

PRIMARY AND AFTER-MARKETS

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“Everything is marketable. If no present market exists for certain material, then a new market automatically develops around the material itself.”

De Lillo, Great Jones Street

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I. INTRODUCTION

When one considers “Intellectual property in the service of innovation”, the question arises as to what the optimal degree of protection is in the sense of innovation and how that protection is to be tailored

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so as to generate, make available and disseminate the optimum in innovative products.¹ Traditionally, attention has focused on subject matter that enjoy protection under intellectual property laws. Nevertheless, the general question at issue does require an analysis from the viewpoint of the markets. The reason is that the question of the scope and boundaries of property rights is not restricted to the “vertical” perspective of the accumulation of rights in a product, but also has to be viewed from the “horizontal” perspective. This then concerns the question of the extent to which the exclusive protection anchored in legislation reserves or should reserve to the rights owner the exploitation of a certain protected subject-matter not only on the original primary market but beyond this on after-markets. If we ask “How much do we protect in the service of innovation” whilst establishing that we are unable and unwilling to protect everything, then the problem of drawing the line necessarily arises also with regard to the scope of protection outside the confines of the relevant primary markets, with regard to the after-markets opened up by making available of the primary subject-matter.

The theory put forward in this article is that a major part of the issues disputed within the current discussion on the structuring of intellectual property protection, might be easier to comprehend and possibly solve under the market-related approach as opposed to the product-related approach. This, however, requires an understanding of the fact that simple reinforcement of existing exclusive protection often results at the same time in after-markets being allocated to the provider of the primary product (III.). Moreover, it is necessary to develop strategies (IV.) and criteria (V.) for possible approaches to solving the question as to when certain after-markets are to be allocated to the provider of a primary product and when they are open to third parties to market their products and services.

These issues are discussed predominantly on the basis of German law and analyzed on the basis of a number of examples deriving mostly from copyright law.

II. Description of the Problem

1. Examples

At first glance this might appear rather abstract. What are the problematic issues in practice? Admittedly, there does seem to be a motley collection of apparently unconnected case constellations in the viewfinder:

- First of all, there is traditional merchandising. This enables us to clarify the terms “primary market” and “primary product” as well as “after-market” and “after-product” in accordance with the use of these terms below. Within the context of merchandising, the primary product is, for example, a movie (e.g. Walt Disney’s “Lion King”) and “after-products” are the characters marketed on t-shirts, collector’s cups, in the form of soft toys or computer games.

¹ See with respect to copyright Schricker, Urheberrecht, 2nd edition, Munich 1999, Einleitung para. 13: Copyright should be tailored so that it contributes in an optimal way to the intellectual, cultural and culture-economical progress“.

That the movie market and the market for souvenirs and memorabilia are two different markets is just as evident as the fact that the after-market - or, rather, markets - presuppose exploitation of the primary product on the primary market. From the legal viewpoint, the fact that the person who produced the primary products, as the holder of the rights to the primary product in the case of merchandising, is entitled to supply the after-market, is not seriously questioned.

- The legal evaluation is not so clear where the merchandising does not relate to fictitious characters but concerns the recreation of reality in the toy world. The German Federal Supreme Court [*Bundesgerichtshof*] has more than once dealt with the question whether the recreation of reality is to be reserved to the holder of the rights to the real objects or whether it should not be subject to restrictions allowing any third party to recreate and thus satisfy the demand, e.g., for toy cars and railways.²
- The theme discussed in this article also includes the question whether a manufacturer of factory-new automobiles is also to be entitled to supply the spare parts market. This dispute has delayed the adoption of the EU Directive on the legal protection of designs and models as well as the adoption of the Regulation on the Community Design.³
- The cases dealt with by the German Federal Supreme Court under the catchword “interlocking building blocks”,⁴ which concerned the extent to which the provider of the primary product had to tolerate a third party incorporating its own product into the series, the boundaries to be drawn around the sphere reserved to the primary producer on the after-markets and at the same time the definition of the freedom available to others on the after-markets.
- The admissibility of producing compatible products was also an issue during the adoption of the EU Computer Program Directive,⁵ and intense disputes ensued on the extent to which the

² Even after two decisions of the Federal Supreme Court regarding toy cars it seems all but clear where the line has to be drawn; BGH, 1994 GRUR 732 - McLaren und 1996 GRUR 57 - Spielzeugautos.- Regarding the illegality of the reproduction of someone else’s original name see already BGH, 1981 GRUR 846 - Rennsportgemeinschaft.

³ See Arts. 13 (2) (b) and (c), 14 of the Directive 98/71/EG of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs, OJ EU No. L 289 of 28 October 1998, p. 28, and Art. 22 (b) and (c) of the EU Regulation on Community Design, OJ EU No.C 248 of 29 August 2000, p. 3 and in literature especially Kur, 1998 GRUR Int. 977, 997 and 1998 GRUR Int. 353, 355 with further references in note 15.

⁴ BGH, 1964 GRUR 621 - Klemmbausteine (open squeezing into someone else’s series of products by way of marketing single elements) and 1992 GRUR 619 - Klemmbausteine II (covert squeezing into someone else’s series of products by way of marketing products the component parts of which were not identical to, but compatible with, the individual parts of the original series. See also the parallel decisions of the French Cour de cassation of 29 March 1994, 1995 GRUR Int. 505, of the Norwegian Supreme Court of 20 December 1994, 1995 GRUR Int. 508, and the Italian Corte di Cassazione of 9 March 1998, translated in 1999 GRUR Int. 798. For discussion see Kur, 1995 GRUR Int. 469 ff.

⁵ Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, OJ EU No. L 122 of 17 May 1991, p.42.

market for interoperable products, which could only be manufactured by decompiling other, protected programs without disclosing interface information, should be reserved to the originator of the original program, and the extent to which independent producers should be permitted to gain access to that market without requiring a license from the rightholder of the original computer program.⁶

- Moreover, as regards copyright protection for computer programs, the question arises as to whether or not the producer alone should be entitled to maintain its own programs, or whether the maintenance market should be open to third parties without the consent of the rightholder of the original computer program being required. It is a well known fact that the solution laid down in the Directive was to open the market for error correction, but not the maintenance market as a whole, to third parties.⁷
- In the digital, networked context the question of the optimal availability of access to digital resources also involves the question of who is to be entitled to offer analog print products in the form of a digital archive. This dispute was initially conducted by the rights management societies with the publishers of printed products, and for the meantime the publishers have gained the upper hand.⁸ Apart from this special case, the general question concerns the admissibility of so-called added-value information services provided by third parties, without the rightholders' consent.⁹

⁶ The compromise, according to which infringing acts are permitted for the purpose of achieving compatibility within precisely defined limits is laid down in Arts. 5 (3) and (6) of the Directive on the legal protection of computer programs, implemented in §§ 69d (3) and 69e of the German Copyright Act. - For the legal history of the directive see Czarnota/Hart, Legal Protection of Computer Programs in Europe - A Guide to the EC Directive, London 1991, p.69 and 73; Dreier, Computer Law & Practice, Vol. 6, No. 3, 92 (1990).

⁷ Art. 5 (1) of the computer program Directive, and with the same wording § 69d (1) of the German Copyright Act. - This differentiation is not due to a drafting error; rather it is the result of highly controversial negotiations; see Czarnota/Hart, op. cit. (note 6), p. 63, and Dreier, op. cit. (note 6). Wohlgemuth, Computerwartung, München 1999, p. 191, however, is of the opinion that absent contractual agreements to the contrary the „intended purpose”, which is consent free, comprises maintenance. Even if this opinion is not covered by the legal history, the discussion demonstrates that the adjudication of the market for maintenance to the producer of the computer program may enter into conflict with the use of the program for its intended purpose.

⁸ See Court of appeals of Cologne, 2000 CR 352, and Court of appeals of Hamburg 2000 CR, 658, and for the first instance LG Hamburg, 2000 CR, 355. - As a matter of law, the issue is whether electronic press „clippings” are covered by the so-called press-clipping privilege contained in § 49 (1) of the German Copyright Act. In the meantime, publishers have founded a company (the *Pressemonitor-Gesellschaft mbH*) which offers a common digital service. However, the antitrust issues raised by this service are currently under examination.

⁹ The German Federal Supreme Court had to deal with these issues several times; see BGH, 1997 GRUR 459 - CB-Infobank I and 1997 GRUR 464 - CB-Infobank II (making of copies as part of a service which consisted in researching relevant articles); 1999 GRUR, 707 - Kopienversanddienst (mailing of copies by libraries) and 1999 GRUR 324 - Elektronische Pressearchive (digitalization of analog press archives upon request).

- The disputes concerning the television broadcasting rights to events which as such do not enjoy protection (e.g. box fights, horse races) also have to be mentioned in this connection.¹⁰
- And last but not least the well-known Magill case¹¹ which concerned the question whether or not the copyright protection accorded to a broadcasting organization's own programs also included the right to license the relevant program information to the producers of weekly program guides, the result being that each individual broadcasting organization would have been able to prevent such a weekly guide so that the market for weekly TV guides - which as such is clearly distinct from the primary market for television broadcasting activities - would have been closed to third parties and accessible only against a license.

2. Common Features and Development Trends

Admittedly, the initial list above is incomplete and displays a number of different characteristics. For example, the primary product can be the object of an intellectual property right (computer programs, printed products, automobile chassis elements) or it may not ("interlocking building blocks", competitive boxing matches). In addition, the after-market may in part be covered by the same intellectual property right as is the primary market (e.g. when printed material is digitized or maintenance work carried out on computer programs); in some cases, however, the rightholder acquires a separate property right for the after-market (e.g. in the case of design protection for automobile spare parts) or flanking rights (e.g. trademarks for merchandising), which right is granted to the holder of the rights to the primary product only. In some cases a new property right is created for the primary market (e.g. sui generis protection for non-original databases, which was separated from protection granted under competition law in Germany), and in some cases the after-market is placed under a separate regime of protective rights (e.g. in the case of TV advertising for boxing matches or betting services with regard to horse races). The reactions to these problematic issues within the context of a practical conflict of interests also vary considerably. Where a certain solution has been in place for a while, such as with merchandising, the legal allocation of the after-markets is hardly questioned; in contrast, where newly developing markets are to be divided embittered battles ensue about the legal positions on those markets (e.g. spare parts for automobiles and interoperable computer programs).

Despite all the differences, the above-mentioned cases do have a common underlying structure: they all concern the fact that the creation of a primary product - no matter whether it is protected or not - results in a demand for additional products the configuration and quality of which are not identical to

¹⁰ See Court of appeals of Munich, 1997 NJW-RR 1405 (concluding from a „new market for so-called subsequent exploitation rights” of boxing matches to a legally protected absolute right within the meaning of § 823 (1) BGB, since the „inherent possibility for economic exploitation” of a boxing match constituted part of the general right regarding an organized and running business (Recht am eingerichteten und ausgeübten Gewerbebetrieb). For a somewhat more reluctant position vis-à-vis the right regarding an organized and running business see, however, BGH, 1971 GRUR 46, 47 - Bubi Scholz ("legal protection of ... commercial exploitation possibilities” seen as an „unjustified privilege of an enterprise”).

¹¹ ECJ of 6 April 1995, cases C-241/91 P and C 242/91 P, German translation in 1995 GRUR Int., 490.

the primary product and which thus open up one or more after-markets. The after-market might be a market for further exploitation of the primary product in a different form, or a market for secondary products or services which serve to satisfy the demand for replacements or supplements.

In this respect one may also speak of auxiliary or secondary markets. However, these terms are less precise than the term after-market. The term auxiliary market does not imply the subsequent nature of the after-market, and the term secondary market is easily misunderstood as it implies economic priority from the perspective of the marketing policies adopted by an individual enterprise, in the sense of an economically less significant secondary exploitation.¹² However, the assessment of such a ranking as regards economic significance depends firstly on the marketing strategies adopted by an individual participant (what for one participant is primary exploitation is secondary exploitation for another) and, secondly, such a ranking is governed by changes both in technology and on the market. Hence, the term after-market appears to express the sequence of events best. Consequently, primary markets are understood to mean those markets on which the product (the primary product) was first created and offered, which gives rise to a subsequent demand for one or more additional products (the after-product(s)); these after-products have access to after-markets that are distinct from the primary markets, they are created and offered on after-markets.¹³

The question now arises why the problem of allocating the after-markets has gained in significance in recent years. One might even say that the current debates concerning reinforcements of the legal protection conferred on primary products almost always address the question of the allocation of after-markets. Why has the issue of spare parts become so disputed in recent years? Why did the German automobile enterprises start licensing toy cars in the 1980s, and why does the German railway monopolist Deutsche Bahn feel compelled to register picture marks for the side views of its carriages, for toys and toiletries? For what reasons are information services now competing against the publishers of printed works?

¹² A similar use of terminology can be observed in copyright practice, when collecting societies refer to claims for remuneration which they administer as claims regarding secondary uses (see, e.g., the description of the VG WORT's filed of activity <http://www.vgwort.de>), or when the claim for remuneration of performing artists and producers of phonogram producers according to Art. 12 of the Rome Convention is referred to as "Secondary Uses of Phonograms". Likewise, Schricker/v.Ungern-Stemberg, *Urheberrecht*², § 15 note. 50 emphasize that the notion of „secondary” exploitation cannot serve as the basis for valid legal conclusions. - The official reasoning of the German Copyright Act of 1965 (UFITA 45 (1965) 240, 261) defines secondary exploitation rights as „rights regarding those ways of exploitation, which have already been preceded by another form of exploitation which is reserved to the author“. This exploitation emphasizes the time factor, but it seems to suppose that any exploitation which follows a primary (first) exploitation is of less value in economic terms. In addition, this definition only seems to presuppose an identity of the primary product and any secondary product, without taking into consideration that the primary and the secondary product might differ from each other.

¹³ As such the problem is not limited to intellectual property rights. The same issue is raised regarding the question whether or not the taking and commercial exploitation of photographs of the outer appearance of physical objects is covered by the property right in tangible objects (§ 903 of the German Civil Code). See BGH, 1966 GRUR 503 - Apfelmadonna; 1975 GRUR 500 - Schloss Tegel, and 1990 GRUR 390 - Friesenhaus; Dreier, *Sachfotografie, Urheberrecht und Eigentum*, Festschrift Dietz, Munich 2001, p. 235. Of course, also in the latter case the question is about the „image“ as an intangible feature of the object in question.

It appears that the driving forces are of a technical and economic rather than of a legal nature.¹⁴ The trigger appears to have been, firstly, increasing product diversification the reason for which could lie in the satisfaction of basic needs and the growth in the purchasing power available to large parts of the general public, especially young people. This corresponds to the strategies of extensive marketing developed in the recent past; how otherwise can one explain the fact that the logo of the soccer club Bayern München is even cast in orthodontic brackets in the meantime? And another driving force is certainly the technical development of digitization and networks. Digitization enables protected works and products to be offered in the form of new products and services at a much lower price than in earlier times. In particular, global networking enables geographically remote markets to be lucratively accessed. This is coupled with an enhanced awareness of the economic value of intellectual property rights since the late 1980s, not only from the macro-economic but also from the micro-economic perspective. Finally, the convergence of the media and hence of activities as a result of technology advances also brings markets nearer that previously were clearly distinct economically speaking, were previously perceived as different markets by the participants and consequently serviced by different, specialized suppliers.¹⁵

Historically speaking, this development is not really a new phenomenon. Rather, it is a further stage in the development of human societies, in which, driven by technological advances, changes occur in economic trade relations and the structure of markets, which on their part compel rights owners to move closer together. However, it is then also that the liberties of the rights owners vis-à-vis one another have to be more carefully defined. The essential task of archaic law was to provide defense against purely physical attacks. In its original form the German Civil Code devotes considerable attention to solving conflicts concerning land. After the German Civil Code entered into force, the need for extensive legal protection became ever more urgent, which was not regulated in that Code, against unfair competitive conduct and against encroachments on property rights within the context of direct competition on primary markets. The next task for the law appeared to be to align the interests of those who provided a (protected) primary product with the interests of those who trusted in the reliability of supplying products to the after-markets in the service of innovation.

¹⁴ However, this does not exclude that the problem has also a „legal“ origin in cases where the strengthening of an already existing protection or the lowering of the conditions for protection enlarge the markets on which the interests of parties who provide primary and after-products may enter into conflict. In German copyright law, examples are the lowering of the originality requirement for computer programs following the EU Directive on the legal protection of computer programs (Art. 1 (3) of Directive 91/250/EEC of the Council of 14 May 1991 on the legal protection of computer programs, OJ EU No. L of 17 May 1991, p. 41), for databases according to Art. 3 (1) of the EU Directive 96/9/EC of the European Parliament and the Council of 11 March 1996 on the legal protection of databases, OJ EU No. L 77 of 27 March 1996, p. 20, and of photographic works according to Art. 6 of Council Directive 93/98/EEC of 29. October 1993 harmonizing the term of protection of copyright and certain related rights, OJ EU No. L 290 of 24 November 1993, p. 9.

¹⁵ Prime example are the roles of the parties in the field of the print medium. Here, authors, book publishers, booksellers and libraries all have assumed roles different from each other. In the digital context, however, they all offer the same data, of equal quality, at equal speed - provided the search engine is of high quality - and at almost identical prices. News agencies, newspaper publishers, broadcasting stations and data base operators find themselves in a similar situation, although this may not have come to the attention of the public in quite the same way yet.

I. STRATEGIES AND BOUNDARIES OF MARKET ALLOCATION

1. Guarantee and Attribution of Property Rights as Allocation of Markets

When attempting to approach this phenomenon from the legal perspective, it is advisable to first recall the fact that not only the guarantee of a property right in a previously rights-free area assigns a market to the future holders of the relevant property right, but that such a legal attribution also takes place where the scope of existing property rights is broadened. This also means that previously rights-free acts will in future be reserved to the rights holder. This might appear obvious, however, it is all too easily forgotten when attention is directed solely to the subject-matter attracting protection.¹⁶

Examples for the allocation of markets due to the creation of new protective rights for previously rights-free subject-matter includes, in recent years, the statutory protection conferred on computer chip topographies,¹⁷ the above-mentioned introduction of sui generis protection for databases¹⁸ as well as the recognition under judge-made law that certain elements of the human personality can be commercialized.¹⁹ Examples for the successive broadening of originally individual, exclusive rights in the field of copyright law include the recognition of the broadcasting right by the *Reichsgericht*²⁰ [Supreme

¹⁶ If in this respect I use the term „allocation“ of markets, this shall not mean that the respective markets will be created by the creation or enlargement of the legal protection for the products marketed on a particular market. Rather, markets for products which embody immaterial goods, or for services which are based on the use of immaterial goods by and large exist independently of the legal exclusive protection granted for these immaterial goods. Technical inventions and literary writings have existed even before legal protection in the form of an exclusive right has been invented (for a history of inventions and the legal protection of inventions see, e.g. Kurz, *Weltgeschichte des Erfindungsschutzes*, FS 100 Jahre Gesetz betreffend die Patentanwälte, Köln et al. 2000, p. 5, and for copyright the references at Schricker/Vogel, *Urheberrecht*², Einl. vor IV.). Some exceptions apart, where investment into the creation and offering of a particular immaterial good is made only after such good has been legally protected, and apart from dealing in exclusive intellectual property rights, the legal protection of an immaterial good always recognizes and protects already existing markets. Nevertheless, it can be said that the legal protection of immaterial goods „allocates“ a particular market to the rightholder, since a market which was open to competition for all before, will by way of creating or enlarging an existing intellectual property protection, be reserved - or „allocated“ - to a rightholder. For it is now only the rightholder who is legally entitled to deliver the market, or license it to be delivered, with products, which contain the immaterial good protected by law, and to stop third parties from doing so.

¹⁷ German Semiconductor Chip Protection Act of 22 October 1987 (BGBl. I, 2294).

¹⁸ §§ 87a et seq. of the German Copyright Act, which implement Art. 7 et seq. of Directive 96/9/EC of the European Parliament and the Council of 11 March 1996 on the legal protection of databases, OJ EU No. L 77 of 27 March 1996, p. 20.

¹⁹ See only BGHZ 20, 345 - Paul Dahlke; 30, 7 - Caterina Valente; BGH, GRUR 1987, 128 - NENA; GRUR 1992, 557 - Talkmaster-Foto; GRUR 2000, 709 - Marlene Dietrich, und for discussion Götting, *Persönlichkeitsrechte als Vermögensrechte*, Tübingen 1995, p. 12; Ullmann, AfP 1999, 209, and critical Schack, AcP 195 (1995), 594.

²⁰ RGZ 113, 413. The decision was handed down at a time when authors only had a reproduction right and a distribution right. - For historical development insofar see Schricker/v.Ungern-Sternberg, *Urheberrecht*², vor §§ 20 ff. note 26; Bornkamm, in: Beier, et al. (eds.), *Festschrift 100 Jahre GRUR*, Weinheim, 1991, Vol.

Court of the German Reich 1871-1945] and the broad protection afforded to authors under the German Copyright Act of 1965 against any kind of unauthorized use of their works.²¹ However, in many cases previously rights-free markets are assigned even where the broadening of protection²² is simply a reaction to technical advances and seeks to balance a technically caused deficit in control, i.e. where the predominant interest lies in preserving the primary market for the provider of the primary product and in protecting him against acts of piracy. The allocation broadening the scope of the rights enjoyed by the provider of the primary product might well be a kind of side-effect in such a case. However, it becomes particularly prominent where the reinforcement of the copyright protection afforded to computer programs is concerned.²³ Here, as a result of the almost complete ban on reproduction for private use, the market for maintenance - a typical after-market - is allocated to the producer of the program in his capacity as the provider of the primary product.

Since market allocation by way of an exclusive right, as reflected in its two components - positive right to use and negative right of exclusion - enables the holder of an exclusive right not only to supply the market himself or to permit third parties to do so, but also to prohibit third parties from supplying the market, the party providing the primary product can, if the after-markets are also allocated to his primary product, exclude third parties from supplying those after-markets. This is not a new aspect and lies in the nature of an exclusive right. In practice, however, it results in problems where the allocation of after-markets interferes with ongoing competition so that after-markets which were previously open to competitors are assigned to the rights holder as the provider of the primary product. Contrary to exclusive rights holders, who enjoy at least some protection of the status quo under constitutional law so that rights once conferred on them are not revoked,²⁴ those who unfold their activities in the rights-

II, p. 1349.

²¹ According to § 15 (1) and (2) of the German Copyright Act, an author has the exclusive right to exploit his work in material as well as in immaterial form. The exploitation rights expressly listed in this provision are only exemplary in nature. Consequently, protection is all-embracing, except for instances where a right expressly enumerated contains a limitation in itself (such as the exhibition right according to § 18 of the German Copyright Act, which is limited to the exhibition of unpublished works).

²² The catalogue of exceptions to the exclusive rights in a computer program (§§ 69d and 69e of the German Copyright Act) are more limited in nature than the general exceptions regarding exclusive rights in other copyrighted works contained in §§ 45 et seq. of the German Copyright Act.; see Dreier, 1993 GRUR 781, at 784.

²³ For the protection of computer programs as literary works see Art. 10 (1) of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) ("Computer programs ... shall be protected as literary works under the Berne Convention"); Art. 1 (1) of the EU-Directive on the legal protection of computer programs, op. cit. (note 5) („In accordance with the provisions of this Directive, Member States shall protect computer programs, by copyright, as literary works within the meaning of the Berne Convention for the Protection of Literary and Artistic Works”) and following §§ 2 (1) No. 1 of the German Copyright Act („literary works, such as ... computer programs”).

²⁴ For further details and for the constitutional limits of this guaranty of acquired rights see the Federal Constitutional Court, BVerfGE 31, 275 - Schallplatten. For further discussion see also infra V.

free area cannot rely on that area remaining free of rights in future.²⁵ This situation is “asymmetrical” from the viewpoint of upholding effective competition. Secondly, innovation and supplies to consumers may become impaired if a rights holder uses his exclusive right to keep third parties away from an after-market he does not wish to supply himself. For example, users of tailor-made computer programs are usually hard-hit if the supplier is only interested in selling and, instead of maintaining the earlier version, is only prepared to offer expensive up-date versions. Other than the situation in patent law,²⁶ so far this has been a relatively rare occurrence in copyright law, since rights holders primarily used their exclusive rights to obtain a particularly high remuneration²⁷ and since it was usually possible to substitute an individual copyright work which was not available on the market. It appears that this is connected with the technical or innovative nature of the relevant subject-matter of protection. Indeed, such problems arise in copyright law predominantly with regard to technical objects of protection, the inclusion of which within the scope of copyright protection, especially with respect to computer programs, has always been called into question on legitimate grounds.²⁸

Assuming that any guarantee and especially any broadening of protection by way of exclusive rights does result in an allocation of markets in the sense discussed above, then the discussion of the question according to which criteria (general) and how precisely (specific) protective rights, and hence market allocations, are to be crafted, should be more transparent.

2. Legislative Instruments

From the legal viewpoint, the first question concerns the legislative instruments available in order to effect the allocation of markets in the field of intellectual property and to draw borders around such markets.

The most important instrument in order to allocate markets is without doubt the exclusive right to the

²⁵ A practical example is the creation of the sui-generis protection scheme for investment intensive databases by the EU-Directive on the legal protection of databases, op. cit. (note 14), implemented into German law by §§ 87a et seq. of the German Copyright Act, even in cases where the database does not enjoy copyright protection as an original work within the meaning of Art. 4 (2) of the German Copyright Act.

²⁶ In patent law, the strategic use of exclusive rights can be observed for quite some time now. As one example, see Rahn, 1994 GRUR Int. 377 in view of patenting strategies of Japanese firms.

²⁷ See, e.g., Schricker, Urheberrecht², Einleitung note 13. This appears to be equally true from the viewpoint of the original creator and the intermediary producer. For example, a book publisher is interested in using his exclusive right in order to obtain the highest price for translation rights, and only rarely in not having sold his book in a particular foreign country.

²⁸ See only Dietz, UFITA (110), 57 ; Wenzel, 1991 GRUR 105 at 107, and, in particular, the past efforts of the World Organisation for Intellectual Property (WIPO) to establish a sui-generis protection for computer programs, Industrial Property 1983, 287. - The main points of criticism against protection computer programs by copyright have been the long term of protection, which blocks subsequent producers far too long from entering the market, as well as fears that special rules regarding authors' moral rights and contract law might in the long have negative effects on the legal status of authors of traditional copyrighted works. See, e.g. Dreier, in: Lehmann (ed.), Rechtsschutz und Verwertung von Computerprogrammen², Cologne 1993, p. 36.

primary product. By way of the exclusive right the signals are set as regards the scope of the markets allocated to the provider of the primary product. From the legislative viewpoint, it is possible for individual manners of use of intellectual property to be omitted from the scope of an exclusive right from the outset. As a rule, rights of use are set out exhaustively. Under German copyright law there is a certain exception especially as regards adaptations under Sec. 23 of the Copyright Act.²⁹ Admittedly, it does extend the author's exclusive right beyond identical works, but apart from certain exceptions it does not reserve to the author the right to make, but merely the right to exploit, an adaptation of his or her work; secondly, adaptations are distinguished from so-called "free use" in the sense of Sec. 24 Copyright Act.³⁰

All in all, a precise description of the boundaries of the right holder's powers only takes place when the exceptions from protection and/or the restrictions on rights are defined. It is only at this stage that reference can be and as a rule is made to the conflicting interests and particular market situations, or - as demonstrated by the provisions on the decompilation of computer programs - that particular aspects of a certain protected subject-matter are taken into account.³¹ Within the context of the restrictions on rights, the legislator is able to wield compulsory and statutory licenses, mere permission and freedom of permit and remuneration, in order to react precisely to the particularities of the case constellation requiring regulation.³²

The fact that the restrictions on rights do concern a defining allocation of markets is shown by the description of the boundaries set for the member states of the international copyright community when they intend to provide for exceptions to the exclusive rights conferred on authors and rights holders. This boundary was first anchored in Art. 9(2) of the Revised Berne Convention in 1967 with respect to the reproduction right. From there it was transposed to Art. 13 TRIPS, where it now applies to all copyright exploitation rights covered by that international treaty - i.e. all rights of the Revised Berne Convention³³ with respect to all objects attracting copyright protection thereunder, including the

²⁹ According to § 23 of the German Copyright Act, in the case of an adaptation of a work for cinematographic purposes, the execution of plans and sketches for a work of fine art, or of copies of an architectural work, the act of making already requires the consent of the author or of the rightholder, as the case may be. Computer programs are subject to the special rules of §§ 69d and 69e of the German Copyright Act anyway.

³⁰ According to § 24 (1) of the German Copyright Act, An independent work created by free use of the work of another person may be published and exploited without the consent of the author of the used work. What is required is that the individual traits of the original work totally fade in the second work, and are hardly recognizable any longer; see Schricker/Loewenheim, *Urheberrecht*², § 24 note 10; Ulmer, *Urheber- und Verlagsrecht*³, Berlin et al.1980, § 59 II, with further references.

³¹ § 69e of the German Copyright Act.- The special legal rules for computer programs demonstrate how technology specific a legislator can react. It is, however, another question, whether and to what extent technology specific legislation is advisable as a rule or at least in certain special cases.

³² For further detail regarding these legal claims for remuneration see Rossbach, *Die Vergütungsansprüche im deutschen Urheberrecht*, Baden-Baden 1990, p. 4.

³³ See Art. 9 (1) TRIPS.

computer programs and databases protected under TRIPS itself.³⁴ The reason is that according to the second of three conditions of the so-called 3-phase test, limitations and exceptions to the exclusive rights guaranteed under conventions may only be granted to the extent that they do not impair the “normal exploitation of the work”.³⁵ The extent to which this condition limits the room for maneuver left to national legislatures, and whether the condition only applies to limitations on the primary market or is also of relevance to after-markets, will be a matter for discussion below.

In this context the special regulations on compulsory use - restricted, however, to trademarks - are also worth mentioning.³⁶ The continued existence of trademark protection for the market covered by a certain class of goods - which nowadays means not only primary markets but also the after-markets envisaged by the trademark applicant at the time of his application - depends on whether or not the owner of the trademark rights does in fact supply that market within certain statutory periods or at least ensures that it is supplied by granting a license. However, the point of departure here is a different one compared with a situation where from the outset the protection ascribes to the originator the exploitation of his or her intellectual property for the primary market and all after-markets. For under trademark law a mark which is registered for one class of goods only can in principle be claimed by anybody for other classes of goods and not just by the party who registered the mark first for the one class of goods. At least, this applies to trademarks that are not famous or well-known marks and provided that there is no impairment of the reputation or distinctive character of a well-known trademark. Hence, the allocation of after-markets is “neutral” in this respect.

Another possibility of allocating individual after-markets is for the legislature to reserve the legal allocation of markets to the courts within the context of a detailed consideration of individual cases, instead of a mere abstract allocation. Examples of this under German law are, first and foremost, the general clause in Sec. 1 Act Against Unfair Competition and the exclusive rights which, such as Sec. 12 Civil Code, Sec. 23(2) of the Artistic Copyright Act (Kunsturhebergesetz, KUG), the general right of privacy and the right to an established and practiced trade within the context of Sec. 823(1) Civil Code, are not rigidly defined but which, being framework or catch-all rights, are defined on the basis of a detailed consideration of individual constellations. This then opens up a considerably larger scope for maneuver that does an interpretation of exclusive rights or, in particular, of limitations on rights, which as exceptions are to be construed restrictively as a matter of principle.³⁷ In particular,

³⁴ Art. 10 (1) and (2) TRIPS. - Moreover, Art. 13 TRIPS likewise applies to the rental right, which according to Art. 11 TRIPS Member States have to grant at least with respect to computer programs.

³⁵ The other two conditions are as follows: the exception must be confined to certain special cases and the legitimate interests of the rightholder may not unreasonably prejudice the legitimate interests of the right holder.

³⁶ See Art. 25 of the German Trademark Act.

³⁷ See only BGH, 1968 GRUR 607 - Kandinsky and the further references at Schricker/Melichar, Urheberrecht², vor §§ 45 ff. note 15. Besides the exceptional character of statutory limitations, exclusive rights rights are protected by the German Constitution as „property” within the meaning of Art. 14 of the German Constitution (Grundgesetz); see only Federal Constitutional Court, 1980 GRUR 44 - Kirchenmusik; BGH, 1999 GRUR 707 at 713 - Kopienversanddienst. In spite of this, an extension of the scope of statutory limitations in applying them by way of an analogy is, in the opinion of the German Federal Supreme Court,

interpretation by the courts in the above-mentioned cases may be restrictive on principle or rather broad.

Finally, in this context statutory compulsory use should also be mentioned, which - insofar as it does not result from abuse of rights³⁸ - is motivated mainly by antitrust law considerations, no matter whether based on general antitrust law provisions of the German Act Against Restraints of Competition (Gesetz gegen Wettbewerbsbeschränkungen; GWB) or other antitrust provisions such as the Copyright Administration Act (Urheberwahrnehmungsgesetz),³⁹ and will be omitted from the present discussion for this reason.⁴⁰

3. Groups of Constellations

After this systematization of the legislative instruments with which allocation of markets is effected in the field of intellectual property, an attempt will now be made to classify the cases mentioned above into groups of constellations. In view of the disparities in detail, and despite similarities in the underlying constellation, this will not always be easy or absolutely unequivocal. Nevertheless, forming groups will help to discern indications for the legal treatment and for distinctions to be made in law. The proposed classifications predominantly depend on whether or not the effects of primary and after-products offered side-by-side by different providers are directed mainly towards the primary market or towards the after-markets as well. Additional criteria which might play a role include the degree of identity between the primary and the after-products, or the provision (or non-provision) of the after-markets by the provider of the primary product.

The following four groups can be described, without this amounting to a classification which is complete in any respect:

not totally excluded; see BGH, 1987 GRUR 362 - Filmzitat, and 1983 GRUR 562 - Zoll- und Finanzschulen. Schricker/Melichar, Urheberrecht², vor §§ 45 ff. note 16, however, do not share this view.

³⁸ For the application of the theory of abuse of right in order to correct the effects of overbroad exclusive rights see recently Heinemann, Immaterialgüterrechte in der Wettbewerbsordnung, Münchener Habilitationsschrift, Part 3, B (German law) and Part 4, B and C (EU-law).

³⁹ According to §§ 6 and 11 of the German Act on Collective Dealings in Copyright, collecting societies are subject to a twofold duty to contract. On the one hand, collecting societies must administer the rights of all those who hold rights which belong to the category of rights which the collecting society represents. On the other hand, collecting societies are under a duty to grant use rights to any user who asks for such use rights. If the user and the collecting society do not agree on the conditions of the use or on the tariff requested and published by the collecting society in question, the user may nevertheless begin exploiting the work repertoire administered by the collecting society, provided the user has put the remuneration required by the collecting society in escrow. It is only thereafter that the courts will decide the question at issue (see §§ 11 (2), 16 of the German Act on Collective Dealings in Copyright).

⁴⁰ For further detail see Ullrich, Grenzen des Rechtsschutzes: Technologieschutz zwischen Wettbewerbs- und Industriepolitik, in: Schricker/Dreier/Kur, Geistiges Eigentum im Dienste der Innovation, Baden-Baden 2001, p. 83 (in particular part II.1).

firstly, if the after-product impairs the revenue chances of the primary products on the primary market as such, this might be due to identical products. Basically speaking, this covers the case of bootlegs and piracy. Yet these cases do not fall within the ambit of the present issue of primary and after-markets, since there is no difference in time involved and no difference between after-product and the primary product. For as a rule, copies of a primary product seek to replace that product and do not aim to satisfy an after-demand generated by the primary product.⁴¹ However, the case of incorporation into another's series shows that these cases are not always clear-cut: where the series as such is imitated, there is doubtlessly a case of piracy; in contrast, where something is incorporated by way of compatibility, without individual parts of the original series being copied, then the products are not identical. How the case lying in between these poles is to be judged, where individual parts of the original series but not the series as a whole are copied, depends strongly on what is considered to be the "product" with regard to the question of identical products.

Secondly, the cases where the after-product also impairs the revenue chances of the primary product on the primary market, but is different from the primary product. In other words: The after-product can be distinguished from the primary product, however, marketing it on the after-market has a negative effect on the primary market. This group covers phenomena such as copies mailed on-demand and electronic press-clipping services as well as on-line archives. The texts copied, the articles and archive documents reproduced are not identical to the books and newspaper from which they were copied or reproduced; and the services "press clippings" and "electronic archive" are very different from the distribution of print media. Nevertheless, these after-products or after-services may well impair the revenue chances of the primary products on the relevant primary markets.⁴² This second group of cases also includes cheap imitations of high-quality primary products (e.g. plastic Rolex watches), which merely imitate the exterior of the product without any pretense of being the original primary product, yet provided such cheap imitations do not result in a dilution of the good reputation enjoyed by the primary product or reduce its revenue chances on the primary market.⁴³ Finally, this second group of cases also includes cases of actual incorporation into another's product series, where the series as such constitutes the primary product and where individual parts of the series but not the whole series are sold on an after-market, resulting in a reduced demand for the series

⁴¹ For the special cases of cheap imitations of luxury items, however, see the two following groups of cases.

⁴² In exceptional cases, marketing the after-product on an after-market may help to increase the demand for the primary product on the primary market. See, e.g., the case RGZ 35, 63, where the use of copyrighted music in music automats led to an increased demand for the original sheet music. It should be noted that in this case the Federal Court of the Reich allowed the infringed rightholder, who couldn't prove any actual damage suffered, to calculate damages on the basis of the so-called license analogy or by way of handing over of profits made by the infringer. In this group also belongs the case BGH, 1995 GRUR 349 - Objektive Schadensberechnung, in which unauthorized reproductions of photographs of spectacle rims in leaflets furthered the sale of those spectacle rims. In this case, however, the German Federal Supreme Court denied an accounting of damages according to the gain made by the infringer, since such a method would - in the case at bar - not be in conformity of the compensatory nature of the remedy of damages.

⁴³ If, however, no negative effect on the marketing chances of the primary product on the primary market can be demonstrated, the case rather belongs to the fourth group (see immediately below).

as a whole.⁴⁴

When considering the potential effects of satisfaction of the after-demand on the after-markets through a third party, the following two groups of cases can be distinguished:

- Thirdly, there might be real competition on the after-market between the provider of the primary product and the provider of the after-product. This is the case where the provider of the primary product offers products and services to satisfy the after-demand, especially where spare parts are offered by both automobile manufacturers as original spare parts and by third-party manufacturers.
- Finally, the fourth group of cases concerns those cases of potential competition on the after-market where a third party offers an after-product or after-services which are not offered by the provider of the primary product - no matter for what reason. The question whether the provider of the primary product would be able to prevent the after-product or the after-services of the third party on the basis of a property right can be disregarded for the meantime, for this question is secondary in rank to the actual details of the classification. This fourth group of cases includes as a matter of principle all derivative products of the primary product, in the manufacture and distribution of which the provider of the primary product has no interest, but for which there is a certain demand. The range is broad and includes parodies of well-known comic figures⁴⁵ and other objects of protection⁴⁶ as well as the impairment of well-known trademarks,⁴⁷ cases concerning maintenance for computer programs which is not offered by the program producer and toy imitations of reality which attracts protection. And there is also the special case where the individual provider of the primary product is unable to provide the after-product itself since the latter requires various non-substitutable primary products originating from different providers. This was the case with Magill and the weekly overview of the programs of numerous broadcasting organizations, and also applies to the electronic press clipping services combining articles from newspapers issued by numerous publishers. It is evident that the latter case will gain considerably in significance in the age of the information

⁴⁴ For a differentiation of the different groups of cases see in particular Kur, 1995 GRUR Int. 469. - This also demonstrates that cases of squeezing into someone else's series cannot be attributed to any one group as long as it is not specified what - the whole series and/or single elements of a series - are considered „the product” (see already text to group one). If the series is the product, then single elements thereof have to be considered after-products within the definition laid down in this paper; if, however, the single elements are considered primary products, then offering single elements by a third party rather qualifies as offering substitutes for those elements (first group) and hence not as a problem of primary and after-markets.

⁴⁵ See only BGH, 1994 GRUR 191 - Asterix-Persiflagen; 1994 GRUR 206 - Alcolix.

⁴⁶ See, e.g. BGH, 2000 GRUR 703 - Mattscheibe (satirical comment of a tv-show by borrowing some parts of the broadcast).

⁴⁷ See BGH, 1994 GRUR 684 - Mordoro (reference to Marlboro); 1986 GRUR 759 - BMW ("Bumms Mal Wieder"); 1994 GRUR 808 - Markenverunglimpfung ("Mars macht mobil" on condoms), 1995 GRUR 57 - Markenverunglimpfung II and recently Regional Court of Hamburg 2000 GRUR 514 - Markenbeeinträchtigung Deutsche Post ("Deutsche Pest").

society. Even in the cases concerning toys, one might argue that the individual provider of a product in the real world can always reproduce its product, but not reality in its entirety.

One might argue that this distinction between current and potential competition on the after-market becomes blurred where the provider of a primary product is able to control the after-market thanks to a property right. For if that provider fails to supply the after-market himself, he could supply it at any time by granting a license and thus indirectly profit from the demand on the after-market. This is true but it does not alter the distinction between cases of groups 3 and 4. First and foremost such an argument pinpoints one of the core problems to be emphasized by focusing the viewfinder not on the abstract object of protection, but on products, services and markets: the fact that the difficulties arise predominantly in practice where the originator of a primary product is able to block an after-market and does so neither in the service of innovation nor “as an optimal contribution to advances of an intellectual, cultural or culture management nature”.⁴⁸

4. Emerging Solutions

If one takes a look at the solutions adopted by the legislature and in case law in the above-mentioned cases, which solutions have not been developed on the basis of the classifications proposed in this article, the following scenario emerges.

The treatment afforded to the first group of cases (impairment of revenue chances of the primary product on the primary market due to identical subsequent product) is undisputed from the legal viewpoint. This is the classical case of infringement which is to be prevented by the exclusive right afforded to the [originator of the] primary product. For this reason this first group of cases is not included in the theme of primary and after-markets, as discussed above. Whether or not the markets for original goods and for the copies which are mostly of inferior quality are really identical is not usually a topic of separate discussion. The type of market for imitations is only of relevance when calculating the amount of damages, namely where a fictitious license fee payable for licensing a market for inferior quality goods is fixed by way of a license analogy, or where the profits of the infringer that are to be surrendered are determined on the basis of the infringer's calculations which relate to the market for the imitations or copies instead of the market for the primary product.

The second group of cases (the after-product can be distinguished from the primary product, however, marketing thereof on the after-market has negative effects on the primary market) is treated divergently in law. For example, exclusive rights encompass not only originals of the subject-matter protected in the primary products, but also adaptations (copyright law), equivalences (patent law) and marks within the scope of similarity of trademarks and/or goods (trademark law). In this respect the legislature has already allocated the after-markets to the provider of the primary product. Secondly, through the restrictions on and exceptions to exclusive rights certain after-markets - in whole or in part - are not assigned to the holder of the rights to the primary product. The extent to which this historically based allocation of after-markets was also influenced by considerations concerning monopolization on those

⁴⁸ Formulation by Schricker, Urheberrecht², Einleitung, note 13.

markets would have to be analyzed in each individual case. As regards the distinction between adaptation which requires consent (Sec. 23 Copyright Act) and use which is copyright-free (Sec. 24 Copyright Act), the matter appears to be judged according to the phenomena involved and the after-product is examined solely as to its similarity with protected parts of the primary product.⁴⁹ However, recent case law has defined the restrictions on exclusive rights more closely, basing its findings increasingly on arguments of market allocations. At least, such arguments are gradually emerging with regard to added-value products and services in the information sector, no matter whether the dispatch of copies on-demand,⁵⁰ the compilation of electronic archives of primary products⁵¹ or electronic press clipping services are concerned.⁵² As a whole, the courts have exercised restraint when taking into account the need of the parties providing after-services and products in this second group of cases.⁵³

49 See recently only BGH, 1991 GRUR 533 at 534 - Brown Girl II. Differences are not taken into account; see already BGH, 1958 GRUR 500 at 501 - „Mecki“-Igel; Regional Court of München I, 1988 GRUR 36 at 37 - "Hubschrauber mit Damen" (permitted and not-permitted building upon a primary work can only differentiated according to the degree of borrowing). - Moreover, according to German jurisprudence, the scope of protection granted to a primary work by the exclusive intellectual property right depends on the level of originality of the primary work. The more peculiar the traits of the primary work are, which has been used as the model for the secondary work, the more these particular features have to become invisible in the secondary work. Inversely, the less original the primary work, the less are the requirements for the finding of a „free use“ of the primary work. Also, a work of less originality is more likely to „disappear“ in a subsequent creation, than a primary work of high originality; see BGH, 1991 GRUR 531 at 532 - Brown Girl I; 1981 GRUR 267 at 269 - Dirlada.

50 At least in some „nucleus“ form, see BGH, 1997 GRUR 459 at 463 - CB-Infobank I and 1997 GRUR 464 - CB-Infobank (II) („use to an extent and with an intensity which is no longer compatible with the considerations which justify privileged use“ and reference to „normal exploitation“ in the sense of Art. 9 (2) of the Berne Convention, in view of the making of copies in the course of a service which consisted of researching articles to certain specified topics). More explicit, however, BGH, 1999 GRUR, 707 at 711 - Kopienversanddienst (legality of sending of copies without consent of the rightholder by libraries; however, the Federal Supreme Court held that this activity should only be allowed against remuneration, thus creating a new remuneration claim in analogy to the claim for remuneration for public lending (§ 27 (2) and (3) of the German Copyright Act) and for the operating of copy machines (§§ 54a (2), 54h (1) of the German Copyright Act). The reason for this claim for remuneration is that the technical development „enables services which consist in sending copies upon request to enter into competition with the distribution of original journals.“

51 BGH, 1999 GRUR 324 at 327 - Elektronische Pressearchive (copying for archiving purposes in accordance with § 53 (2) No. 2 of the German Copyright Act does not affect the interests of authors since archiving does „not entail an additional exploitation of the work“. However, this is not the same in the case of digitizing analog press archives upon commission by third parties, which does not only facilitate the use of the archives but likewise creates the danger that the exploitation of protected works reserved to the authors will be considerably affected“. In the case at issue, the danger was that the archiving enterprises might reduce the number of subscriptions to the print journals).

52 Court of appeals of Cologne, 2000 CR 352 at 353 - Elektronischer Pressespiegel (held that electronic press-clippings would, „in view of the possibility to quickly disseminate and electronically treat news, to a large extent abolish the need to subscribe to print journals“). Similarly, Court of appeals of Hamburg, 2000 CR 658 - Elektronische Pressespiegel und Urheberrecht.

53 This was already the case before the German Copyright Act of 1965 entered into force; see, e.g., BGH, 1958 GRUR 500 - "Mecki"-Igel (in the interest of a sufficiently strong copyright protection, the criteria to be applied should not be too lenient).

One must bear in mind, however, that the courts are bound by the confines set by the legislature, which it cannot easily disregard.⁵⁴ And they are also bound by the balancing of interest undertaken by the legislature in the light of the technical situation at the time the privileges were introduced.⁵⁵

Yet the courts are similarly restrictive where the primary product does not enjoy special protection. For example, in the case of the modular offer in its decision „Klemmbausteine II“ („Interlocking building blocks II“), the German Federal Supreme Court protected the primary market against “concealed” intrusion in the form of mounted but separable toy train systems even where the party providing the after-product had not offered one single component that was identical to the components of the primary series.⁵⁶ The Court took the view that the compatibility of the elements was sufficient to violate Sec. 1 Act Against Unfair Competition, since the products manufactured and distributed by the infringer were considered to be “similar” to the building blocks of the primary system “and therefore capable of replacing and ousting those building blocks as such”. Hence, the protection afforded to the originator of the primary product is expressly considered to cover a “need for supplements arising from the nature of the object”, and simply because the primary product “is aimed from the outset at a continuous demand for similar products and [implies inherently] the need for extensions and completion by way of supplementary packs of building blocks”.⁵⁷ Reference has already been made above to the fact that the decision of the legislature with regard to the admissibility of compatible products concerning computer programs, even in the area protected by special laws, was exactly the other way round.⁵⁸

The third group of cases (current competition on the after-market between the originator of the primary product and the originator of the after-product) is similar in certain respects to the first group of cases (impairment of the revenue chances of the primary product on the primary market due to identity of the subsequent product). As a rule, competition due to a product offered by a third party on the after-market will infringe the property rights to the after-product which are enjoyed by the originator of the primary product. It is rare for a restrictive interpretation of exclusive rights - or a broad interpretation of restrictions on copyrights - to result in a certain alleviation, for example where a technical reproduction of a computer program is not automatically viewed as a copyright-relevant reproduction

⁵⁴ See expressly BGH, 1997 GRUR 464 at 466 - CB-Infobank II, against the argument that solving the questions of the information society required already now that information - even if stored electronically - would have to be made accessible to interested users without prior consent of authors and rightholders. See also Kappes, Rechtsschutz computergestützter Informationssammlungen, Cologne 1996, p. 63.

⁵⁵ See already BGHZ 17, 266 at 282 - Grundig-Reporter, and again BGH, 1997 GRUR 459 at 463 - CB-Infobank I. Consequently, the intention of the historic legislator to provide a „well established, fast and economically functioning information infrastructure“ (see BT-Drucks. 10/837, p. 20), could not be realised by way of judge made law to the new information technologies.

⁵⁶ BGH, 1992 GRUR 619 - Klemmbausteine II.

⁵⁷ For expected and detailed criticism see Kur, 1995 GRUR Int. 469 with further references.

⁵⁸ See supra II.1.

in the sense of Sec. 16 Copyright Act.⁵⁹ From the viewpoint of legal policy, however, this issue can be very disputed, as shown especially by the dispute concerning the solution to the issue of spare parts.

The solution of cases of this *fourth* group (potential competition on the after-market between the person producing the primary product and the person producing the after-product or offering the after-service) can, in practice, hardly be distinguished from cases belonging to the third group, since in legal terms there only will be competition if the exclusive right to the primary product likewise covers the after-product.⁶⁰ The question of refusing to satisfy the demand on after-markets or of hindering competition by not licensing is not raised and will, if at all, only be taken into consideration for subsequent corrections. However, in these cases, one may validly argue that persons producing innovative after-products should at least have access to those after-markets which are not served by the person offering the primary product. This argument is accepted at least where the primary product does not enjoy intellectual property protection. In this respect, it is not per se illegal to exploit the commercial reputation of the primary product, which may in general be found whenever a third party satisfies the demand for after-products which have been created using someone else's primary product. Rather, in these cases, the exploitation of the commercial reputation of a primary product can only be considered unfair provided additional circumstances justify a prohibition of the commercial activity of a particular third party on the after-market.⁶¹ The German Federal Supreme Court sees such additional circumstances in the impairment of someone else's commercial reputation,⁶² and in the unfair abuse of that reputation in order to market one's own products.⁶³ Of course, there is a danger that the freedom to compete on after-markets will be excessively restricted. This danger exists, e.g., if the unfairness due to a deception as to the origin of products is seen in the fact that end-users might believe that the after-products in question were licensed by the person who produces the primary products. This may be a circular reasoning, since end-users can only believe that after-products, which are not protected by an intellectual property law, under license if the offering of the unlicensed after-product on the after-market

⁵⁹ See BGH, 1991 GRUR 449 at 453 - Betriebssystem („mere technical acts of reproductions“ are not always „covered by the reproduction right granted by Art. 16 of the German Copyright Act“).

⁶⁰ Special cases are cases of gross violations of personality rights; see only BGH, 1958 GRUR 408 - Herrenreiter; 1996 GRUR 373 - Caroline von Monaco. - In these cases, the personality of the person concerned is „exploited“ on a secondary market in a way which the person concerned would never have accepted and which due to the infringement of the person's honor can hardly be seen as a „product“ (it should be noted that is precisely for this reason that no material damages will be awarded in such cases). From a traditional point of view, there is no after-market for acts of libel and slander. However, this understanding might change over time. In this respect, contemporary media theory speaks of personalities as „products“ which create a tremendous need for „after-products“ which include the need to „decompose“ public personalities as well as products which refer to public personalities in many ways. For the distinction between the image of a person as constructed by the media on the one hand, and the personality of this person as a starting point for legal reasoning see, e.g. Ladeur, 2000 NJW 1977.

⁶¹ See only BGH, 1994 GRUR 732 at 734 - McLaren; 1993 GRUR 692 at 695 - Guldenburg.

⁶² See BGHZ 113, 115 at 128 et seq. - SL; BGH, 1985 GRUR 550 at 553 - DIMPLE, 1994, GRUR 808 - Markenverunglimpfung.

⁶³ See BGHZ 96, 90 at 94 - Rolls Royce.

is unfair and hence illegal without the consent of the producer of the primary product.⁶⁴

IV. CONCEIVABLE SOLUTION APPROACHES

In a further step, one may attempt to systematically describe the different approaches and ways of argumentation deployed by both the legislature and the courts in cases to decide to whom after-markets will be allocated. In essence, four main approaches may be recognized or can at least be postulated: one approach, which - for the reasons to be described below - might be labeled as „property logic”; a neutral starting point; the intention to further third parties’ products and services and, finally, a users’ perspective.

1. „Property Logic”

The main approach chosen in deciding the question whether or not after-markets shall be allocated to the persons producing the primary products, might be described as „property logic”. The central idea of this approach is that the person who first creates an object of intellectual property protection, or who first obtains an intellectual property right in an immaterial good shall, as a matter of principle - or at least in cases of doubt - be granted the control over all possibilities to exploit the object of intellectual property protection. In particular, this „property logic” is embodied in the fundamental principle of European-style authors rights, according to which the author shall, to the extent possible, participate in the proceeds of the exploitation of his or her work.⁶⁵ When it comes to interpreting existing statutory copyright law, this approach is mainly chosen when interpreting the scope of limitations to the exclusive rights.⁶⁶ The same is true whenever exclusive copyright exploitation rights is only seen as serving the

⁶⁴ Regarding a possible confusion as to the origin as violation of the right to one’s name, see BGH, 1994 GRUR 732 at 735 - McLaren. - Nevertheless, the toy cases show serious doubts whether the result of adjudicating the after-market for toys which represent reality to the person providing the primary product is in fact justified. This result seems even more doubtful if the person providing the primary product does not himself serve the after-market but is only trying to collect - additional - royalties; see BGH, 1994 GRUR 732 at 735 - McLaren (the mere reproduction of an object of the adult world as a model toy can as such not be contrary to *bonos mores* according to § 1 of the German Act against Unfair Competition) and BGH, 1996 GRUR 57 - Spielzeugautos (the imitation of a product, which is not protected by an intellectual property right, as a toy is not an act of unfair competition absent special circumstances which make it appear to be unfair, even if the producer of the original markets himself toy versions of the original product). But in these cases, the question is not only one of unfair competition alone, since the imitation of the real world in toy form often touches upon name rights and design rights as well. For a discussion of this problem of a cumulation of intellectual property rights with regard to one and the same product, see Kur, Ursachen und Konsequenzen der inhaltlichen Annäherung und Überlagerung von Schutzrechtstypen, in: Schricker/Dreier/Kur, Geistiges Eigentum im Dienste der Innovation, Baden-Baden, 2001, p. 23.

⁶⁵ See already references supra, III.2. - At the same time, that the exploitation results in a net loss, is shifted to the person who exploits the work in question.

⁶⁶ See also supra, III.2.

interests of authors.⁶⁷ De lege ferenda, the „property logic” is followed especially where authors and right holders are to be protected on the primary market against new, unknown forms of exploitation and the dangers of new ways of exploitation for the exercise of the existing exploitation rights. In this respect, the strengthening of the legal protection of the rights of the person who produces the primary products is often linked to the idea of furthering innovation.⁶⁸ In other words, the optimal furtherance of innovation, culture and competition is presumed to be guaranteed by a rather high level of legal protection afforded to the producer of the primary product.

On this basis, one often assumes that all after-markets should be allocated to the holder of the rights in the primary product, on the basis of the wording of statutory exclusive rights, and in most cases without any further discussion. It follows from this „property logic” that after-markets are allocated irrespective of the implications of such an allocation in terms of optimizing the legislative goals. Moreover, it does not matter whether or not the person producing the primary product satisfies the demand on the after-markets, or whether or not the initial rightholder might realize a monopoly revenue on the after-markets. Rather, the sole decisive factor for the allocation of exclusive rights on after-markets is who has first offered, or has first obtained an intellectual property right in, the primary product. Whoever, on the other hand, advocates a limitation of the scope of the exclusive protection with regard to after-markets, bears the burden to argue the necessity of such a measure. Hence, it is not the person who has produced the primary product who has to prove that in an individual case he or she should likewise enjoy exclusive protection for after-products or after-services, but it is the person who intends to market after-products or to offer after-services who has to prove that he or she should be allowed to do this without infringing the exclusive rights of the person who offers the primary product. If, in addition, the creation and maintenance of free competition is not considered a public interest which might limit property interests, then the „property logic” is even immune to correction on the basis of antitrust concerns.⁶⁹

⁶⁷ This has only recently been expressed yet again by the German Federal Supreme Court, see BGH, 1999 GRUR 324 at 325 - Elektronische Pressearchive: "The rights granted by the Copyright Act have to be respected by all competitors, but they do not have the purpose of regulating competition by establishing limitations for everyone and to contribute to equal chances for all competitors. Rather, as individual rights, rights granted by copyright law shall only protect the interests of authors as well as of those who derive their legal position from them".

⁶⁸ See, recently, again the Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, OJ EU No. L 167 of 22 June 2001, p. 10 (2nd whereas: „Copyright and related rights play an important role in this context as they protect and stimulate the development and marketing of new products and services and the creation and exploitation of their creative content“; 4th whereas: „A harmonised legal framework on copyright and related rights, ... and while providing for a high level of protection of intellectual property, will foster substantial investment in creativity and innovation ... and lead in turn to growth and increased competitiveness of European industry“, and 11th whereas: „A rigorous, effective system for the protection of copyright and related rights is one of the main ways of ensuring that European cultural creativity and production receive the necessary resources and of safeguarding the independence and dignity of artistic creators and performers“).

⁶⁹ For further discussion, see Ullrich, Grenzen des Rechtsschutzes: Technologieschutz zwischen Wettbewerbs- und Industriepolitik, in: Schricker/Dreier/Kur, Geistiges Eigentum im Dienste der Innovation, Badedn-Baen 2001, p. 83.

In German law, this approach, which aims at protecting property and acquired property rights, can invoke the constitutional protection of intellectual property as property within the meaning of the German Constitution.⁷⁰ Similarly, international legal protection of intellectual property is largely based on the idea of property protection, and hence on a far-reaching allocation of possible after-markets to those who offer the primary products. This is particularly well expressed in the so-called three-step test, according to which the „normal exploitation” of the works is reserved to the producers of primary products, and according to which their „legitimate interests” are not to be „unreasonably prejudiced”.⁷¹

However, where products are not protected by an exclusive intellectual, the property approach does not apply. The reason is that as a rule, the imitation of someone else’s product is free, if it is not protected by an intellectual property right. Hence, under German law, the general clause of § 1 of the Act Against Unfair Competition, which prohibits all acts against *bonos mores*, requires additional facts in order to find unfairness. But a growing tendency can be observed to lower the prerequisites for the finding of such additional criteria. It follows that even here, the freedom to imitate is gradually limited and after-markets are to an increasing extent allocated to the person who has produced the primary product.

How far this tendency goes exactly will, of course, have to be the subject of further examination.

2. Neutral Point of Departure

In view of this predominance of the „property logic”-approach, it should, however, not be forgotten that this approach is only one possibility available in order to answer the question of the allocation of after-markets. In attributing and defining the criteria of after-markets, the starting point can also be the position of the person who produces the after-product, or offers the after-service. For it is not only the position of the person who produces the primary product which is protected by constitutional guarantees. Likewise, the person who offers after-products can invoke his constitutionally protected freedom to act and to compete. Of course, the latter position can not per se claim preference over the property position of the holder of rights in the primary product, since the general freedom to act is limited by other persons’ intellectual property rights. In other words, it exists only to the extent that the legislature has not explicitly allocated the after-market to the person producing the primary product. But after all, this means that the legislature is free to exercise considerable discretion in balancing proprietary and non-proprietary interests. Ultimately, the question of allocating after-markets is one of balancing contradictory interests.

⁷⁰ Art. 14 of the German Constitution. See only BVerfG, 1989 GRUR 44 - Kirchenmusik; BGH, 1999 GRUR 707 at 713 - Kopienversanddienst. Similarly, Art. 17 (2) of the Charter of Fundamental Rights of the European Union expressly protects intellectual property as part of property. - For the limits of the protection of copyright as property by constitutional law, see *infra*, V.

⁷¹ Art. 9 (2) Berne Convention; 13 TRIPS. See also *supra*, III.2, and for interpretation of these terms the decision of the WTO dispute panel of 15 June 2000, Doc. No. WT/DS160/R (with regard to the exception for the public performance of protected music in restaurants, as introduced by the U.S. Copyright Act).

In practice, however, the scope for such a neutral position appears to be rather narrow, in view of the strength of the property guaranty and its inherent dynamics, which results in a massive extension of intellectual property protection of holders of rights in primary products. Furthermore, restrictions on the legislative freedom to adopt a neutral position are contained in the international intellectual property conventions.⁷² In addition, the EU commission pursues the aim of implementing a high level of intellectual property protection,⁷³ and at times, harmonization at a lower level is prevented by the fact that one of the EU Member States already has a higher level protection which cannot be cut back for existing works or rights already accrued, so that in the end there is hardly any other possibility than raising the level of protection in all other Member States to the same higher level, if the aim of harmonization is to be achieved in the not too distant future.⁷⁴

After all, some scope for a neutral approach seems to exist in cases where the courts are confronted with the issue of ascertaining the exact scope of an already existing intellectual property protection, and as long as such interpretation of existing statutory or case law does not conflict with „normal exploitation” of the work and/or „unreasonably prejudice” the legitimate interests of the holder of rights in the primary product. Furthermore, a neutral position may be adopted as a starting point under an unfair competition law theory, since there the starting point is that the freedom to imitate someone else’s products. The limits of this freedom to imitate have to be established in any individual case by weighing the different interests of both the person who produces the primary product and the other party who produces the after-product or who offers an after-service.

3. Intention to further third party products and services

Another approach to solving the question of allocating after-markets is the strategy, rarely to be seen in practice, to further not the person who has produced the primary product, but third parties who offer products or services on the after-markets. If this furtherance of third parties on after-markets abolishes existing exclusive rights on the after-market, then it is diametrically opposed to the approach of the „property logic” just described.

A recent example for this approach is the exoneration from liability of intermediaries in the digitized networked context by Art. 5 of the German Teleservices Act, which in the meantime has been taken

⁷² This is particularly true regarding the TRIPS-Agreement. See, e.g., for the critical discussion regarding the interests of developing countries at the occasion of the TRIPS-negotiations the view of Pacon, 1995 GRUR Int. 875 on the one hand, and Heath, 1996 GRUR Int. 1169 on the other.

⁷³ See already supra, IV.1.

⁷⁴ This was the case when the copyright term had been harmonized within the EU at the level of 70 years after the death of the author, which before harmonization existed in Germany only; EU Council Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights, OJ EU No. L 290 of 24 November 1993, p. 9. Since in Germany, terms running at the time of harmonization could not be shortened with retroactive effect, harmonizing the term at 50 years after the death of the author would have brought about the desired harmonizing effect at best only 70 years after the date of the harmonization measure, if not at an even later date.

up in the EU-Directive on E-commerce.⁷⁵ This legislative decision was motivated by the express legislative intention to further the activities of the newly emerging services, even to the detriment of those who provide protected content to be transported via the Internet.⁷⁶ No wonder that some commentators have come to the conclusion that this approach constitutes a violation of the property guarantees under the TRIPS-Agreement.⁷⁷ But it is questionable whether the TRIPS-Agreement is really in contradiction with this approach, because a limitation of the liability for intermediate acts does not necessarily limit the „normal exploitation” of subject matter protected by the TRIPS-Agreement on the primary market within the meaning of the three-step-test of Art. 13 TRIPS. And it certainly requires further examination in each single case to find out whether such a limitation then does unreasonably prejudice the legitimate interests of the rightholder of the primary product. But above all, the TRIPS-Agreement is primarily an instrument to combat piracy, i.e. an instrument directed against the illegal exploitation of the primary product on the primary market, or in inferior quality on an after-market. But limiting the liability of those who exercise a supportive function in the digital transmission chain is not a question of combating piracy.

Of course, the primary purpose of the intention to further third party products and services is not to further the interests of the person who produces the primary product. Rather, it aims at fostering the interests of those who offer after-products and after-services which build upon or make use of a primary product, be it only to contribute to its better dissemination and exploitation, or to further end-users’ ability to use primary products.

4. Users’ Perspective

Finally, this opens the view to the third perspective other than the „property logic”. For the decision whether or not an after-market shall be allocated to the person who produces the primary product can likewise be made from the perspective of the end-user of the primary and after-products and services. The decisive criterion would then be to what extent the end-user is free in his or her decision to buy a an after-product, or ask for an after-service, in addition to the primary product. If this viewpoint is adopted, the degree of substitutability of a given after-product in relation to the primary product will be the decisive factor.

Here, the starting point for discussion is that the primary product defines and at the same time limits the relevant market for after-products and after-services. This limitation may have a different reach: the

⁷⁵ Art. 12 et seq. of Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market (Directive on electronic commerce), OJ EU No. L. 290 of 24 November 1993, p. 9. - For critical comment see, e.g. Dreier, Some thoughts on internet liability, in: Gorton et al. (eds.), FS-Karnell, Stockholm 1999, p. 149.

⁷⁶ See only the official reasoning to the Information and Communication Services Act (IuKDG), BT-Drucks. 13/7285, Part A (“to eliminate hindrances on the way to the information society“, and furtherance of „free market forces in the area of the new information and communication services“).

⁷⁷ See, in particular, Lehmann, 1998 CR 232.

primary product may only be responsible for certain preferences on the after-market, without creating, from the viewpoint of the end-user, a compelling need to acquire a certain after-product which complements a primary product, or an after-product from the person who has produced the primary product. To this group belong the cases of, e.g., character merchandising. The end-user may have grown fond of the characters of „Lion King”; yet he is not forced to acquire coffee mugs or similar paraphernalia, in order to continue liking the „Lion King” characters. Instead, the end-user can buy coffee-mugs with characters of other movies, or buy glasses in order to be able to drink. However, the case is different where the end-user has no alternative but to acquire a particular after-product, because he needs a compatible add-on feature and which has to be offered by any third party in exactly the fitting or matching form. To this group belong the cases of automobile spare-parts, i.e. the cases of must-fit as well as of must-match, but also the case of computer program maintenance.

V. SOLUTION CRITERIA AND FUTURE WORK

The above discussion should have demonstrated two things. Firstly, doubtful and disputed allocations are mostly found as regards groups two and four, i.e. mostly in cases where the party providing the primary product does not currently supply after-markets or only offers products at too high prices, at unreasonable conditions or where he does not intend to serve the after-market in the future at all. Also in the third group of cases, the allocation of the after-market to the person providing the primary product maybe questioned if the allocation results in an elimination of competition in this after-market and hence jeopardizes the reason for the allocation of the after-market. Secondly, in view of the discussion so far it should have become clear that the largely automatic allocation of after-markets to the person providing the primary product is largely justified by what has been called the “property-logic” which, however, is not the only possibility of justifying elimination of after-market which are reserved to the party providing the primary-market and after-markets which are open to third parties. When it comes to making such an elimination, *de lege lata* the courts may by and large be bound to the rules prescribed by legislation. *De lege ferenda*, however, there is no compelling need to argue in all cases of doubt from the “viewpoint of the property logic”.

It should be noted that even from a constitutional law perspective the “property logic” has to be followed only to the extent that the core of property within the meaning of the constitution is concerned. The Federal Constitutional Court of Germany described the limits of this core as far as the property of copyright is concerned when it held that the limitations introduced into the German Copyright Act of 1965 were in accordance with the constitutional guaranty of property according to the Federal Constitutional Court. “Article 14 para. 1 sentence 1 of the German constitution (Grundgesetz) mandates that the economic value of a protected work is accorded to the author. However, this does not secure to the author any thinkable exploitation possibility by way of the constitution”. Rather, it is “up to the legislature to define, when it comes to defining the exact contents of copyright protection, appropriate criteria which secure to the author the possibility to exploit his work in a way which respects the nature and the social significance of copyright (Article 14 para. 1 sentence 2 of the German constitution).”⁷⁸ In doing so the legislature has to keep in mind that “there is no given and absolute notion of property

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BGH, 1972 GRUR 481 - Kirchen- und Schulbuchgebrauch.

and that both the content and the function of property can and have to be adjusted to the social and economic circumstances”: Only the “fundamental contents of the guaranty of property” have to be safeguarded. However, this fundamental allocation of the property aspect of copyright to the author does not mean that “any conceivable exploitation possibility is constitutionally guaranteed” as well.⁷⁹ Hence, this guaranty of property as an institution secures a minimum of rules which have to be granted to the author in order for the right to qualify as “private property” within the meaning of Article 14 of the German constitution. Is then, however, up to the legislature to find appropriate criteria for the details of copyright protection according to article 14 para. 1 sentence 2 of the German constitution, which secures an adequate exploitation and use corresponding to the nature and the social role of copyright. If these exploitation possibilities are limited, the question is whether such limitations are justified by “reasons of public benefit”. With a similar reasoning, the German Constitutional Court had held that the re-classification of performing artists, who before the copyright reform of 1965 had enjoyed protection as authors, as holders of neighboring rights by the 1965 copyright reform did not violate the constitutional property right.⁸⁰

1. Solution Criteria

If the question whether or not after-markets should be allocated to the person who holds the exclusive right in the product on the primary market can be answered from different perspectives, the question is under which circumstances which of these perspectives should take preference. Out of the great number of possible criteria for such a choice, the following criteria seem of major importance and deserve closer attention.

Looking at the cases cited as examples, the *relationship between the primary product and the after-product(s)* seems to be of importance. In the case of works protected by copyright, there often is a product identity or a great similarity between the primary and the after-product, since in most cases the after-product is a copy, a reproduction, a derivative work or a translation. That explains - and perhaps justifies - the far-reaching scope of protection which copyright in a primary product affords regarding after-products of the copyrighted primary product. This view is confirmed by the fact that in these cases the extension of copyright to after-markets is placed in doubt whenever the identity or similarity of the products on the primary and on the secondary market is less clearly discernible. Such doubts regarding the identity or at least similarity of the primary and the after-product arise, e.g., in the case of electronic archives vis-à-vis the print products which have been digitized. Here, the information value-added

⁷⁹ See above, note 78, p. 483.

⁸⁰ With a similar reasoning, the German Constitutional Court had declared constitutional the shortening of the rights for performing artists by the German Copyright Act of 1965 (under the preceding Copyright Act, performing artists had enjoyed legal protection as authors; see § 2 (2) of the old Act on Literary Copyright, introduced in 1910, and for comment, e.g., Schricker/Krüger, Vor §§ 73 ff. note 3.; after 1965, performing artists only enjoyed protection as neighboring rights holders). See the decision of the German Constitutional Court, BVerfGE 31, 275 - Schallplatten. It should be noted that in this respect the only point which the Court held to be unconstitutional was that the new rule applied to terms already running at the date when the new Act entered into force. This problem was remedied by the later introduction of § 135a of the German Copyright Act.

service of the online archive is different from the print products digitized, whereas each single article is only stored in a different - digital or analog - format, in the case of computer programs and computer program maintenance, this identity is even more questionable. Primary product and after-service are clearly to be distinguished, and maintenance is only a technical act necessary for securing further use of the copyrighted computer program.

These doubts regarding the allocation also of after-markets to the producer of the primary product become even greater if the owner of rights in a primary product, which attribute to him also after-markets, does not intend to exploit these after-markets, neither himself nor by way of licensing. But then the consequences of non-exploitation on an after-market are not of the same gravity in all cases. Rather, the negative effects of non-exploitation on after-markets depends on whether or not buyers on the after-markets have an option to choose other products. To the extent such an option does not exist, innovation and competition - i.e. the two fundamental assumptions of, and justifications for, the granting of exclusive rights - are threatened.

From this it follows that the substitutability of after-products plays a major role regarding the effects of an allocation of after-markets to the holder of the exclusive rights in the primary product. The more similar or equally valuable are the products and services available to the consumer in order to satisfy his or her need for after-products, the smaller seems the problem to allocate the after-markets to the person who has produced the primary product. In these cases, there is little danger that the producer of the primary product is able to receive unjustified monopoly revenue. Furthermore, in cases where substitute products and services are available on the after-market, one does not have to rely on the self-corrective effects of the market, which, in the absence of substitute products or services on the after-market, would mean that customers who are bound on the after-market to products or services offered by the person who owns the rights in the primary product, would choose to buy in the primary market from other suppliers who do not bind their customers on the after-markets. Of course, such a reasoning is hardly compatible with the moral rights ramifications of even exploitation rights on which continental European author's rights law are based. There, the main concern is not primarily innovation and prevention of monopolies, but rather the participation of authors in any form in which their protected works are exploited.

Furthermore, the degree of substitutability of products on after-markets depends on the *nature of the products*, both on the primary market and on the after-markets. E.g., as a rule, the degree of substitutability of a literary work is greater than the substitutability of technical products. Of course, any single copyrighted work is as such unique and, hence, by cannot be substituted by definition (a person who wishes to watch the movie of John Grisham's „The Firm” can only watch one particular film). However, consumers of artistic works can change to other, similar works much more easily (they might watch the film made after another novel of John Grisham, or watch the film based on a novel of another author of the same genre) than the person who needs an after-product to a primary product of technical nature, such as, e.g., a computer program. Moreover, in the case of artistic works, there is no truly compelling reason to also obtain an after-product. This distinguishes, e.g., merchandising from the maintenance of computer programs and the repair of technical objects. In addition, the public might have a greater interest in obtaining an - if only slightly - better version of a computer program, than it has in obtaining a slightly improved version of a novel. In sum, we are faced with the same concerns

which were already raised in the debate regarding the protection of technical objects such as computer programs by copyright, but which, at that time, did not result in adopting sui generis-type protection for computer programs.

Finally, one will have to examine to what extent any distinction can be made according to the analog or digital format of the storage of the protected works. On the one hand, it seems that the distinction between analog and digital format is not an absolute one regarding a particular type of work, but rather reflects the technological state of the art and the business models prevailing at a certain point in time. On the other hand, however, as the debate regarding the justification and scope of sui generis-protection for databases⁸¹ has demonstrated, it seems that digital information products have particular characteristics which distinguish them from traditional products in analog form and might justify a different legal treatment. The reason is that in the case of digital information products the access interest of users will in general be greater than in the case of analog information sources. This is particularly true since digital information products are available only at one particular source and can be consulted only at one particular point of access, whereas analog information sources circulate in several copies and are kept accessible in public libraries.⁸² Of course, this calls for a careful definition of what exactly is the particular character of an „information product“ and what effects this particular character has on the business models and the ways of financing the creation and maintenance of information sources. To come up with proper models will be the main task of copyright research in order to adapt copyright to the information society.⁸³

The fact that apparently there are several solution criteria leads to the question according to which of these criteria an approach for solving a particular case at issue will have to be chosen. The answer to this question is certainly not an easy one. However, it should have become clear by now that in many cases more than one approach will have to be chosen - and certainly not the „property logic“ alone - in order to find appropriate answers to the question of to whom shall the after-markets be allocated. Rather, several approaches will have to be considered in order to make sure that intellectual property protection furthers innovation.

Another issue is which is the appropriate legal instrument for implementing the respective solution approach. Of course, the „property logic“ is best implemented by way of an exclusive right. But if any

⁸¹ Regarding this debate which mainly focuses on the sui-generis protection for databases and which is led in the U.S. much more than abroad, see, e.g. Reichman/Samuels, 50 Vand. L. Rev. (1997), 51.

⁸² See, e.g. the conflicting views of Hoeren, 1997 GRUR, 866 at 876, following the Interim Report of the Enquete-Kommission „Future of the Media“ („Zukunft der Medien“) of the German Parliament, BT-Drucks. 13/8110, para. 3.1.1 (because of the exclusivity of rights, copyright protection affected the optimal use of information goods produced under the protection of copyright) on the one hand, and Nordemann, 1987 GRUR 731, cited after the discussion report by Reber, on the other (freedom of information had nothing to do with freedom of use as granted by copyright limitations).

⁸³ See the still more traditional approach in the legal opinion delivered to the German Ministry of Justice by Dreier/Katzenberger/v.Lewinski/Schricker (eds.), Urheberrecht auf dem Weg zur Informationsgesellschaft, Baden-Baden 1997, p. 163, at 166, which discusses the problem only briefly in view of the private copying exception of §§ 53 et seq. of the German Copyright Act.

approach other than the „property approach“ is chosen without totally disregarding the interests of the person who produces the primary product, then such legal instruments as a duty to exercise or an access right might be an appropriate legal tool to achieve the objective. Such a solution, which limits the exclusive rights of the person who produces the primary product on after-markets, does not necessarily eliminate the incitement for the person who produces the primary product. In many instances, even absent full exclusive protection on after-markets, the person producing the primary product will also have lead time on the after-markets, which enables him or her to obtain an appropriate gain. Business models such as those of the „opensource“-movement and of the "General Public Licence (GPL)" are practical examples of how approaches other than a mere „property logic“ could be implemented. Of course, it will be necessary to examine the extent to which such alternative business, and also legal, models can be generalized.⁸⁴ This issue cannot be discussed here in further detail,⁸⁵ but it becomes apparent that the question necessarily arises as to the fundamental rationale, purpose and aim of exclusive intellectual property protection. In particular, traditional continental European-style droit d'auteur protection will have to confront all these questions from a perspective which aims at furthering innovation.

2. Solution Within or Outside of Intellectual Property Law

If one draws the conclusion that excessively far-reaching exclusive rights on after-markets should be curtailed when it comes to allocating after-markets, the question is whether such limitations should be foreseen within intellectual property law (internal solution), or whether the situation should be remedied by means outside of intellectual property law (external solution).⁸⁶ Of course, the body of law which first comes to mind as a possibility for an external solution is antitrust law.⁸⁷ But choosing antitrust law

⁸⁴ For the „Open Source“-movement in German legal literature see in particular Metzger/Jaeger, 1999 GRUR Int. 839 ff.; Koch, 2000 CR 273 and 333, as well as the further references on the webpages of the „Institut für Rechtsfragen der Open Source Software (ifross)“, http://www.ifross.de/ifross_html/publikation.html.

⁸⁵ For further discussion of a proposed „liability approach“ see in particular Reichman, Legal Hybrids Between the Patent and Copyright Paradigms, 94 Colum.L.Rev. 2432 (1994), and recently in Dreyfuss/Zimmerman/First: Expanding the Boundaries of Intellectual Property - Innovation Policy for the Knowledge Society, Oxford University Press, Oxford, 2001, p. 23. See also the more general remarks to the change in paradigms from property (the „having“ of objects) to access (the „possibility to use“ objects) made in the book of Rifkin, The Age of Access: The New Culture of Hypercapitalism Where All of Life Is a Paid-For Experience, New York 2000. However, it may be noted - and, indeed, Rifkin notices this himself - this change in paradigms may not have a major effect on intellectual property law, since intellectual property protection has since its conception not been about „having“, but about „using“ intangible goods.

⁸⁶ For further discussion of this issue see Dreier, Balancing Proprietary and Public Domain Interests: Inside or Outside of Proprietary Rights?, in: Dreyfuss/Zimmerman/First: Expanding the Boundaries of Intellectual Property - Innovation Policy for the Knowledge Society, Oxford University Press, Oxford 2001, p. 295.

⁸⁷ In this respect, the decisions of the ECJ in the cases Magill (cases C-241/91 P and C 242/91 P, 1995 GRUR Int.490) and Bronner (case C-7 / 97, 1999 GRUR Int. 262) are often cited. However, as already mentioned, in the case Magill a joint activity of several persons producing primary products would have been necessary in order to offer the after-product on the after-market of weekly tv-guides, and the issue in Bronner was one of essential facilities, which deals with the problem to what extent proprietary means of

as legal instrument in order to solve the issue of a proper allocation of after-markets raises the question of defining both the reasons for limiting exclusive rights and of the prerequisites for such limitations in much the same way as it raises these questions when an internal solution is preferred (e.g., like intellectual property law, antitrust law is in need of criteria which answer the question why end-users should be able to buy weekly tv-listings or subscribe to electronic press-clipping services). Moreover, antitrust law presupposes both the existence and the exercise of an exclusive intellectual property right. Thus, it can only be a „second best” solution to remedy any negative outcome regarding the freedom of competition, if the outcome is the direct and automatic effect of the exercise of the exclusive right granted by law. Rather, a „wise” legislature should try to solve problems of allocating markets by way of an internal solution. The role of antitrust law would then be limited to cases of abuse of a dominant market position in individual cases.⁸⁸

VI. CONCLUDING REMARKS

The preceding text could be hardly more than an outline of a somewhat different perspective on issues which are at the center of the discussion when it comes to having intellectual property law serve the purpose of innovation in today’s digitized and networked environment and in view of the business models adopted therein. It is hoped that the choice of this other, new perspective, which focuses on products and markets rather than on the objects of intellectual property protection, will bring to light other criteria which might help to find adequate solutions to what so far seems to be a disparate array of individual legal problems.

Many further questions can be raised. One such question is whether the definition of what constitutes a „market” as employed in antitrust law or by economics, can be of use for answering the question how exclusive rights on after-markets should be tailored. Will it be possible to define the criteria which describe the relationship between primary and after-products and services in a more precise way? What are the characteristic features distinguishing digital information products from, let’s say, automobile spare parts, toy cars and interlocking building blocks? How should such differences be legally treated? Does it make a difference whether the legal protection for after-products is granted by special intellectual property protection. or whether there exists only protection by unfair competition law?

After all, already now the following conclusions can be drawn:

In view of technological development and in times of globalization, quite a substantial number of current

access to a certain market have to be made available to competitors, and not directly with the issue of satisfying a demand on the after-market.

⁸⁸ For further discussion see Ullrich, Grenzen des Rechtsschutzes: Technologieschutz zwischen Wettbewerbs- und Industriepolitik, in: Schricker/Dreier/Kur (eds.), Geistiges Eigentum im Dienste der Innovation, Baden-Baden 2001, p. 83; for the relationship between copyright and antitrust law in general see also Fikentscher, in: Beier et al. (eds.), Urhebervertragsrecht, FS-Schricker, Munich 1995, p. 149.

problem cases in the field of intellectual property protection concern the fact that the allocation of after-markets to the person who has produced the primary products on the basis of an exclusive right is increasingly being questioned and fought over.

In this respect, the „after-product” is defined as a product or service, the demand for which is created by a primary product, and which is not identical to this primary product. The „after-market” may be a market for the exploitation of the primary product in another form, or a market for after-products and services which satisfy the replacement demand or the need for additional products and services. Whether or not the primary product is itself protected by an exclusive intellectual property right is as such of no importance. Similarly, the after-market may be reserved to the person who has produced the primary product by way not of an intellectual property right, but under unfair competition provisions.

The decisive question is, to whom such after-markets shall legally be allocated, and according to what theories and criteria such an allocation shall take place. Shall after-markets automatically be allocated to the person who has produced the primary product, or should they - in part or in total - be open to competition by third parties, who are willing and capable to satisfy the demand for after-products?

In this respect, it should be demonstrated that on the one hand such an allocation takes place not only where the exclusive protection for a primary product is explicitly extended to after-products and services which are marketed on after-markets, but also where the legislature merely intends to strengthen the exclusive legal protection for primary products on primary markets.

On the other hand, the preceding discussion intended to draw the attention to the fact that the „property logic” - hand-in-hand with a „notionally oriented” and not interest-oriented interpretation of intellectual property legislation - brings with it the tendency to automatically allocate after-markets to the person who produced the primary product. However, this legal method blocks the view for other legal approaches to be used in order to decide on the allocation of after-markets. In the future, these other perspectives will have to be examined as regards their justification and scope of application so that intellectual property law can continue to fulfill its role as an instrument in the service of innovation.