain a specific and unique solution).<sup>31</sup> Depending on the answer to this question, a copyright licensee might benefit from a different legal position under the relevant local rule.<sup>32</sup> This can

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27. The parties are at liberty to choose the law governing the licensing contract at issue (see Art. 3 para. 2 of the Rome I Regulation 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations), while the copyright-related issues are governed by the *lex protectionis* principle (see Art. 8 para. 1 of the Rome II regulation 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations), whereby these principles are sometimes complex to apply, particularly in view of the difficulties involved in differentiating contractual issues from copyright issues); for a recent analysis, see however A. Strowel/B. Vanbrabant ‘Copyright Licensing: a European View’ in Jacques de Werra (ed.), *Research Handbook on Intellectual Property Licensing* (Edward Elgar, forthcoming).
  28. Proposal for a Regulation of the European Parliament and of the Council on a Common European Sales Law (11 Oct. 2011), COM(2011) 635 final, 2011/0284 (COD).
  29. Defined as ‘data which are produced and supplied in digital form, whether or not according to the buyer’s specifications, including video, audio, picture or written digital content, digital games, software and digital content which makes it possible to personalize existing hardware or software’ (under Art. 2 (j) of the proposal (footnote 55)).
  30. See Art. 1 of the proposal, providing that ‘[t]he purpose of this Regulation is to improve the conditions for the establishment and the functioning of the internal market by making available a uniform set of contract law rules as set out in Annex I (‘the Common European Sales Law’). These rules can be used for cross-border transactions for the sale of goods, for the supply of digital content and for related services where the parties to a contract agree to do so’.
  31. This is what has been done in Art. 8 para. 2 Directive 2009/24/EC regarding certain users’ privileges for software products (‘Any contractual provisions contrary to Art. 6 or to the exceptions provided for in Article 5(2) and (3) shall be null and void’); for a discussion, see L. Guibault, *Copyright Limitations and Contracts. An Analysis of the Contractual Overridability of Limitations on Copyright*, Information Law Series Vol. 9 (London / The Hague / Boston: Kluwer Law International, 2002).
  32. See Prof. Hargreaves’ report (footnote 26), 51, recommending that exceptions should be made mandatory (under UK copyright law) so that they cannot be overridden by contract: ‘5.39 At present it is possible for rightsholders licensing rights to insist, through licensing contracts, that the exceptions established by law cannot be exercised in

### *An Essential Brick in the Building of European Copyright*

lead to complex issues of private international law, given that a provider of online content can be expected to try to escape local rules providing for the mandatory nature of exceptions by choosing another law to govern the contract (the subsequent question then being whether the mandatory rule can apply as an overriding mandatory norm under the general principles of private international law<sup>33</sup>).

This ultimately raises the issue of the regulation of copyright licensing contracts in Europe. These contracts are not regulated at the European level and are only briefly mentioned in certain European regulatory instruments.<sup>34</sup> Intellectual property licensing issues have, however, been at the heart of several recent decisions already delivered by the CJEU (or which it is due to deliver shortly). This case law illustrates the difficulties faced by the courts when confronted first with the application of the principle of exhaustion anchored in European intellectual property law in a licensing context, which can be of significance in copyright licensing transactions (see 13.4.1 below), and second, the characterization of (copyright) licensing agreements from the perspective of private international law (see 13.4.2 below).

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practice' [...] 'Applying contracts in this way means a rights holder can rewrite the limits the law has set on the extent of the right conferred by copyright. It creates the risk that should Government decide that UK law will permit private copying or text mining, these permissions could be denied by contract. [...] Even if unused, the possibility of contractual override is harmful because it replaces clarity ('I have the right to make a private copy') with uncertainty ('I must check my licence to confirm that I have the right to make a private copy'). The Government should change the law to make it clear no exception to copyright can be overridden by contract'.

33. Article 9 para. 1 of Rome I Regulation: 'Overriding mandatory provisions are provisions the respect for which is regarded as crucial by a country for safeguarding its public interests, such as its political, social or economic organization, to such an extent that they are applicable to any situation falling within their scope, irrespective of the law otherwise applicable to the contract under this Regulation'.
34. For a review of the relevant regulations (which will not be enumerated here in view of the focus on the relevant provisions at stake in the recent case law), see P. Stiel, *Leistungstörungen bei Lizenzverträgen aus Sicht des europäischen Rechts*, (Herbert Hutz Verlag Munich, 2009), at 5 seq.; it is worth noting that beyond intellectual property regulations as such, intellectual property licensing is also regulated under competition law, particularly under a technology transfer perspective, as resulting from the Commission Regulation (EC) No 772/2004 of 7 Apr. 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements (with the accompanying Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements) and also from Commission Regulation (EU) No 330/2010 of 20 Apr. 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices; this aspect will not be further analysed in this chapter; this part of the chapter discussing intellectual property licensing law in Europe is derived from the paper on 'The Need to Harmonize Intellectual Property Licensing Law: A European Perspective' that is due to be published by Edward Elgar in the proceedings of the ATRIP conference (2011) (forthcoming).

13.4.1. UNDER WHAT CIRCUMSTANCES CAN THE EXHAUSTION PRINCIPLE APPLY IN THE CONTEXT OF INTELLECTUAL PROPERTY LICENSING? THE CJEU *DIOR-COPAD*, *GREENSTAR-KANZI* AND *ORACLE-USEDSoft* CASES

The two recent decisions of the CJEU in the *Dior-Copad*<sup>35</sup> and *Greenstar-Kanzi*<sup>36</sup> cases, and the *Oracle-UsedSoft*<sup>37</sup> dispute which has been submitted to the CJEU for a decision, illustrate the complex interaction between the European and well-established concept of exhaustion of rights and the nationally based scope and reach of license agreements and the consequences of their being breached. These cases raise the thorny issue of whether the owner of IPRs can exercise its exclusive rights and sue for infringement when a (former) licensee and/or a third party market products which were initially manufactured and made available under the framework of the relevant license agreement.<sup>38</sup>

In the *Dior-Copad* case, the CJEU had to decide for the first time on the question of the effect of a trademark license agreement on the exhaustion of the right of the licensed trademark's owner.<sup>39</sup> Even though this case and the *Greenstar-Kanzi* case do not relate to copyright licensing transactions, they are still of relevance here, given that they illustrate the problematic absence of a uniform regime between the various categories of IPRs.

The *Dior-Copad* dispute arose out of a trademark license agreement entered into between Christian Dior Couture SA (hereinafter 'Dior') and Société industrielle de lingerie (hereinafter 'SIL') for the manufacture and distribution of luxury corsetry goods under the Dior trademark. Clause 8.2(5) of the license agreement provided that 'in order to maintain the repute and prestige of the trademark the licensee agrees not to sell to wholesalers, buyers' collectives, discount stores, mail order companies, door-to-door sales companies or companies selling within private houses without prior written agreement from the licensor, and must make all necessary provision to ensure that that rule is complied with by its distributors or retailers'. After bankruptcy proceedings were initiated against SIL, it sold goods bearing the Dior trademarks to Copad International, which operates a discount store business. Dior subsequently initiated legal proceedings for trademark infringement against SIL and Copad before the French courts.

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35. CJEU *Copad SA v. Christian Dior Couture SA, Vincent Gladel, as liquidator of Société industrielle lingerie (SIL) and Société industrielle lingerie (SIL)*, 23 Apr. 2009, Case C-59/08.

36. CJEU *Greenstar-Kanzi Europe NV v. Jean Hustin and Jo Goossens*, 20 Oct. 2011, Case C-140/10.

37. *UsedSoft GmbH v. Oracle International Corp*, Case C-128/11 (pending).

38. This issue is also being debated outside Europe, see for instance the US decision of the Court of Appeal for the Federal Circuit (in a patent licensing context) in *Tessera Inc. v. Int'l Trade Comm'n*, No. 2010-1176 (Fed. Cir. May 23, 2011); see also *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010) in a software licensing context.

39. See the opinion of Advocate General Kokott of 3 Dec. 2008.

*An Essential Brick in the Building of European Copyright*

The CJEU held in this case that a license agreement does not offer unrestricted protection to third parties who have acquired the relevant goods from a licensee under the shield of the exhaustion principle, while a 'license agreement does not constitute the absolute and unconditional consent of the proprietor of the trademark to the licensee putting the goods bearing the trademark on the market'.<sup>40</sup> In this respect, as stated by the CJEU, Article 8(2) of Directive 2008/95 expressly enables the trademark owner to invoke its trademark rights against a licensee in the event of a breach of certain contractual conditions listed in this provision.<sup>41</sup> Indeed, Article 8(2) provides as follows:

[t]he proprietor of a trademark may invoke the rights conferred by that trademark against a licensee who contravenes any provision in his licensing contract with regard to (a) its duration; (b) the form covered by the registration in which the trademark may be used; (c) the scope of the goods or services for which the license is granted; (d) the territory in which the trademark may be affixed; (e) the quality of the goods manufactured or of the services provided by the licensee.

An important finding of the CJEU in this case is to confirm that the list of contractual provisions contained in Article 8(2) (as listed above) is exhaustive.<sup>42</sup> This, therefore, means that trademark infringement remedies are not available to a trademark owner against its licensee except in the specific circumstances listed in Article 8(2).

In this case, the CJEU held that Article 8(2)(e) could be applicable, subject to the decision to be made by the (French) national courts in the light of the circumstances of the case.<sup>43</sup>

The CJEU's second and more recent decision was delivered in respect of Community plant variety rights under Regulation 2100/94, as amended by Regulation 873/2004 on Community plant variety rights in the *Greenstar-Kanzi Europe NV v. Hustin and Goossens* case.<sup>44</sup>

The issue at stake was whether the owner of the exclusive right could bring an infringement action against a third party which had obtained material from a former licensee who had breached certain conditions resulting from the license agreement entered into with the owner. Like the *Dior-Copad* case, this required an assessment to be made of whether and to what extent the principle of exhaustion (as anchored in Article 16 of Regulation 2100/94) could protect the third party who had legitimately

40. Paragraph 47.

41. Paragraph 48.

42. Paragraph 49.

43. See the decision delivered by the French Cour de Cassation on 2 Feb. 2010, ref. 06-16202 (following the CJEU's decision), Bulletin 2010, IV, no. 25.

44. CJEU *Greenstar-Kanzi Europe NV v. Jean Hustin and Jo Goossens*, 20 Oct. 2011, Case C-140/10; for a comment, see G. Würtenberger, 'Plant variety rights and breach of license' (2012) *Journal of Intellectual Property Law & Practice*, vol. 7, number 3, 161.

### Chapter 13

acquired the relevant goods from an ex-licensee against infringement claims raised by the owner of the right, despite the breach of the license agreement committed by the former licensee.

The former licensee (Nicolai) in this case had obtained the exclusive right to grow and market apple trees of a given protected new variety (Nicoter) provided that (as per the condition set forth in the license agreement) Nicolai:

will not dispose of or sell any product covered by the license unless the other party signs in advance the grower's license referred to in Annex 6 (where the other party is a grower) or the marketing license referred to in Annex 7 (where the other party is a trader).<sup>45</sup>

Here, Article 27 of Regulation 2100/94 provides as follows (under the title 'Contractual exploitation rights'):

1. Community plant variety rights may form in full or in part the subject of contractually granted exploitation rights. Exploitation rights may be exclusive or non-exclusive.
2. The holder may invoke the rights conferred by the Community plant variety right against a person enjoying the right of exploitation who contravenes any of the conditions or limitations attached to his exploitation right pursuant to paragraph 1.

In spite of the rather broad wording of Article 27 paragraph 2 of Regulation 2100/94 (referring to 'any of the conditions or limitations attached to his exploitation right'), the CJEU adopted a more restrictive approach in order to limit the rightholder's right of control.

By invoking the principle that the 'protection enjoyed by the holder is not to be excessive',<sup>46</sup> the CJEU decided that the rightholder could not invoke his or her right against a licensee (or a third party who had acquired the relevant goods from the licensee) for the types of breach of the license agreement which would not affect and vitiate the holder's consent to the placing of the goods on the market and thus would have no effect on the exhaustion of the holder's right.<sup>47</sup> As stated by the Advocate General, 'an infringement of the conditions attached to prior authorization cannot be treated in the same way, in law, as an absence of authorization enforceable on others'.<sup>48</sup> In other words, the CJEU essentially held that the exhaustion principle can apply in the case of a breach of the license agreement by the licensee, because in such a case, the holder had basically authorized the marketing of the relevant products by the licensee and had also been

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45. Paragraph 12.

46. Paragraph 41 referring to Recital 14 of the Directive which provides that 'the introduction of the principle of exhaustion of rights must ensure that the protection is not excessive'.

47. Paragraph 41.

48. Opinion of Advocate General Jääskinen of 7 July 2011, para. 57.

*An Essential Brick in the Building of European Copyright*

remunerated for the marketing of such goods. In contrast, in a situation wherein the holder has not, in any way, authorized the marketing of the relevant products, no exhaustion can take place.

In the light of this reasoning, the CJEU held that the holder is entitled to bring an action for infringement against a third party (having obtained materials from a licensee who has breached certain obligations of the license agreement entered into with the holder) only if the contractual obligations violated by the licensee 'relate directly to the essential features of the Community plant variety right'<sup>49</sup> at issue. Given that the relevant contracts and clauses at issue in this case were not submitted to the CJEU, the latter stated that it could not characterize the provisions of the license agreement in order to decide whether the relevant provisions met this condition and that it was for the referring court to make such an assessment.

As a result, it follows on from this decision that the exhaustion principle can apply unless the breach committed by the licensee relates to the 'essential features' of the plant variety right, yet the definition of what constitutes an essential feature of such rights remains uncertain.

The third case is still pending before the CJEU (Case C-128/11) and deals with a software copyright dispute between Oracle International Corp. and UsedSoft GmbH, which is in the business of marketing used software products.<sup>50</sup>

The referral for a preliminary ruling was lodged by the Bundesgerichtshof (Germany) on 14 March 2011 – reference *UsedSoft GmbH v. Oracle International Corp.*, and the BGH referred the following questions to the CJEU:

Is the person who can rely on exhaustion of the right to distribute a copy of a computer program a 'lawful acquirer' within the meaning of Article 5(1) of Directive 2009/24/EC<sup>51</sup> ?

If the reply to the first question is in the affirmative: is the right to distribute a copy of a computer program exhausted in accordance with the first half-sentence of Article 4(2) of Directive 2009/24/EC when the acquirer has made the copy with the rightholder's consent by downloading the program from the internet onto a data carrier?

If the reply to the second question is also in the affirmative: can a person who has acquired a 'used' software licence for generating a program copy as 'lawful acquirer' under Article 5(1) and the first half-sentence of Article 4(2) of Directive 2009/24 also rely on exhaustion of the right to distribute the copy of the computer program made by the first acquirer with the rightholder's consent by downloading the

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49. Para 44.

50. <[www.usedsoft.com](http://www.usedsoft.com)>

51. Directive 2009/24/EC of the European Parliament and of the Council of 23 Apr. 2009 on the legal protection of computer programs (Codified version).



program from the internet onto a data carrier if the first acquirer has erased his program copy or no longer uses it?.

This case, which raises the conditions and scope of application of the exhaustion doctrine, will clearly have a significant impact on the future models of distribution of copyrighted content.

What impact will these cases have on the future development of a European architecture governing intellectual property transactions and particularly copyright transactions?

These cases first illustrate the complexities of finding an appropriate balance between two positions which can both be considered legitimate, i.e., the position of the intellectual property owner who wishes to keep a certain degree of control over the fate of its intangible goods, and the position of the owner of a tangible or digital good who wishes to benefit from what has been previously acquired (or obtained under a valid license).

An additional comment is that these cases apply different rules defining the conditions under which the owner of an IPR (and licensor) can sue for infringement against a licensee or against a third party having acquired goods from the licensee. These rules are not identical and may even diverge significantly, as is apparent from a comparison between Article 8 paragraph 2 of the 2008/95 Directive and Article 22 paragraph 2 of Regulation 207/2009 (for national and Community trademarks respectively), Article 22 of Regulation 6/2000<sup>52</sup> (for Community designs),<sup>53</sup> and Article 17 of Regulation 2100/94 for Community plant varieties.<sup>54</sup>

This divergence of regimes is quite problematic insofar as it seems hardly conceivable that an owner of various IPRs which can of course (as frequently happens in practice<sup>55</sup>) be licensed jointly under the same license agreement, should have different remedies depending on the type of right at issue and on the type of contractual conditions that have been breached. This

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52. Article 32 para. 2 of Regulation 6/2002 provides that 'Without prejudice to any legal proceedings based on the law of contract, the holder may invoke the rights conferred by the Community design against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form in which the design may be used, the range of products for which the license is granted and the quality of products manufactured by the licensee'.

53. Directive 98/71/EC of the European Parliament and of the Council of 13 Oct. 1998 on the legal protection of designs does not contain any rules on this issue.

54. Even though the European patent regulatory environment is still uncertain and in a state of flux (including from a jurisdictional perspective, in view of the opinion of the CJEU 1/09 of 8 Mar. 2011), it can be noted that certain draft documents have also regulated this issue (in a different way/using a different wording); see Art. 19 para. 2 of the Proposal for a Council Regulation on the EU patent (approved at the EU's Competitiveness Council meeting of 4 Dec. 2009): 'The rights conferred by the EU patent may be invoked against a licensee who breaches any restriction in the licensing contract'.

55. It being noted that the *Greenstar-Kanzi* case, which essentially deals with Community plant variety rights, also has a trademark aspect (the apples are marketed under the 'Kanzi' trademark'.



*An Essential Brick in the Building of European Copyright*

appears even more inadequate from a copyright perspective, as it is hard to justify why owners of unregistered rights (such as copyrights) should not benefit from a similar regime of protection. This is even more true given that experience shows that the interaction between copyright infringement remedies and contractual remedies can also be quite delicate.<sup>56</sup>

More fundamentally, these regulations tend to hide the basic principle that the owner of an IPR should have the right to invoke the infringement of his or her IPR allegedly committed by his or her licensee if, and only if, such licensee commits an act which falls within the scope of the exclusive right granted to the owner under the relevant intellectual property regulations and which is not covered by the license.<sup>57</sup>

In light of this, the existing regulations are not appropriate, insofar as they do not (fully) comply with the basic principle that intellectual property infringement remedies should only be available in the event of an infringement of the relevant rights.<sup>58</sup>

This case law reveals that the absence of a framework governing intellectual property transactions and particularly copyright licensing is problematic, in that it creates diverging regimes depending on the IPR at issue, even if such differential treatment does not appear to be justified. These cases further confirm that the present system of regulation raises intricate questions of delineations and interactions between contract remedies and intellectual property remedies, which are not optimally solved at present. Therefore, it is important to ensure a sufficient degree of consistency and harmony between the regulations applicable to the different types of IPRs, with respect to the conditions and consequences of a breach of intellectual

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56. For a recent example (for an open-source software license), see *Jacobson v. Katzer*, 535 F.3d 1373 (Fed. Cir. 2008); for a discussion of this case and of the subtle distinction between contractual covenants and license conditions, see R. B. Gomulkievich, 'Clarifications and Complications in Enforcing Open-Source Software Licenses' in J. de Werra ed., *Research Handbook on Intellectual Property Licensing* (Edward Elgar, forthcoming).

57. See the crystal-clear reasoning of the Honourable Madam Justice Heneghan (Federal Court of Canada) in *Harmony Consulting Ltd. c. G.A. Foss Transport Ltd.*, 2011 FC 540 (2011) <<http://decisions.fct-cf.gc.ca/en/2011/2011fc340/2011fc340.html>> at para. 261: 'In simple terms, the Plaintiff argued that any violation of the licensing agreements constituted a violation of copyright. This argument is inherently flawed and cannot succeed as '... copyright infringement does not arise out of a breach of contract'; see *Corel Corp. v. Guardian Insurance Co. of Canada* (2001), 26 C.C.L.I. (3d) 39 (O.S.C.J.) at para. 22. As I have explained, copyright is violated only if the defendant has performed, or authorized, an act that only the owner can do within the confines of the Copyright Act.'

58. For a detailed analysis of Art. 8 para. 2 of Directive 2008/95, see J. de Werra, 'The Need to Harmonize Intellectual Property Licensing Law: A European Perspective', in *IP Law at the Crossroads of Trade, proceedings of the ATRIP Conference 2011* (Singapore) (Edward Elgar, forthcoming).

### Chapter 13

property license agreements, and particularly of copyright license agreements, within Europe.<sup>59</sup>

#### 13.4.2. IS A LICENSE AGREEMENT A CONTRACT FOR THE PROVISION OF SERVICES ? THE CJEU *FALCO* CASE

In the absence of a standard official definition or even understanding of the nature and concept of intellectual property licensing (and most particularly of a copyright license) at the level of the EU, the relevant bodies, and particularly the courts, are forced to develop their own understanding of what constitutes the true nature of an intellectual property license, which can happen in somewhat unexpected circumstances. This is precisely what occurred in the extremely interesting *Falco* case, which was decided by the CJEU in April 2009.<sup>60</sup>

The CJEU had to decide whether a license agreement (defined as a contract under which the owner of an IPR grants his or her contractual partner the right to use that right in return for remuneration) constitutes a contract for the provision of services within the meaning of Article 5(1)(b) of Council Regulation 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

The Court answered this question in the negative, stating that ‘the concept of services implies, at the least, that the party who provides the services carries out a particular activity in return for remuneration’.<sup>61</sup> In the light of this requirement, the Court decided that it cannot be inferred from a license agreement that the licensor provides such a service,<sup>62</sup> because ‘the owner of an intellectual property right does not perform any service in granting a right to use that property and undertakes merely to permit the licensee to exploit that right freely’,<sup>63</sup> whereby the CJEU expressly made

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59. In view of the globality of online uses, it would even be of use to develop global licensing policies, see J. de Werra, ‘Moving Beyond the Conflict Between Freedom of Contract and Copyright Policies In Search of a New Global Policy for OnLine Information Licensing Transactions: A Comparative Analysis Between U.S. Law and European Law’ (2003) 25 *Columbia Journal of Law and the Arts* 239.

60. CJEU *Falco Privatstiftung und Thomas Rabitsch v. Gisela Weller-Lindhorst*, 23 Apr. 2009, Case C-533/07; for a detailed analysis of this case from a private international law perspective, see B. Ubertazzi, ‘Licence Agreements Relating to IP Rights and the EC Regulation on Jurisdiction’, (2009) *IIC*, 912 seq. (see also, by the same author, ‘Lizenzverträge und die EG-Zuständigkeitsverordnung’, (2010) *GRUR Int*, 103 seq.).

61. Paragraph 29.

62. Paragraph 30.

63. Paragraph 31.

reference to the opinion of the Advocate General in connection with this finding.<sup>64</sup>

A detailed analysis of the Advocate General's opinion delivered in this case is of the utmost interest as it reveals and confirms the difficulties involved in defining what constitutes an intellectual property license agreement from a European perspective.

To decide whether a license agreement constitutes a contract for the provision of services (under Regulation 44/2001), the Advocate General first had to face the difficulty that license agreements are creatures of local contract law. She therefore stated that the 'starting point [for a definition of a license agreement] must be the definition of a license agreement offered by the referring court [i.e., the Austrian Oberster Gerichtshof]'.<sup>65</sup> Here, it is interesting to note that the Advocate General expressly relied on the terminology of the referring court, which used the term 'license agreement',<sup>66</sup> while noting that 'the concept of a license agreement is defined more narrowly in some Member States'.<sup>67</sup> However, the Advocate General confirmed that it was necessary to conduct an analysis beyond the scope of the local contract law of the referring court, given that the judgments of the CJEU are binding on all national courts, such that the 'definition of a license agreement offered by the law of other Member States and by the provisions of Community law, if any, must also be taken into account'.<sup>68</sup>

The Advocate General thus had to deal with the extremely difficult task of finding common denominators and common features between license agreements under the diverse regulatory and judicial solutions adopted by Member States.

It is not surprising that the Advocate General was obliged to state at the outset of her analysis that license agreements are 'regulated differently in the various Member States'<sup>69</sup> and that Community law only refers to license agreements in a sporadic way without effectively regulating them, i.e.,

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64. Para 31 referring to point 58 of the opinion of Advocate General Trstenjak of 27 Jan. 2009 in Case C-533/07 <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:62007CC0533:EN:HTML>>.

65. Paragraph 48.

66. It can be noted (and regretted) that the Advocate General's Opinion does not identify the law which governed the license agreement in dispute, and which was entered into between Austrian-based licensors (Falco Stiftung and Thomas Rabitsch) and a German-based licensee (Gisela Weller-Lindhorst), whereby the license covered Austria, Germany and Switzerland.

67. See footnote 4 of the Opinion, whereby the Advocate General notes that in certain countries, the term 'license agreement' is used only with respect to the licensing of industrial property rights and not of copyright.

68. Paragraph 48 in fine.

69. Paragraph 49.

### *Chapter 13*

without laying down provisions ‘on the conclusion of a license agreement and [on] its characteristics’.<sup>70</sup>

While the Advocate General’s Opinion provides an impressive and remarkable account of the status of license agreements in the respective legal systems of Member States,<sup>71</sup> it cannot hide the wide diversity of ways in which licensing contracts are treated under the respective national legal systems of Member States.

This lack of a harmonized approach to licensing is confirmed by the Advocate General’s review of the small number of European intellectual property legal texts which merely refer to license agreements, without defining them in any way.

The Advocate General thus noted (among other references) that Recital 30 of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001, on the harmonization of certain aspects of copyright and related rights in the information society, provides that the exclusive rights of authors may be transferred, assigned or subject to the granting of contractual licenses, without prejudice to the relevant national legislation on copyright and related rights, thereby leaving it to the relevant national law to address the issue of contractual licenses.

Coming to the issue whether a license agreement can constitute a contract for the provision of services, which requires some ‘active conduct’,<sup>72</sup> the Advocate General held that this was not the case, because the licensor does not ‘perform any action that consists in active conduct’.<sup>73</sup>

Here, the Advocate General held that the licensor ‘authorises the licensee to exploit the intellectual property right that is the subject of the license’ and that ‘the active conduct required of the licensor consists in signing the license agreement and in making the object to which the license relates physically available so that it can be used’, whereby those ‘actions cannot, in [her] opinion, be defined as a “service”’. As a consequence, the Advocate General concluded that the granting of a license cannot be regarded as a ‘service’ within the meaning of the second indent of Article 5(1)(b) of Regulation No 44/2001.<sup>74</sup>

While this conclusion arrived at by the Advocate General, that license contracts are not contracts for the provision of services, can be approved, the reasoning adopted in support of this view raises difficulties (if not concerns)

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70. Paragraph 50 stating that ‘Community law on the protection of intellectual property does govern the possibility of granting licenses, but it does not lay down provisions on the conclusion of a license agreement and its characteristic features’.

71. The Opinion enumerates, and discusses in depth, numerous regulatory, doctrinal and case law sources setting out the legal treatment of license agreements in Member States (paras 48-52, and corresponding footnotes 32-49).

72. Paragraph 57.

73. Paragraph 58.

74. Paragraph 58.

as it reveals the problems resulting from the lack of a common understanding of the nature of license agreements in Europe.

Even if we share the opinion that the ‘active conduct’ of the licensor cannot be assimilated to the provision of a service by the licensor within the meaning of Article 5(1)(b) of Regulation No 44/2001, the description of the ‘active conduct’ of the licensor made by the Advocate General remains quite problematic.

As quoted above, the Advocate General described such active conduct on the part of the licensor in terms of two acts, i.e., ‘signing the license agreement’ and ‘making the object to which the license relates physically available, so that it can be used’. However, mentioning each of these two acts raises serious doubts as to the understanding of the nature of intellectual property licenses.

By referring first to the signing of the license agreement, the Advocate General’s opinion could be taken to imply that all license agreements should be in writing. This is, however, not the case in all Member States, and even under European law (as interpreted by national courts). Second, and more fundamentally, the statement made by the Advocate General that a licensor would adopt an active conduct by ‘making the object to which the license relates *physically* available, so that it can be used’ (emphasis added) is problematic, because it may imply that there is an obligation incumbent on the licensor to deliver a *physical good* to the licensee under any intellectual property license agreement. This is, however, not the case, in view of the intangible nature of intellectual property goods which are the object of license agreements (for instance, a trademark license does not require the licensor to deliver any physical goods to the licensee because the licensee can simply refer and use the licensed trademark as taken from the relevant publicly accessible trademark registry for this purpose).<sup>75</sup> This statement made by the Advocate General can thus be perceived as an indication of a frequently encountered misunderstanding in intellectual property transactions: the need to clearly distinguish the issue of the transfer of physical objects which may potentially incorporate the intangible goods protected by the relevant IPRs on the one hand, and the assignment or licensing of the IPRs as such on the other hand.

In short, even if the outcome of the *Falco* case can be approved, it (and particularly the Advocate General’s opinion) still reveals the absence of any harmonized European concept of intellectual property license agreements (and particularly copyright licenses), as well as the risk of misconceptions regarding the real nature of intellectual property licensing agreements and the difficulties which may result from this situation.

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75. This may still be the case in certain instances, such as for copyright / neighbouring right licenses, in the course of which the licensor makes available to the licensee a master version (of a recording) of the licensed intellectual goods, see Ubertazzi (n. 30), at 933-934.

13.5. EFFECTIVE DISPUTE-RESOLUTION  
MECHANISMS FOR SOLVING COPYRIGHT  
TRANSACTION DISPUTES

Reducing the transaction costs involved in copyright transactions also means controlling the costs of settling the disputes which may arise in the context of such transactions. This means that measures should be taken to ensure that quick and cost-effective dispute-resolution mechanisms are available.<sup>76</sup> In a licensing context, this particularly requires that stakeholders benefit from a system offering them the means to resolve their dispute efficiently before *one* court or *one* alternative dispute-resolution body (mediation and/or arbitration). This would mean ensuring that all contractual (e.g., a dispute relating to royalty payments) and non-contractual claims (e.g., over use of the copyrighted work beyond the scope of its licensed use) arising in a copyright transaction setting are submitted to the same dispute-resolution body.<sup>77</sup>

Here, it could be conceived that parties should enjoy broad freedom to choose which dispute-resolution body they wish to submit disputes to, which arise in a copyright transaction framework in the knowledge that no public policy would require that copyright transactions disputes (including disputes relating to the existence or validity of a copyright) be imperatively submitted to specific state courts (in contrast to disputes relating to the validity or registration of industrial property rights, for which the courts of the country of registration are deemed to have exclusive jurisdiction).<sup>78</sup> The point is made here that even disputes concerning moral rights do not necessarily have to be submitted to state courts, but can also be submitted to alternative dispute-resolution mechanisms, and particularly to arbitration.

Arbitration should indeed be permitted in relation to such issues, on the grounds that the exercise of moral rights can be the object of contractual agreements and the author of the relevant work can, at least in part, dispose

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76. See the report of Prof. Ian Hargreaves, Digital Opportunity, a Review of Intellectual Property and Growth, May 2011, <<http://www.ipo.gov.uk/ipreview-finalreport.pdf>> para. 4.32 at 32, noting that '[f]urther reductions of transaction costs can be achieved by ensuring that disputes regarding use of works within the system [i.e. the Digital Copyright Exchange] are routed to a low-cost dispute resolution system'.

77. For a discussion of the measures which can be taken to improve the efficiency of the use of arbitration for solving international intellectual property disputes, see J. de Werra, 'International Intellectual Property Arbitration: How to Use it Efficiently' *Singapore Law Gazette* 1/2012, 27 seq. <<http://archive-ouverte.unige.ch/unige:18195>>.

78. See Art. 22 para. 4 of Council Regulation (EC) No 44/2001 of 22 Dec. 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, providing that 'The following courts shall have exclusive jurisdiction, regardless of domicile: [...] in proceedings concerned with the registration or validity of patents, trademarks, designs or other similar rights required to be deposited or registered, the courts of the Member State in which the deposit or registration has been applied for, has taken place or is under the terms of a Community instrument or an international convention deemed to have taken place'.

*An Essential Brick in the Building of European Copyright*

of these rights.<sup>79</sup> This approach can also be supported by the view that the moral rights and economic rights belonging to authors are so closely inter-related (at least, under the view corresponding to the monist theory of copyright law) that moral rights have an economic value (i.e., also because the violation of moral rights can lead to the payment of monetary damages). This arbitration-friendly approach was confirmed in a landmark decision of the Supreme Court of Canada, in a dispute between two co-authors of a fictional character, relating to (among other things) the moral right of paternity.<sup>80</sup>

This case provided an opportunity to decide whether a dispute concerning moral rights (here the right of paternity) can be subject to arbitration by reference to Article 2639 of the Quebec Civil Code, which expressly provides that the parties may not refer a dispute over a matter of public order or the status of persons (itself an issue of public order) to arbitration.

The Court held that the concept of public policy had to be construed in the light of the objective of arbitration, as follows:

[i]n interpreting and applying this concept in the realm of consensual arbitration, we must therefore have regard to the legislative policy that accepts this form of dispute resolution and even seeks to promote its expansion. For that reason, in order to preserve decision-making autonomy within the arbitration system, it is important that we avoid extensive application of the concept by the courts. Such wide reliance on the concept of public policy in the realm of arbitration would jeopardize that autonomy, contrary to the clear legislative approach and the judicial policy based on it.<sup>81</sup>

Moving to the issue of whether moral rights are an issue of public policy, the Court held that under Canadian copyright law, even if moral rights cannot be assigned, their exercise can still be waived. The Court further noted as follows:

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79. This approach is neither undisputed nor unanimously shared in countries in which moral rights are considered as fully inalienable, as is the case in France, see B. Oppetit, 'L'arbitrabilité des litiges de droit d'auteur et de droits voisins', in *Arbitrage et propriété intellectuelle*, colloque organisé par l'I.R.P.I Henri Desbois, (Paris, 1994), 129 seq.; J.B. Racine, *L'arbitrage commercial international et l'ordre public* (Paris, 1999), no. 98 seq.; for a more liberal view, see however Ph. Fouchard, 'rapport de synthèse', at the symposium mentioned above ('on ne peut en même temps patrimonialiser, exploiter, commercialiser de plus en plus largement les œuvres de l'esprit, les créations et les inventions, et prétendre ensuite que ces droits ne sont pas disponibles'); for a neutral view, see Y. Lévy, 'Les modes alternatifs de règlement des litiges en matière de propriété littéraire et artistique', *Petites Affiches*, 28 avril 2003 no. 84, 4.

80. *Desputeaux v. Éditions Chouette* (1987) inc., [2003] 1 S.C.R. 178, 2003 SCC 17, <<http://csc.lexum.umontreal.ca/en/2003/2003scc17/2003scc17.html>>.

81. § 52.



## Chapter 13

Quebec legislation recognizes the legitimacy of transactions involving copyright, and the validity of using arbitration to resolve disputes arising in respect of such transactions: in s. 37 of the *Act respecting the professional status of artists*, the legislature has expressly provided that in the absence of an express renunciation, every dispute between an artist and a promoter shall be submitted to an arbitrator.<sup>82</sup>

On this basis, given that ‘contracts between artists and promoters systematically contain stipulations relating to copyright’, the Court concluded as follows:

[i]t would be paradoxical if the legislature were to regard questions concerning copyright as not subject to arbitration because they were matters of public policy, on the one hand, and on the other hand to direct that this method of dispute resolution be used in the event of conflicts relating to the interpretation and application of contracts that govern the exercise of that right as between artists and promoters.<sup>83</sup>

As a result, the Court held that the dispute relating to moral rights did not deal with a matter that by its nature falls outside the jurisdiction of the arbitrators and was therefore not contrary to public policy.<sup>84</sup> The Court reasoned that it would be contradictory to introduce an exceedingly broad definition of public policy for purposes of testing arbitrability. This approach essentially confirms the basic trust that must be placed in arbitral tribunals, a trust that led one court to observe as follows: ‘[t]here is no reason to think that arbitrators are more likely to err in copyright cases than state or federal judges are’.<sup>85</sup> From this perspective, it appears that a regulatory regime enabling efficient copyright transactions should also provide for rules promoting the efficient settlement of disputes relating to copyright transactions.

### 13.6. CONCLUSION

If the goal is that intellectual property law (and particularly copyright law) shall ‘facilitate the distribution of knowledge’<sup>86</sup> and feed the knowledge-based economy, intellectual property assets must be able to circulate

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82. § 59.

83. § 59.

84. This can be viewed in connection with the position set out by other courts, which have confirmed their support for arbitration (i.e. arbitration-friendliness), or their ‘emphatic federal policy in favor of arbitral dispute resolution’, as expressed in the landmark case decided by the US Supreme Court, *Mitsubishi v. Soler Chrysler-Plymouth*, 473 U. S. 614 (1985), at 631.

85. *Saturday Evening Post v. Rumbleseat Press, Inc.*, 816 F. 2d 1191, 1198 (7th Cir. 1987).

86. Single Market for IPRs Boosting creativity and innovation to provide economic growth, high-quality jobs and first-class products and services in Europe (COM (2011) 287 final).

*An Essential Brick in the Building of European Copyright*

efficiently in order to maximize their use and benefits with reduced transaction costs. This calls for the creation of an enabling framework governing copyright transactions, and more generally governing intellectual property transactions.<sup>87</sup>

The time has therefore come to conceptualize and develop the regulatory vehicle that will support copyright transactions within Europe.<sup>88</sup> This constitutes an essential brick in the building of European copyright.

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87. Reference can be made here to the remarkable project (proposed at the UNCITRAL Third International Colloquium on Secured Transactions, 1-3 Mar. 2010, Vienna, <<http://www.uncitral.org/uncitral/en/commission/colloquia/3rdint.html>> for a 'Concept Proposal for a Model Intellectual Property Contracting Law' (drafted by L. Brennan/J. Dodd) who rightly state that 'Intellectual property ('IP') assets have become important in everyday global commerce. [...] The world economy has experienced profound changes, with information products and services now driving increased productivity and growth. Contracts support both the creation and distribution of such information. As a result, there is a growing need to develop common legal rules to guide and support commercial contracting practices involving IP'; one specific area which will not be addressed in this chapter is the issue of the treatment of license agreements in bankruptcy proceedings, and particularly in the bankruptcy of the licensor, in which scenario local bankruptcy rules significantly diverge, a situation that may lead to significant difficulties; for a recent illustration, see *In re Qimonda AG*, 2011 WL 5149831 (Bankr. E.D.Va. 2011) (protecting US-based licensees of a bankrupt German licensor under the protective US bankruptcy rules which are favourable to licensees).
88. See M. P. Markellou, 'Est-il nécessaire de consacrer un droit d'auteur contractuel au niveau européen?', in *The Work of George Koumantos and the Current Issues in Copyright, Symposium in Memoriam of George Koumantos* (Athens Sakkoulas, 2011), 309 (concluding her paper by stating that a balanced system should be achieved between excessive regulation and an over-liberal approach); this harmonisation is called for more generally beyond the scope of copyright law, see N. Binctin, 'Pour un Code communautaire de la propriété intellectuelle' in *Droits de propriété intellectuelle, Liber amicorum Georges Bonet*, (Paris, Litec, 2010), 51 seq. at 60 (pleading for the introduction of a European intellectual property code that would include provisions covering certain intellectual property contracts); Stiel (footnote 34), at 257 (concluding his thesis by calling for the adoption of a European intellectual property contract law – 'Immaterialgütervertragsrecht' – defining the key features of intellectual property license agreements); see more generally A. Ohly, 'Europäisches Grundsätze des Geistigen Eigentums' in *Europäische Perspektiven des Geistigen Eigentums* (Matthias Leistner ed, Tübingen, Mohr Siebeck, 2010), 190 seq., at 208 (calling for a scientific contribution to the creation of common European intellectual property principles); moving beyond Europe, a global harmonisation would also be of the utmost value for licensing agreements as such (see the *Research Handbook on Intellectual Property Licensing* (J. de Werra ed.) to be published by Edward Elgar, see [www.ip-licensing.info](http://www.ip-licensing.info)), and on the global harmonisation of copyright contracts, see A. Dietz, 'International and European Aspects of Copyright Contract Law (theses)', (2004) *Auteurs & media* (5/6), 527 seq. and W. Nordemann, 'Towards a Basic International Regime of Copyright Contracts', in J. J.C. Kabel & G. J.H.M. Mom (eds.), *Intellectual Property and Information Law: Essays in Honor of Herman Cohen Jehoram* (Kluwer Information Law Series, 1998), 217 seq.