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Newsletter

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LAWYERS AND TAX ADVISORS

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The principle of territoriality and geo-blocking – stumbling blocks for the free movement of goods and services

In May 2015, the European Commission announced its intention to move forward with initiatives long favoured by EU Commissioner for Digital Economy and Society Günther Oettinger – the Commission will pursue 16 initiatives overall, which affect three distinct areas: digital commerce involving works and services (1), equal conditions for digital networks and innovative services (2) and exploitation of the growth potential of the digital economy of the European Union (3).

One popular demand is to craft unitary copyright legislation in which geo-blocking no longer occurs, giving users across the EU access to more books, films and other media. This is easier said than done, as industrial property rights granted by the legislative authority of a Member State are restricted to the territory of that state (principle of territoriality). However, their influence is not limited to commerce within the affected Member State; such rights also affect imports from other Member States. Frictions with the ideal of free movement of goods within the EU internal market were pre-programmed. So far any issues have always been resolved in favour of the property right holder – except in cases where the "exhaustion principle" applies, according to which import restrictions are no longer justified if the product was put on the market in a Member State legally by the rights holder itself or with the permission of the rights holder. Particularly within copyright law, rights holders must accept that they cannot prohibit the sale of audio carriers in a Member State if such carriers have been put on the market, with the consent of the rights holder, in another Member State (ECJ since joint decision in cases nos. 55 u 57/80, Musik-Vertrieb membran, GEMA, coll. 1981, 147, 161).

What, then, is the significance of the demand articulated by Commissioner Andrus Ansip, who is responsible for the digital single market, to the effect that geo-blocking must end? Is this supposed to mean that pay TV consumers will finally be able to watch the TV service they subscribe to in Germany while away at their holiday home in Spain? Or that it will be finally possible, while in Austria, to watch one's favorite German program on the internet with one's laptop using Zattoo, the streaming TV platform?

Intentions – yes – but nothing concrete yet

As the German proverb says, the gods made sweating the necessary prerequisite for reward. And the largest bead of sweat in this case is the practice which currently defines IP rights on a territorial basis. Even Brussels bureaucrats won't be able to bypass this fact so quickly.

As legal practitioners, we regard this development with excitement and in the expectation that this process will still require many further commentaries and thoughtful reflections, including from the perspective of our clients. We on the IP, Media & Technology practice group at Heuking Kühn Lüer Wojek are closely following the European repercussions on the German market while our Brussels office engages in dialog with associations, the Commission, representatives of the various Member States and individual companies.

The IP security patrols look back on a long history of success, and they will find ways to assert themselves even without geoblocking. And yet, it appears unavoidable that the tide of power is turning in favour of the architects of the internal market and free trade.

We wish our readers much insight and enjoyment while reading this newsletter, which endeavors to remain true to its mandate: providing more than headlines – in-depth analysis, current developments and judgments as well as some news about what our legal team has been up to over the recent weeks.

Articles
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There is an increasing number of signs suggesting that the General Data Protection Regulation will be enacted at the end of 2015 or beginning of 2016 – even if many compromises must be made before then between the Commission, Parliament and Council, as suggested by the information currently available. The need for considerable discussion is evident from a 630-page document published by the Council in March 2015 which contains an article-by-article comparison of the existing drafts. Some insight into the course of the debates within the Council can be gleaned from the two "leaked" discussion versions dating from December 2014 and June 2015. These heavily footnoted documents, each over 260 pages, demonstrate the diverging views of individual countries on the matter.

New developments affecting the General Data Protection Regulation

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Even though the many detailed discussions suggest that it is highly probable that in many cases the wording in the drafts will yet be changed before enactment, taking a look at the regulation is nevertheless worthwhile. After all, implementation of several basic concepts seems assured, at least in principle. This allows companies to start planning early on and ascertain which areas can expect to see changes and, accordingly, the areas where action needs to be taken in response. Any company now making large-scale investments in overhauling their lead generation, restructuring their customer database or modifying other processes involving personal data should devise a plan now to accommodate the changes currently taking shape. Otherwise they may find themselves with little time to implement necessary changes. It has been a long-held belief that, because of the relatively high level of data protection already existing in Germany, this country would face few consequences and would only be required to take minimal action. However, the more closely one examines the details, the more it becomes clear that companies will face a series of changes that have received too little consideration and discussion in Germany to date.

The drafts and the process: the 2012 Commission draft

The General Data Protection Regulation (below: "GDPR") already has a long legislative history. Following the involvement of many interest groups, in January 2012 the Commission published a draft intended to update the outdated European data protection law contained in the directive of 1995 (95/46/EC) to take into account modern developments of the 21st century, such as cloud computing, social media, big data, Industry 4.0 and the Internet of Things. Despite noble intentions, for two years hardly anything happened that caught the attention of the general public.

2014 Draft of the Parliament and 2015 Draft of the Council

Then, after 12 March 2014, the process of enacting the GDPR gained new momentum. This was the day when the Parliament, with a large majority, passed a draft with modifications at many points that diverged from the proposal of the Commission. Based on this draft, the Council devised its own draft. According to the current schedule, the "trilogue" negotiations, i.e. the final reconciliation between the Commission, Parliament and Council, are to begin in summer 2015, to be completed in December 2015.

That being said, the following avoids detailed analyses; this seems especially prudent in light of the circumstance that the GDPR still largely remains a shapeless regulation.

Entry into force of the Regulation: at the earliest, end of 2017

All of the drafts contain an identical passage according to which the GDPR is to enter into force two years after its enactment. Based on the current situation, the earliest entry into force is therefore near the end of 2017. It still remains worthwhile to consider the drafts, since in some key areas it is already quite clear that the GDPR will have serious consequences for German data protection law.

Principle of prohibition subject to authority approval maintained

The basic principle of a prohibition subject to authority approval remains intact. After the enactment of the GDPR, data processing will still fundamentally remain prohibited except in cases where there is a statutory basis for authorisation. All essential statutory permits also remain intact. Some of the statutory permits deriving from Art. 7, letters a to f of Directive 95/46/EC are even adopted word-for-word in the various drafts of Art. 6 Para. 1 letters a to f GDPR. In principle, aside from permission granted by the person affected (letter a), the necessity of data processing in order to fulfill a contract (letter b) and the "legitimate interest of the data processor" (letter f) will remain the most important justifying circumstances, even after the reform. This continuity of the basic principle, however, should not give the erroneous impression that otherwise nothing will change in terms of application of data protection law in Germany.

New fines structure pursuant to Art. 79 GDPR

Currently, the maximum fine in the patchwork of German data protection regulations is 300,000 EUR, e.g. see Section 43 Para. 3 BDSG (German Federal Data Protection Act), Section 149 Para. 2 TKG (German Telecommunications Act), Section 85 SGB X (German Social Code, Book X). Yet other laws provide for lesser fines. For example, for breaches of data protection in connection with telemedia pursuant to Section 16 Para. 3 TMG (German Telemedia Act), fines up to a maximum of only 50,000 EUR can be adjudicated. With regard to other special data protection regulations, such as Section 21g EnWG (German Energy Economy Act), the legislative authority has not provided for any fines at all. Even if the specific maximum fine amount is being hotly debated, all the drafts clearly reveal that, on one hand, the GDPR will harmonise the highly varied landscape of fines in Germany, and on the other, will dramatically increase the maximum fines. The draft of the Parliament contains the most dramatic proposals, which include fines up to 100 million EUR or 5 percent of global annual revenue, whichever is higher. However, the most recently leaked document of the Council reveals that the value of the fines and the sanction system itself remain hotly contested. In this connection, the Council is proposing a new, three-level fine system that provides for fines of up to 1 million EUR or 2 percent of global annual revenue for the most serious breaches. This can still be a serious matter for large corporations, while at the same time representing a clear reduction in the fines framework for smaller companies and, especially, for individuals. Even if it is difficult to predict the actual maximum amounts, it is nevertheless likely that they will be above the amounts currently common in Germany. The question of whether the percentage of global annual revenue relates to the parent company as well or merely to individual legal persons also remains open. The drafts to date have shown a clear preference for the latter solution, however.

"One-Stop Shop"

The key phrase "One-Stop Shop" is being discussed to refer to a proposal under which the European Commission or a European "Data Protection Board" is to be granted far-reaching powers in matters with a transnational dimension. According to the drafts, at the national level there will be one "lead regulatory authority" for affiliated companies with activities in various European countries; this "lead regulatory authority" will then have certain powers of decision for intervention on the part of the authority against other European subsidiaries. Under the proposed system, the authority with national or local jurisprudence is to consult the “lead regulatory authority” before taking action independently. It is hoped that this will give international corporations the advantage of no longer having to deal in-depth with many different authorities, which often have fundamentally different conceptions of the principles of data protection legislation. It must be emphasized, however, that the details of the “One-Stop Shop” are still being debated.

Reporting obligation for breaches of data protection

The GDPR will usher in a general obligation for reporting data protection breaches to the responsible authority. This goes far beyond the previous reporting obligations pursuant to Section 42a of the German Data Protection Act, which only apply to certain types of data. Many companies will face the necessity of having to institute formal reporting management since the drafts of the German IT Security Act and European Network and Information Directive contain far-reaching reporting obligations which, in practice, will overlap to a large extent with the reporting obligations of the GDPR.

Risk analysis, assessment of data protection consequences, and consultation with the data protection supervisory authority

In many cases, the GDPR will also introduce obligations in the future for performing comprehensive risk analysis and a “privacy impact assessment” which must take into account the overall lifecycle management of personal data. The draft of the Council, which no longer compellingly requires a data protection officer, additionally demands consultation with the responsible data protection supervisory authority in cases where the privacy impact assessment demonstrates a high risk for the affected data subjects.

Information obligation

An information obligation is intended to ensure that the affected persons are better able to assert their rights against the data processor. According to the current drafts, it appears that the information on data processing that is common on the internet as part of “privacy policies” will in future also be required in purely “offline” situations – provided no exceptions apply. Article 14 GDPR, which sets the standard, is no longer in dispute. In any case, the drafts still reveal major disagreement with regard to the details of the list of exceptions for Art. 14 GDPR. In addition, according to the draft of the Commission, standardised information measures, including pre-defined “icons” that refer to certain legal data protection risks are to be additionally used. According to a study by the German Federal Office of Statistics that only focuses on several articles of the GDPR, German companies face implementation costs for these alone totaling 1.5 billion EUR; of which the costs due to the information obligation from Art. 14 GDPR account for the lion's share.

What will remain of the diverse, existing national data protection standards?

Significant aspects of the effects of the GDPR on German data protection legislation only become apparent, however, when one considers that many "achievements" of German data protection legislation will be lost in light of the direct applicability of the Regulation. In terms of applicability, the GDPR takes precedence over any national standards that differ from it.

Regulations under German Data Protection Act to lapse

This applies to several standards established in the German Data Protection Act, which have no direct correlate in the drafts. For example, large parts of Sections 28 et seq. German Data Protection Act could become obsolete. The so-called list privilege set forth in Section 28 Para. 3 et seq. German Data Protection Act, which, within certain parameters, allows data to be used for advertising without prior consent, has no correlate in the GDPR and will therefore lapse in future. According to the current drafts, the same applies to Sections 28a and 28b of this Act in their entirety. This reintroduces the atmosphere of legal uncertainty with regard to the transmission of data to credit agencies that prevailed before the most recent reform of the Act in 2009. Furthermore, in light of the impending GDPR, a scoring reform bill proposed by the Greens was refused: in May 2015 the Great Coalition decided to not deal with an issue that would "be obsolete again within several months" as a result of the GDPR.

National data protection regulations remain intact in the Telecommunications Act (TKG)

In addition to several other regulations in the BDSG, other laws will also be affected. One exception will likely be the data protection regulations in the Telecommunications Act, which are based on Directive 2002/58/EC. This is because the GDPR drafts explicitly order that large parts of this directive are to remain unaffected in terms of application. And yet, the devil is in the details, once again. Since implementation of the Telecommunications Act goes beyond Directive 2002/58/EC in some areas and the standards from Sections 90 et seq. Telecommunications Act are not all prescribed by the directive in every regulatory aspect, in this case as well a precise evaluation must take place as to which standards will have to yield to the precedence of the GDPR.

To be struck: Sections 11 et seq. Telemedia Act

The data protection standards from Sections 11 et seq. Telemedia Act, however, which are not based on European law, will fall victim to the harmonisation of data protection legislation. The consequences of this can hardly be imagined as yet. For instance, the question of what will happen in Germany in terms of implementation of the so-called “Cookies” Directive must be considered from an entirely different perspective. To date, the German legislative authority has adopted the position that implementation is not necessary, since Section 12 Telemedia Act contains sufficient provisions. It appears likely that this position will be harder to defend in future. Hard times are coming for issues concerning personalised advertising online and in apps as well as all types of digital re-targeting, since it appears that the option of pseudonymised user profiles pursuant to Section 15 Para. 3 TMG will no longer be available.

Conclusion: Overall it is clear that the most serious changes to be expected from the GDPR in Germany will be, primarily, the lapsing of established German regulations. Yet companies will also face challenges in the form of new requirements, such as reporting obligations and risk assessments. In turn, these will once again expose a range of established business models to legal uncertainty, which in many cases had been overcome years ago. The legal uncertainty takes on an even graver dimension in light of the high probability of a dramatic increase in potential fines. The long period before the entry into force of the GDPR should therefore be taken advantage of as early as possible to adapt the areas in need of change as robustly as possible before any fines are incurred.

Trading in used software: jurisprudence specifies permissibility requirements

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Trading in used software, that is the further sale of no longer needed software licenses by the initial purchaser to a second purchaser, usually at greatly reduced prices, continues to be a long-standing issue in the IT law discussion of recent years. In its "UsedSoft" decision of 3 July 2012, the European Court of Justice (ECJ) declared legal the practice of trading in used software, regardless of whether the program copy was acquired by the initial purchaser on a physical data carrier or merely digitally (e.g. via download). The German Federal Court of Justice followed this ECJ decision in its subsequent "UsedSoft II" decision of 17 July 2013 and specified the admissibility requirements for trading in used software. In the interim, jurisprudence has had the opportunity to clarify additional questions in this area.

Copyright at the heart of the dispute

The background for the dispute surrounding trading in used software is the question of whether software, as a digital product, should be treated in the same way as other articles, such as cars or books, which can be further sold by their initial purchasers (in a used state) without any special process. In the case of cars, this entitlement follows from the ownership of the initial purchaser of the physical item, the car. In the case of books, which are also protected by copyright, there must also be an additional legitimation based on copyright law. This is found in what is known as the copyright exhaustion principle, according to which the right of the author to distribution of the protected work or a (physical) reproduction – in this case, of the book – lapses once it has been legally (i.e. with the author's permission) put on the market, i.e. following the initial sale of the book. This is intended to ensure the free circulation of copyright-protected works and (physical) reproductions that have been put on the market legally. Conversely, in the case of software distributed exclusively digitally (e.g. via download from the internet), this is questionable. With regard to trading in used software, the heart of the matter is the question of whether the second purchaser can also lay claim to the exhaustion principle in cases where the initial purchaser acquired the program copy merely digitally (e.g. by downloading it from the website of the software manufacturer) instead of on a data carrier (e.g. a DVD or CD-ROM).

Fundamental permissibility of trading in used software

The landmark case on this matter was between Oracle, a software manufacturer, and UsedSoft, a used software dealer. In its initial decision for reference to the ECJ (known as the "UsedSoft I" decision) of 3 February 2011, the German Federal Court of Justice tended toward the view propounded by the software manufacturers (which prevailed at the time), that the requirements for exhaustion pursuant to Section 69c No. 3 Sentence 2 German Copyright Act and Art. 4 Para. 2 of Directive 2009/24/EC (the "Software Directive") were not met due to the lack of a physically reproduced item of the software. Diverging from this and somewhat surprisingly, the ECJ found in its "UsedSoft" decision of 3 July 2012 that the copyright exhaustion principle deriving from Art. 4 Para. 2 of the Software Directive is fundamentally applicable even if the initial purchaser downloaded the program copy from the internet with the approval of the software manufacturer. According to the ECJ, the only prerequisite for Art. 4 Para. 2 of the Software Directive is an "initial sale" of the program copy, for which it is sufficient that the software manufacturer grants, for valuable consideration, the initial purchaser a temporally unlimited use right and supplies a copy of the software program. Furthermore, from a commercial perspective, the court found there was no difference between the sale of a physical data carrier and a paid-for download of a program copy. The second purchaser of the software (license) is therefore the legal purchaser of a program copy according to Art. 5 Para. 1 of the Software Directive (= Section 69d Para. 1 German Copyright Act) and accordingly is entitled to proper use of the software, including making any necessary copies thereof.

Elaborated in the "UsedSoft II" decision of the German Federal Court of Justice

The German Federal Court of Justice followed this ECJ decision in its subsequent "UsedSoft II" decision of 17 July 2013, while making reference to the binding nature of the ECJ decision; however, it also specified the admissibility requirements for the further sale of software acquired through exclusively digital means. First, the court found that exhaustion according to Section 69c No. 3 Sentence 2 German Copyright Act only applies if the copyright holder had the opportunity during the initial sale to demand a commercially appropriate payment for the program copy, it being of no consequence whether that party actually succeeded in doing so. Second, the initial purchaser must have been granted a temporally unrestricted use right. Software provided on a merely for-rent basis is therefore not eligible for further sale, which therefore also extends to Application Service Providing (ASP), Software as a Service (SaaS) and similar rental models. Third, improvements and updates of the software that has been further sold must be covered by a valid maintenance agreement concluded between the initial purchaser and the copyright holder. Fourth and finally, the initial purchaser and, if applicable, the used software dealer, must render their program copies unusable. The court indicated that all of these requirements for applicability of the exhaustion principle must be demonstrated and proved by the second purchaser and/or used software dealer. When it comes to the prerequisite that a program copy must be "passed on" to a second purchaser, the German Federal Court of Justice stated that it is sufficient if the second purchaser is able, once again, to download a program copy from the website of the software manufacturer. If the second purchaser receives an "exhausted" program copy in compliance with these eligibility requirements, he is entitled – based on the statutory use right pursuant to Section 69d Para. 1 German Copyright Act – to proper usage thereof within the scope of the license agreement concluded between the copyright owner and the initial purchaser. Therefore usage restrictions in the original license agreement (e.g. limits as to a certain number of concurrent or named users) continue to apply to the use right of the second purchaser. For this reason, the German Federal Court of Justice requires that the second purchaser must be provided with (a copy of) the original license agreement.

German Federal Court of Justice: Splitting volume licenses is fundamentally permissible

An additional decision of the German Federal Court of Justice of 11 December 2014 has now clarified that volume licenses for software can be split up and individually sold on to second purchasers if this does not result in an overall increase in the number of licenses. In so doing, the German Federal Court of Justice upheld a corresponding decision of the Higher Regional Court of Frankfurt a.M. of 18 December 2012. This was in connection with an action by Adobe, a software manufacturer, against UsedSoft, a used software dealer, in which an educational institution had purchased 40 (individual station) licenses of an Adobe software product and then further sold them individually. The educational institution had previously acquired the 40 (individual station) licenses within the scope of a volume license agreement. Despite having the same serial number and the discount applied to the software purchase as a result of the volume license agreement, the Higher Regional Court of Frankfurt a.M. regarded the splitting of the 40 licenses into individual licenses, as well as their separate further sale, as permissible. Software manufacturers have the option, even with discounted volume license agreements, to achieve a commercially appropriate payment. Furthermore, it was decisive for the Higher Regional Court of Frankfurt a.M. that the total number of licenses was not increased as a result of splitting the volume licenses. The identical serial numbers notwithstanding, it is an undisputed fact of the matter at issue that there were from the outset 40 individually installable licenses. To this extent, the decision does not actually contradict the "UsedSoft" decision of the ECJ, which had excluded the further sale of used software in cases where unitary volume licenses were split up. This is because, in the matter before that court, the subject of dispute was a volume license for client-server software; to split it up would have required installing the server components at least twice and would have therefore resulted in increasing the total number of licenses.

Regional Court of Hamburg: Sale of used software permissible under trademark law, even without original packaging

It is also worthwhile to mention a decision of the Regional Court of Hamburg of 21 January 2015 in connection with trading in used software. In the action, a software manufacturer had objected to a reseller of its trademark software (CD-ROM) reselling the software without the original packaging. The Regional Court of Hamburg found that removal of the original packaging did not entitle the software manufacturer to invoke, pursuant to Section 24 Para. 2 of the German Trademark Act (MarkenG), exclusion of exhaustion of its trademark rights due to impermissible modification of the product it put on the market. The court's opinion was that the original packaging was not essential to software products, unlike medications or cosmetics, for example.

Conclusion: Jurisprudence has further specified the permissibility requirements for trading in used software. It is incumbent upon purchasers of used software to comply with these complex requirements. On the other hand, software manufacturers will be eager to adapt their distribution models to the new circumstances.

News on advertisements targeting children and youth

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Children and youth have considerable purchasing power. For instance, the younger generation is generally permitted to make purchase decisions that affect them and is given an opportunity to give their input with regard to many family decisions. According to a consumer study entitled "KidsVerbraucherAnalyse 2014" carried out on behalf of publisher Egmont Ehapa Verlag, outings are decided upon jointly (94 percent), family vacations are planned together (62 percent) and 84 percent of children can dispose of their allowance autonomously. Because of their significant purchasing power, minors are an attractive target group for companies. A few things must be taken into account with regard to advertisements targeting consumers under 18 years, especially with regard to No. 28 of the "black list" of the German Act Against Unfair Competition:

No. 28 on the "black list" of the Act Against Unfair Competition is a focus of jurisprudence

According to Annex No. 28 to Section 3 Para. 3 of the Act, a direct message embedded in advertisement that exhorts children to buy the advertised products themselves or to persuade their parents or other adults to do so is always impermissible. This regulation was the focus of jurisprudence in 2014 and the German Federal Court of Justice took a position on it in a series of decisions.

Interpretation of the term "children"

It continues to remain unclear whether, within the meaning of this regulation, "children" is meant to include both persons under 14 years as well as older minors. Since the German Federal Court of Justice has neither submitted this question for reference to the ECJ nor itself taken a position, companies should ensure that their advertising complies with the provisions of Annex No. 28 Act Against Unfair Competition with regard to minors 14 years and older as well.

Type of address

According to the "Goldbärenbarren" decision of the German Federal Court of Justice, direct exhortation within the meaning of this standard refers to a solicitation to purchase directed at children (BGH GRUR 2014, 686, 688). It does not include advertisements directed at everyone and which minors may also feel addressed by. Accordingly, the solicitation must therefore be targeted, i.e. be exclusively or primarily directed at children. This is the case when language typical of children is used, including common anglicisms, in conjunction with an address in the (informal) second person singular ("Du" in German) (BGH GRUR 2014, 289, 299 – Runes of Magic; BGH GRUR 2014, 1211, 1214 – Runes of Magic II). Conversely, a message such as "just buy five delicious H. products, and win" contains a purchase solicitation that is not directed at children (BGH GRUR 2014, 686, 688 – Goldbärenbarren) since this advertising message is addressed to adults as well as minors.

Ultimately, the question of whether advertising is directed at children in a targeted manner can only be answered based on assessment of the overall situation; factors such as the advertised product, type of medium chosen and design of the advertisement itself must all be taken into account. As a result of this case-by-case consideration, companies are left with rather unreliable guidelines, but ongoing developments in case law will result in more legal certainty.

Purchase exhortation must be in relation to specific products

In its "Zeugnisaktion" decision, the German Federal Court of Justice further determined that the requirement for prohibition under Annex No. 28 Act Against Unfair Competition is only satisfied if the purchase exhortation is in relation to a specific product or multiple specific products (BGH GRUR 2014, 1117, 1118). The reason for this is the reference in the statute to the "advertised products". Accordingly, advertising for an entire range of goods is not sufficient; rather, a specific product must be referred to in the advertisement. With regard to advertising by an electronics store that offered a general discount of 2 EUR for every top mark ("1" in the German system) earned by students, the German Federal Court of Justice therefore found this to be permissible. Indeed, the advertisement indicated that the discount was to apply to all types of goods offered by the defendant.

The German Federal Court of Justice is interpreting this requirement very liberally, however. It has found that linking of certain products on a website can be sufficient to constitute a purchase exhortation for specific products (BGH GRUR 2014, 298, 300 – Runes of Magic; GRUR 2014, 1211, 1214 – Runes of Magic II). Companies must therefore be aware that purchase solicitations and product advertising – even if spread over various web pages – can be viewed as a whole by the courts as a result of cross-linking.

Conclusion: Advertisements targeting children and youth do not generally constitute unfair competition according to No. 28 of the "black list", but can so under certain circumstances. Companies are advised to pay heightened attention to their advertising measures directed at consumers under 18 years of age, in particular with regard to the formulation of the purchase solicitation – and in cases of doubt, to obtain the advice of a lawyer without delay.

On the current status of the sports betting concession procedures in Germany

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The procedure for awarding sports betting concessions in Germany can only be regarded as a long series of failures. The procedure has now been running for almost three years, without a single concession being awarded. The concession model introduced in 2012 provides for a temporary trial period of seven years, lasting until 2019, during which this model can be tested. However, there is no foreseeable end to the procedure, which renders highly questionable any concession award that may yet occur. The Administrative Court of Wiesbaden recently noted dryly in this connection that an "experimental phase" should not mean that the responsible authorities have seven years to experiment on how to legally structure concession award procedures.

Background information

The current version of the "Interstate Treaty on Gambling" (GlüStV) entered into effect on 1 July 2012; compared to the previous regulations, it was intended to liberalise the sports betting market to some extent. On one hand, the complete internet ban that previously applied pursuant to Section 4 Para. 5 GlüStV (in its previous version) was lifted. Accordingly, the organisation and brokering of sports betting on the internet is only permitted under certain requirements. On the other hand, the sports betting monopoly was deconstructed and replaced by the "experimentation provision" of Section 10a GlüStV, mentioned above. This provides that the state sports betting monopoly is not to be applied for a period of seven years. During this period, it is permissible for sports bets to be offered by private providers with a sports betting concession. The procedure for awarding sports betting concessions is governed in Sections 4a to 4e GlüStV. The maximum number of concessions is set at 20. According to Section 9a Para. 2 No. 3 GlüStV, the Hessian Ministry of the Interior and Sport is responsible for awarding sports betting concessions, while the internal, inter-State decision body is the German Gambling Board (Glücksspielkollegium).

The concession awarding procedure

A Europe-wide call for tenders for sports betting concessions was made in August 2012. The procedure involved two steps. In the first step, the requirements stated in the call for tenders had to be met, while in the second step, applicants were given the opportunity to supplement their respective applications. To clarify the list of requirements in the second step, applicants had to fill out a list of 600 questions; this was intended to assess whether the minimum requirements had been met. Originally 73 applicants applied for a sports betting concession, of which only 41 reached the second stage of the process. In fall 2013, the State of Hessen announced that none of the 41 applicants remaining in the second stage had met the minimum requirements and decided to hold a "makeup round". Following this "makeup round" the 35 applicants then remaining received an advance notification on 2 September 2014 informing them of how many points they had scored and what their ranking was. The final granting of concessions to the 20 selected applicants was supposed to occur on 18 September 2014. The applicants selected were primarily German-speaking and some were relatively unknown providers. Conversely, well-known providers such as Tipico, Bet365 and Sportingbet were not among the selected providers.

The "provisional order" issued by the Administrative Court of Wiesbaden

Since then the legal battle has been waged before the administrative courts. The Administrative Court of Wiesbaden issued a "provisional order" (case no. 5 L 1428/14.WI) on 17 September 2014. The court thereby ordered the State of Hessen to suspend the concession procedure and not to issue any concessions for the time being. This order was issued in response to the urgent petition filed pursuant to Section 123 Para. 1 VwGO by an applicant who had received a rejection notice. From the court's perspective, the applicant's only option was to appeal the rejection notice and apply for interim measures; it was not deemed possible at the time to review the selection decision. The court found that neither the rejection notice nor the enclosed evaluation sheet were comprehensive in terms of their justification. The State of Hessen did not provide any further documentation, except for two volumes of general files.

"Provisional order" upheld by the Higher Administrative Court of Hessen

On 7 October 2014, the Higher Administrative Court of Hessen issued an order dismissing the appeal of the State of Hessen, upholding the decision of the Administrative Court of Wiesbaden (case no. 8 B 1686/14). The court found that without the complete files pertaining to the proceedings, which at this point the State of Hessen was refusing to disclose, it was not possible to summarily review the selection decision. Ultimately, not only the criteria used by the authority to make the decision had to be transparent and logical, but also the actual selection procedure itself had to meet these requirements. The court found that such a review was impossible to perform based on the available files. The Higher Regional Court of Hamburg made a similar decision in parallel proceedings.

Subsequent decisions by the Administrative Court of Wiesbaden

In April (order dated 16 April 2014, case no. 5 L 1448/14.WI) and May (order dated 5 May 2015, case no. 5 L 1453/14.WI) of this year, the Administrative Court of Wiesbaden made two additional decisions that contained significant statements regarding the concession procedure. In May the court fully granted the urgent petition of an applicant in the selection process who had been refused, and required the State of Hessen to cease granting concessions until a decision had been made in the proceedings. Regardless of each individual case, the court decision contained representative statements on the errors in the conception and implementation of the concession procedure. In particular, the court criticised the fact that not all criteria required to receive a sports betting concession were known in advance; the applicants were not able to ascertain, either from the call for tenders or the text of the State Treaty on Games of Chance, what exactly was required for their application to succeed. The court found that this deficiency was incompatible with the transparency precept and also that the process of the evaluation itself was not transparent. Even upon request, it was not possible to disclose who performed each evaluation, and what their qualifications were, or the manner in which consistent evaluation according to the same list of criteria for all applicants could be ensured by the individual evaluators. In the interim, the Administrative Court of Frankfurt has now adopted this assessment in parallel proceedings. Other administrative courts, such as the Higher Administrative Court of Berlin-Brandenburg and prior to that, the Administrative Court of Berlin, had been more lenient and "loyal to the state" in their decisions on the fundamental deficiencies of the procedure.

Position of the European Commission

In a position paper in response to a reference request by the Local Court of Sonthofen (case no. C-336/14 – "Ince") the European Commission also made similar arguments critical of the German procedure for awarding sports betting concessions. The Commission shares the view that the actual implementation of the procedure for awarding sports betting concessions infringed the transparency precept since not all of the minimum requirements were made known in advance. The Commission stated that this was necessary so that interested parties could make an informed decision on whether to participate in the procedure. It also criticised the "inappropriate duration" of the concession granting procedure as well as the involvement of the same law firm that has represented the state lottery corporations for years. The oral proceedings before the ECJ in which the Commission again emphasized its criticism, took place on 10 June 2015.

Conclusion: In its current form, the procedure for awarding sports betting concessions has failed. What is needed now is to look toward the future and consider conceivable ways to resolve this situation. An obvious initial solution could be to repeat the sports betting concession award procedure, taking into account the freedom of service provision pursuant to Art. 56 TFEU as well as heeding the requirements for a transparent and discrimination-free procedure in accordance with Section 4b GlüStV and Art. 3 Para. 1 of the German Constitution. One significant hurdle to this solution, however, is the fact that the concessions are now only valid for a short time, until 30 June 2019 – since one-third of the total period of validity for the new concessions has already elapsed. Alternatively, one could consider granting a (provisional) concession to all applicants that met the minimum requirements. This option is not without drawbacks either, however, since a significant number of sports betting providers did not even participate in the procedure due to how it was structured. Ultimately, these applicants must be considered retroactively according to the principles of fairness. Therefore, the only tenable, long-term alternative for providing both companies and betting customers with legal certainty is a new statutory regulation that adopts the spirit of the short-term "separate path" taken by the State of Schleswig-Holstein – and above all, abandons restrictions on the number of concessions.

Decision of the Federal Court of Justice regarding the Tagesschau app

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In its decision of 30 April 2015 in the competition law proceedings of the newspaper publishers against ARD (the Working Group of the Public Broadcasters of Germany) and the broadcaster NDR regarding the permissibility of the Tagesschau app, the Federal Court of Justice partially overturned the decision of the previous instance and remanded the case to the Higher Regional Court of Cologne for review (case no.: I ZR 13/14). In its decision, the Federal Court of Justice classifies the prohibition under broadcasting law of press-like offerings not related to broadcast programs as a regulation of market conduct in the meaning of Sec. 4 No. 11 Act Against Unfair Competition. In addition, the approval for release of "tagesschau.de" as the result of the three-stage test has no binding effect for the proceedings.

Background of the legal dispute

The subject of the dispute is the permissibility of the telemedia offering of the Tagesschau app, a mobile form of transmission of the online offerings of "tagesschau.de", which has been offered by the German public broadcasting corporations since December 2010. Within ARD, NDR is responsible for the Tagesschau.

The newspaper publishers' cease and desist action under competition law is aimed at having the Tagesschau app in its version of 15 June 2011 prohibited. Their position is that the Tagesschau app violates the prohibition under broadcasting law of non-broadcast program-related press-like offerings in accordance with Sec. 11d Para. 2, Sentence 1 No. 3, Half-sentence 3 of the Interstate Broadcasting Treaty (RStV), and is thus impermissible. In the opinion of the newspaper publishers, the prohibition of non-broadcast-related press-like online offerings constitutes a regulation of market conduct in the meaning of Sec 4 No. 11 Act Against Unfair Competition.

The holdings of the courts of previous instances

While the Regional Court of Cologne held the offering of the Tagesschau app in the version of 15 June 2011 to be incompatible with the Interstate Broadcasting Treaty, and enjoined its further distribution (Decision of 27 September 2012, case no.: 31 O 360/11, ZUM-RD 2012, 613), the Higher Regional Court of Cologne dismissed the suit of the newspaper publishers (Decision of 20 December 2013, case no.: 6 U 188/12, ZUM 2014, 245). The appellate court was of the opinion that the Tagesschau app was merely a mobile form of transmission of the “tagesschau.de” online offering, and identical to it in terms of content. The online offering of “tagesschau.de” had previously been assessed as being non-press-like by the State Chancellery of Lower Saxony and approved for release.

Since 2009, in the course of the “three-stage test” the contents of the online offerings of the German public broadcasters must be well-defined and approved by the Broadcasting Board (Rundfunkrat) of the broadcaster and by the relevant legal supervisory authority. With its approval, the respective legal supervisory authority confirms that the online offering is within the scope of the legal mandate of the public broadcasting corporations.

The Higher Regional Court of Cologne felt itself bound by the legalizing effect of the approved telemedia concept. For this reason, it did not need to conclusively determine whether the prohibition under broadcasting law of press-like offerings not related to programs represents a regulation of market conduct in the meaning of Sec 4 No. 11 Act Against Unfair Competition. However, the Higher Regional Court of Cologne was inclined to categorise Sec. 11d Para. 2, Sentence 1, No. 3, Half-paragraph 3 RStV as a market access regulation, with the consequence that a violation thereof would not automatically be considered a violation of competition law under Sec. 4 No. 11 Act Against Unfair Competition.

The approval of the telemedia concept has no binding effect

Contrary to the opinion of the Higher Regional Court of Cologne, the Federal Court of Justice has now ruled in response to the appeal of the newspaper publishers that the approval of the telemedia concept for “tagesschau.de” by the State Chancellery of Lower Saxony is not legally binding for the purposes of the legal dispute. According to the press release, the legal reasoning behind the decision was that the approval of the “tagesschau.de” offering related only to a concept; it did not constitute an approval as non press-like for the actual implementation in a particular case.

Prohibition on offerings not related to press-like broadcast programs is a regulation of market conduct in the meaning of Sec. 4 No. 11 Act Against Unfair Competition

The Federal Court of Justice is also of the opinion that the prohibition on press-like offerings not related to broadcast programs in accordance with Sec. 11d Para. 2, Sentence 1, No. 3, Half-sentence 3 RStV represents a regulation of market conduct in the meaning of Sec. 4 No. 11 Act Against Unfair Competition. According to the Federal Court of Justice, the prohibition (at least inter alia) serves the purpose of restricting the activities of public broadcasting institutions in the market for telemedia offerings, thereby protecting print media. A violation of the prohibition on press-like offerings not related to broadcast programs could thus serve to establish claims under competition law.

The Higher Regional Court of Cologne must now examine whether the offering of the Tagesschau app in its version of 15 June 2011 is to be categorised as "press-like". It is not individual items that will matter, but whether all items not related to a specific broadcast program are press-like in their totality. This is to be assumed if a significant majority of the piece consists of text.

ARD has no legal standing

With regard to ARD, the Federal Court of Justice rejected the complaint as impermissible because ARD is merely an association of broadcasters, which as such lacks legal capacity and thus cannot be sued.

Partial victory for the newspaper publishers

The Federal Court of Justice's decision represents a partial victory of the newspaper publishers against the online activities of the public broadcasting corporations. The newspaper publishing houses have been attempting for years to curb the broadcasting fee-funded online activities of the public broadcasters.

Conclusion: The First Civil Senate of the Federal Court of Justice, responsible for competition law cases, has issued a decision on broadcast law. The decision is convincing in terms of its reasoning from a competition law perspective, but deviates in two respects from the view prevailing in the literature which considers the approval of a telemedia concept by the relevant legal supervisory authority to have legally binding effect. In addition, provisions of the Interstate Broadcasting Treaty precisely laying out the scope of the mandate of public broadcasters have previously been understood to be mere market access regulations which cannot establish a basis for claims for injunctive relief arising under competition law. If the Higher Regional Court of Cologne, on the basis of the available screenshots, judges the specific offering of the Tagesschau app of 15 June 2011 as excessively text-heavy and thus press-like, one cannot rule out the possibility that the Federal Constitutional Court may also wish to put in their two cents' worth; in the past, the Court has generally been friendly territory for Germany's public broadcasting corporations.

ECJ: List of ingredients does not neutralise misleading packaging

ECJ, Decision of 4 June 2015 (case no. C-195/14)

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Editor's head note:

If the labeling of a food product and the manner in which it is labeled, by means of the appearance, description, or visual representation of a particular ingredient, creates the incorrect and – for the average consumer – misleading impression that such ingredient is contained in the product, this deception is not remedied by the accurate listing of the ingredients on the packaging (without the ingredient in question).

Annotations: This recent decision by the ECJ was made in response to a reference for a preliminary ruling issued by the Federal Court of Justice (Decision of 26 February 2014, case no. I ZR 45/13 – Raspberry-Vanilla Adventure). In the underlying case, the German consumer protection association Verbraucherzentrale Bundesverband e.V. (vzbv) brought an action against a tea producer for what it alleged was misleading packaging for a children's fruit tea with the product description "Felix Himbeer-Vanille Abenteuer" ("Felix Raspberry-Vanilla Adventure"). Fresh raspberries and vanilla blossoms are depicted in several places on the packaging, which also contains multiple references to "fruit tea with natural flavours" and "only natural ingredients". In actual fact, the tea contains neither components nor flavours derived from raspberries or vanilla plants, but only natural aromas with raspberry and vanilla flavours (which, however, were not made from raspberries and vanilla, as they would otherwise have been declared as "natural raspberry flavour" and "natural vanilla flavour"). The actual composition of the product is accurately stated in the list of ingredients on the back of the packaging.

The liberal view of the Düsseldorf Higher Regional Court, citing earlier ECJ case law

The appellate court (Higher Regional Court of Düsseldorf) rejected the suit of vzbv, referring to the previous jurisprudence of the European Court of Justice. The ECJ issued several decisions some years ago according to which an average consumer suitably alert under the circumstances, which is the sole relevant standard for protection according to the European consumer model, devotes greater attention to the list of ingredients on the packaging if he intends to make his purchasing decision dependent on the presence or absence of certain ingredients. A consumer paying attention only to other components of the packaging and reaching conclusions about its contents solely from those components is not protected against the danger of being misled under this view.

The Federal Court of Justice's reference for a preliminary ruling

The Federal Court of Justice was of a different mind in the present case, and thus referred the case to the ECJ for a preliminary ruling. The Federal Court of Justice justified its differing opinion with the argument that, in view of the numerous packaging elements which together clearly inferred the use of components of real raspberries or vanilla plants, even a consumer of average awareness would assume that the product contained such components, and would thus not examine the list of ingredients in detail.

Clarification by the ECJ

In its recently issued decision, the ECJ agreed with the legal analysis of the Federal Court of Justice, and made clear that an overall misleading impression of the contents of a food product created by the design of the packaging is not simply neutralised by the list of ingredients even in the case of an average consumer. If the design of the packaging creates the impression that a certain ingredient is used therein, it is not in compliance with EU law if the absence of the ingredient can only be determined by reading the list of ingredients. Whether the design of the packaging does indeed create such an impression is a question to be decided by the national court.

The decision remains relevant, regardless of the 2014 replacement of the Food Labeling Directive by the Regulation on the Provision of Food Information to Consumers (Regulation (EU) No. 1169/2011), as this of course also contains a prohibition on providing misleading information about food, in particular through its presentation (Art. 7 of the Regulation).

Further developments in the case

The final decision in the legal dispute concerning the fruit tea is the responsibility of the Federal Court of Justice. However, given the phrasing of the reference for a preliminary ruling, one may suspect that the "Raspberry-Vanilla Adventure" will not end well for the manufacturer.

Conclusion: Producers of food products can expect their products to face more frequent complaints under competition law alleging that the design of the packaging suggests a composition of the product that is not borne out in reality. The argument in defense, namely that the inclusion of an accurate list of ingredients on the packaging precludes the possibility that an average consumer may be misled, has lost much of its force as a result of the recent ECJ decision. However, one also should not conclude from the latest jurisprudence that the list of ingredients is now entirely immaterial to the question of whether packaging is potentially misleading; the key perspective remains that of the average consumer, who – depending on the type of product and the design of the packaging – can draw different conclusions from its elements and, depending on the case, will not necessarily get a concrete idea of the ingredients used without looking at the list of ingredients. The relevance of the overall circumstances in each specific case is also emphasized by the ECJ. In the case at issue, several elements of the packaging each implying the use of genuine raspberry or vanilla components came together and collectively caused the objectionable misapprehension. Had only some of these elements been used, it is possible that even the order for reference of the Federal Court of Justice could have read differently. The question of distinguishing permissible from impermissible package design, traditionally a subject of contention among jurists, thus remains a matter to be analyzed on a case by case basis. Much significance will attach to the question of whether individual (potentially misleading) design elements are used in an "eye-catching" way, as was assumed of the illustrations of raspberries and vanilla by the Federal Court of Justice in the present case. In that event, given the continued holding of the FCJ in many decisions with regard to such "eye-catching" advertising elements, it may in fact be impossible for a misapprehension to be adequately corrected by providing an accurate list of ingredients, simply due to the prevailing "eye-catching" effect (as already held earlier, for example, by the Higher Regional Court of Cologne, Decision of 18 January 2008, case no. 6 U 144/07 – Fruit2Day, No. 19 et seq.).

Regional Court of Cologne: On damages for relicensing of open source software

Regional Court of Cologne,
Decision dated 17 July 2014 (case no. 14 O 463/13)

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Editor's head notes:

1. One who modifies software that is licensed under the GNU General Public License and sublicenses the modification under the GNU Lesser General Public License violates the original license. According to Subsection 9 GPLv2 / Subsection 14 GPLv3, in the event of relicensing, only another license version of the same type may be chosen, not another license type.
2. The damages claim resulting from such impermissible use may have as its subject the surrender of the infringer's profit, which may also include indirect sources of financing from customers and support services.

Annotations: The Regional Court of Cologne had to decide a case in which an open-source software program was modified and was placed under a different license. The subject of the dispute was the nopCommerce software, a popular all-around solution for webshops, which is licensed under the GNU General Public License Version 3.0 ("GPLv3") and may therefore be used without charge and modified, as long as the conditions of the license are fulfilled. Defendant placed its modification at the public's disposal, but under another license, namely the GNU Lesser General Public License Version 3.0 ("LGPLv3"). This constitutes a violation of the GPLv3, which also creates the entitlement to damages.

The "copyleft effect" and the modification of open-source software

A core element of all open-source licenses in the GPL family is the so-called copyleft effect. On the one hand, within the scope of distribution, this mandates the disclosure of the source code of the respective program. On the other, the licenses require that each modification that is considered as a program based on the original software be subject in its entirety to the original license and not any other open-source license. The question when exactly a code is based on original software, may be difficult to answer in an individual case. Unfortunately, to date there has been no clarifying case law on this, worldwide. Nor did the Regional Court of Cologne have the opportunity to express a position on this question in this case, because Defendant did not attempt to combine the original software only as a separate and independent element with a new and separate program. Therefore it was a clear and unequivocal modification.

"Or any later version" refers only to the respective license type

Occasionally open-source licenses are subjected to revision and published in new versions. Thus, for example, in 2007, after long debates, the respective third versions of the GPLv2 and LGPLv2 dating from 1991 were approved. According to a strict interpretation of the copyleft effect, it would not have been possible to subject the next modification of GPL/LGPL software to the next license versions. The obligation to place all new modifications under the exact same license text as the original software is an obstacle to switching the licenses. However, this problem had already been taken into account in the license texts of 1991. Subsection 9 GPLv2 and Subsection 14 GPLv3 permit the switch to a higher license level if the author of the original software added the so-called "or any later version" note to the license text. Defendant also wanted to apply this stipulation to the switch from a GPL version to the LGPLv3. The Regional Court of Cologne now made it clear that a subsequent license may be selected only from within the same license type. This is supported above all by the different concepts of the license types: The copyleft effect of the LGPL is far narrower and, in comparison to the GPL, includes more exceptions. With this argument the Regional Court of Cologne assumed that a switch from a GPL version to an LGPL license constitutes an impermissible use pursuant to Sec. 69c Copyright Act.

Concerning damages: Up to now only the Regional Court of Bochum on license analogy

Up to now, damages have been awarded on the merits for infringement of an open-source license in only one judgment in Germany: Before the Regional Court of Bochum (case no.: I-8 O 293/09), Plaintiff in a similar case asserted a damages claim based on the infringement of the LGPL, calculated according to the principles of license analogy. The Regional Court of Bochum granted the entitlement to damages. But the concept of license analogy in the area of open-source licensing can also be countered by some weighty arguments because the concept of license analogy is based on the question of the price at which a comparable license for similar software could have been purchased. Since open-source software – by definition – is available at no charge, it can also be argued that the calculation of the damages based on the principles of license analogy misses the point. The Regional Court of Bochum dealt only very briefly with this objection and dismissed it based on purely practical considerations: The authors of open-source software are otherwise "practically without rights". It would have been dogmatically more precise to first determine that the LGPLv2 does not in fact permit all actions without charge. A comparable license would therefore not have been without cost. But here, too, the reasoning must be followed one step further: If there are comparable software programs under an open-source license that does not trigger a copyleft effect (such as the MIT or BDS license), then an analogous license would once again be without cost, as open-source licenses without a copyleft effect permit the modification and relicensing of such modification. Thus for open source, the devil of license analogy is indeed in the details.

The Regional Court of Cologne and the surrender of the infringer's profit

Obviously, it was these problems that Plaintiff wanted to circumvent before the Regional Court of Cologne, and therefore decided that its entitlement to damages should be calculated according to the infringer's profit method. This is possible, since for copyright infringements, the injured party does in principle have the option of selecting the method by which damages are calculated.

Regional Court of Cologne broadly extends the infringer's profit to profits from support

Here the Regional Court of Cologne does not limit itself to asking whether a commercial profit was earned with the software itself. Rather, the Court also explicitly includes all revenues from additional customer, support and other services for the software in the relevant profit. For some parts of the industry, this is a dangerous thing, since many companies earn rather significant sums with support of and solutions for open-source software. Major Linux distributors post tens of millions in annual sales for the support of the open operating system. Thus it appears particularly threatening that the Regional Court of Cologne clearly emphasizes aspects that could serve to extend the damages. The Regional Court of Cologne clearly states: "The skimming off of the infringer's profit also serves to punish the harmful behaviour and in this manner to prevent infringement of the intellectual property rights that are particularly in need of protection."

Share of infringement is decisive

Thus it may be that another cornerstone has been laid for the infringement of open-source software, but the last word has not by far been spoken. According to relevant case law from the Federal High Court of Justice on how to calculate advertising revenue when assessing damages, the much more specific question that should be asked is about the extent to which the infringer's profit is based on the concrete infringement. The case before the Regional Court of Cologne never got that far because initially only the entitlement to information on the profits from support was granted. Only on this basis, after assessment of all the circumstances of the individual case, can it be decided what share of the profit from support is in fact based on the infringement. The judgment handed down by the Regional Court of Cologne can therefore not yet be regarded as the "capstone" in the debate on damages for the infringement of open-source licenses.

Measuring the damages for major projects

In cases of major open-source projects in which it is not unusual to have many thousands of people participating in development, quantifying the damages must also take into account the extent of the contribution by the developer making the claim. And it becomes even more complicated if in fact within the scope of a joint development, a joint copyright is created pursuant to Sec. 8 Copyright Act, because then the payment of damages can be demanded only to all co-authors. For major projects this can lead to significant practical problems, when it is simply impossible to reconstruct who made which contribution when. However, by way of limitation, one must concede that according to the German understanding of copyright law there are only a few cases of joint copyright for open-source developments, since most of the time there is no targeted common development.

No damages in a parallel case concerning a Creative Commons License

Moreover, in a similar case the Higher Regional Court of Cologne decided in exactly the opposite direction: The Court had to decide, among other things, whether an entitlement to damages can be granted based on the infringement of a Creative Commons License (Higher Regional Court of Cologne, decision of 31 October 2014, case no. 6 U 60/14). Like the open-source licenses, Creative Commons Licenses allow free use, as long as certain license conditions are fulfilled. Despite the violation of the license conditions, the Court did not award any damages, even though the author's personality rights had been violated. The grounds cited by the Higher Regional Court of Cologne was simply that "the objective value of the non-commercial use of protected content offered under a Creative Commons License could only be set at zero". There was no mention in the judgment of the surrender of any infringer's profit. One can only hope that this obvious contradiction in case law will be cleared up soon by further judgments.

Conclusion: The broad case law of the Regional Court of Cologne on damages should definitely prompt companies that use open source software or open source components in their proprietary software to review their open source compliance. In particular business models that generate the majority of their sales based on support services for open source software could be significantly affected by the assessment of damages using the infringer's profit. In light of the increasing number of lawsuits in this field, on the one hand, and the low level of sensitivity to the risks associated with improper handling of open source software on the other, it would be highly advisable to seriously consider the implementation of an appropriate open source license management.

Federal Court of Justice: On Google AdWords trademark complaint

BGH, Decision of 12 March 2015 (case no. I ZR 188/13 – Purchase of watches over the Internet)

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Head notes (Excerpt):

a) The filing of a general trademark complaint with the operator of an Internet search engine does not constitute an unfair impediment of competition in the meaning of Sec. 4 No. 10 Act Against Unfair Competition simply because competitors intending to run non-infringing AdWords advertising must acquire the prior consent of the trademark holder.
b) An unfair impediment of competition in the meaning of Sec. 4 No. 10 Act Against Unfair Competition is given if, after submitting a trademark complaint to Google as a result of which the use of the trademark in AdWords advertisements is prohibited, the trademark holder refuses to consent to the AdWords advertising of a competitor, even though the intended advertising does not infringe the trademark.

Annotations: Trademark holders are making increasing use of the possibility of submitting a "trademark complaint" to Google in order to prevent the use of their trademark in the text of AdWords advertisements of third parties. In addition to the fundamentally legitimate purpose of preventing trademark infringement, the trademark holder can also use this instrument to effectively exclude third parties from advertising with the trademark using Google AdWords, even though the trademark holder could not otherwise prohibit the use of its trademark in this form. The Federal Court of Justice was presented with such a legal situation, and faced the question of whether the affected third party can object under competition law against such an action on the part of the trademark holder. The Court found in the affirmative, on the basis that it comprises an impermissible impediment of competition (Sec. 4 No. 10 Act Against Unfair Competition).

Google "trademark complaint" is basically permissible under competition law

The Federal Court of Justice first makes clear that the mere submission of a "trademark complaint" to Google does not in itself represent an unfair impediment of competition in violation of competition law, despite the resulting de facto blocking effect. To justify its decision the Court states that the "trademark complaint" initially serves the fundamentally legitimate purpose of preventing trademark infringement, and the trademark holder is able without further ado to approve a third party's AdWords advertisement when so requested.

Refusal of consent to an intended non-infringing advertisement represents impermissible impediment of competition

Conversely, however, it follows that the actions of the trademark holder enter the sphere of impermissible impediment of competition if it refuses to consent to a competitor's planned AdWords advertisement featuring the trademark when so requested, even though the AdWords advertisement in question does not violate the trademark.

An impermissible impediment of competition in the meaning of Sec. 4 No. 10 Act Against Unfair Competition may first of all be found if the relevant action is undertaken for the specific purpose of preventing individual competitors from developing, and eliminating them. However, an action may also appropriately be regarded as constituting an impermissible impediment of competition even if undertaken without such an intent if it has the objective result that the affected competitors are no longer able to adequately bring to bear their performance on the market through their own efforts. Whether the latter conditions are met is to be determined by a comprehensive balancing of interests, in accordance with established case law.

Decisive criterion: Exhaustion of the trademark rights

The decisive aspect for the preponderance of the interest of the competitor prevented from running an AdWords advertisement by the "trademark complaint" and the refusal to grant permission for the use of the trademark of the trademark holder, in the Federal Court of Justice's opinion, was the question of whether the trademark holder would be able to prohibit the intended advertisement on the basis of its trademark rights without the trademark complaint. The AdWords advertisement at issue in the present case was an advertisement for the purchase of used original goods (namely ROLEX watches). Without the trademark complaint, the holder of the "ROLEX" trademark would not have been entitled to prohibit under trademark law the use of its trademark in an advertisement for this purpose, as its trademark right in the used original goods has been exhausted through the putting into circulation within the EU of the original watches by the trademark holder or with its consent (Art. 13 Para. 1 Community Trademarks Regulation and Sec. 24 Para. 1 German Trademark Act). The patent holder has no justified legal interest in effectively preventing, by means of a Google "trademark complaint" and subsequent refusal to approve the use of the trademark, an advertisement that would be perfectly permissible under trademark law. Accordingly, the interest of the competitor in being able to run an AdWords advertisement mentioning the "ROLEX" trademark prevails. In addition, consumers performing a Google search have an interest in also being informed about the competitor's business trading in original (used) watches of the same brand. Given this array of interests, the refusal by the trademark holder to grant consent to the intended AdWords advertisement is to be seen as an impermissible impediment of competition.

Legal consequence: Mandatory consent obligation on the part of the trademark holder?

As a legal consequence, the Federal Court of Justice affirmed a claim for removal on the part of the competitor, which takes the specific form of an obligation on the part of the trademark holder to consent to the intended AdWords advertisement of its competitor. This somewhat ignores reality, as, according to the authorisation terms in its AdWords trademark guidelines, Google offers trademark holders only the option of authorizing in full particular Google accounts to use the trademark as part of any AdWords advertisements, but not to approve individual advertisements of an account owner or the use of the trademark under certain conditions. This practical aspect played no role in the dispute underlying the Federal Court of Justice's decision, as it was apparently not brought up by either party to the case. However, it adds further complexity to the matter, as the trademark holder can thus be compelled first to authorise a competitor's account to use the trademark in its advertising text, regardless of the specific form taken by that use, and then to revoke such authorisation once trademark infringements are identified. It remains to be seen whether Google will respond to the resulting threat of a devaluation of the instrument of the AdWords trademark complaint by amending its AdWords trademark guidelines.

Conclusion: To avoid unnecessary legal disputes, trademark holders may find it advisable after submitting a "trademark complaint" to Google to carefully review competitors' requests for authorization to use the trademark in intended AdWords advertisements and to consent to such requests of the intended use if it does not infringe their trademark rights; this applies regardless of the competitor's level or type of trade. This may be particularly advisable if the competitor (as in the case at issue) trades in, and wishes to advertise, used – or even new – original items in which the trademark holder's trademark rights have been exhausted. Such a case-by-case analysis may be difficult; however, the FCJ expressly holds the associated effort and expense to be a reasonable burden on a trademark holder making use of the instrument of the Google AdWords "trademark complaint". It remains unclear though to what extent the trademark holder may refuse to grant such authorization to a competitor if such competitor has previously made infringing use of the trademark, but currently states its intent to advertise in a non-infringing manner.

Federal Administrative Court: On the permissibility of regional advertising on national television

Federal Administrative Court,
Decision of 17 December 2014 (case no. 6 C 32/13)

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Head note:

Regional differentiation of ad spots by a national broadcaster does not require special permission under broadcasting law, and is otherwise also in accordance with broadcasting law.

Annotations: The Federal Administrative Court on 17 December 2014 issued its decision on the permissibility of regional advertisement in television programs broadcast nationally (case no.: 6 C 32/13). According to the decision of the Court, no special broadcasting license is required for regionally differentiated advertisements in television programs broadcast nationally. More generally, regional advertisement is compatible with the provisions of the Interstate Broadcasting Treaty (RStV).

The suit was filed by a television promoter wishing to offer its advertising customers the option of broadcasting regional ad spots during programs broadcast nationally. The Administrative Court of Berlin decided at trial that advertising is a component of the broadcast program. An entity with a broadcasting license for national television is thus only entitled to broadcast advertising nationally (Decision of 26 September 2013, case no.: 27 K 231/12).

No specific licensing requirements for advertising

In response to the plaintiff's direct appeal on points of law, the Federal Administrative Court reversed the decision of the Administrative Court of Berlin and decided that the holder of a national television broadcasting license does not require permission under broadcasting law for the regional differentiation of advertising. In the view of the Federal Administrative Court, Sec. 20 Para. 1, Sentence 1 RStV only mandates licensing for the presentation of programming with editorial content. However, the Interstate Broadcasting Treaty contains no licensing requirements beyond this. Accordingly, broadcasters are thus also entitled to broadcast regionally differentiated advertisements. Limits on this authorisation could arise, if at all, only from broadcast advertising law.

Criticism from regional and local media

Heavy criticism of the decision was leveled particularly by publishers. Concern is rife that, as a result of regionalised television advertising, advertising income would be drawn away from local and regional print, TV, and radio media – all of which already suffer from declining audiences – in favour of the highly-rated national channels.

Subsequent to the decision of the Federal Administrative Court, the German States responsible for broadcasting legislation first considered amending the Interstate Broadcasting Treaty to clearly state the position of advertising in broadcast programming, and to provide a "door-opener clause" under which the individual German States would be permitted to license regionally broadcast advertising in programs broadcast nationally. This proposal was first halted by the State of Bavaria, in order to determine the need for protecting local advertising markets or, in other words, the extent to which the existence of local and regional reporting is threatened by the possibility of regional advertising in national television programs. The federal States have since agreed to amend the Interstate Broadcasting Treaty to include a prohibition on regional advertising on national television.

Amendment of the Interstate Broadcasting Treaty as of 1 January 2016

Conclusion: Television promoters may broadcast regionally differentiated advertising in programs broadcast nationally without requiring a special broadcasting license to do so. The Interstate Broadcasting Treaty does not currently contain any such licensing requirements. As of 1 January 2016, broadcasting of local advertisements on national television will be prohibited by law, subject to special exception.

Publications

Dr. Stephan Witteler and **Dr. Ubbo Aßmus** (both in our Frankfurt office) have published the article "Trotz Wolken die Sterne sehen können – ein rechtlicher Überblick über den Cloud-Dienst" ("Seeing the Stars Despite the Clouds – a Legal Overview of Cloud Services") in the trade publication Smart.ER (Smart.ER, II/2015, 4-9). In addition to a technical overview, the article provides a detailed description of the legal environment of cloud services.

Thorsten A. Wieland and **Dr. Sandra Müller** (both in our Frankfurt office) published the article "Watch out when localising advertising campaigns! Legal pitfalls of money-back guarantees" in the Gala Gazette on 25 February 2015. The article explores traps in "money-back guarantees" and sketches the latest German case law.

Dr. Anton Horn (Düsseldorf) wrote the article "Tatort Messe: Der Kampf ums Patent" ("Trade Fair Crime Scene: The Battle for Patents") for Computer Reseller News (CRN 11, 12 March 2015). The article examines what precautions companies must take when participating in trade fairs in order to legally protect themselves against patent disputes.

Dr. Georg Jacobs (Düsseldorf) published the article "Fallstricke im Markenrecht" ("Pitfalls of Trademark Law") in Computer Reseller News (CRN 12, 19 March 2015). In his contribution, the author discusses how to properly handle brands for companies in the IT and Communications sector, and provides information on potential risks faced by dealers or assemblers.

In his piece "Neues zur abstrakten Farbmarke" ("New Observations on the Abstract Colour Mark"), **Dr. Georg Jacobs** (Düsseldorf) writes in GRUR-Prax (GRUR-Prax 2015, 76) on new decisions of the European Court of Justice, the German Federal Court of Justice, and the German Federal Patent Court. The decisions have shown how rapidly familiar principles, and thus trademark law as a whole, can change.

Dr. Markus Klinger (Stuttgart) published in the trade journal juris PraxisReport IT-Recht a discussion of the decision by the Regional Court of Hamburg of 21 January 2015, case no. 408 HKO 41/14, regarding the principle of exhaustion under trademark law in the case of the sale of used trademarked software without its original packaging (jurisPR-ITR 7/2015, Comment 7).

Dr. Lutz M. Keppeler (Cologne) published in No. 1/2015 of the trade publication "Computer und Recht" an article with the title "Wann erstreckt sich die GPLv2 auf eine komplexe Software ‚as a whole'? – Eine aktuelle Bestandsaufnahme der Diskussion um die Reichweite des Copyleft-Effektes" ("When Does the GPLv2 Cover Complex Software ‚As a Whole'? – A Current Survey of the Discussion on the Reach of the Copyleft Effect") (CR 2015, pp. 9-15).

Lectures

On 26 January 2015, **Dr. Verena Hoene, LL.M.** (Cologne) gave a lecture at the 4th Press Law Forum in Frankfurt a.M. on the topic "Zu eigen gemachte ehrverletzende Äußerungen Dritter im Internet – wer haftet wofür?" ("Appropriated Libellous Statements by Third Parties on the Internet – Who is Liable for What?").

Dr. Lutz M. Keppeler (Cologne) and **Dr. Dirk Stolz** (Cologne) spoke on 1 February 2015 in the context of an internal training session for the in-house counsel of a global market player. Their subject was "Key aspects of the EU General Data Protection Regulation".

Events

On 23 April 2015, a bilingual workshop was put on together with Kroll at the Düsseldorf office of Heuking Kühn Lüer Wojtek. The topic of the event was cyber crisis management. In the first part of the workshop, EJ Hilbert, Director of Kroll's Cyber Investigations Department and a former FBI agent, simulated a cyber attack. Participants were challenged under his direction to deal with the difficulties created by such an attack. **Astrid Luedtke**, **Regina Glaser, LL.M.** and **Dr. Markus Rheinländer** (all in our Düsseldorf office) accompanied the exercise with presentations on data protection, labour, and criminal law-related aspects of a cyberattack, examining among other topics the protection of confidential information and effective cooperation with regulatory authorities and other involved parties. It is planned to repeat the workshop at other locations.

On 18 June 2015, the Munich office of Heuking Kühn Lüer Wojtek hosted the workshop "Patentverletzung: Feindliche Lizenzangebote – Was tun?" ("Patent Infringement: Hostile Licensing Offers – What Next?"). **Dr. Anton Horn** (Düsseldorf), **Dr. Sabine Dethof** (Düsseldorf), **Sönke Scheltz** (née Popp) (Düsseldorf) and **Dr. Stefanie Langen** (Munich) spoke on the subject of how a company should respond to unwanted licensing offers, and provided information on peculiarities related to patents essential to a standard. The speakers also discussed current trends and decisions.

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News

IP, Media & Technology also at Heuking Kühn Lüer Wojtek's new office in Stuttgart

Dr. Markus Klinger
Lawyer
Certified Specialist Lawyer for IT Law
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Dr. Markus Klinger joined our firm together with the Stuttgart team of GSK which has made up Heuking Kühn Lüer Wojtek's new Stuttgart office since January 2015. Since then he has been responsible for the IP, Media and Technology area at our new location in Stuttgart. Dr. Klinger studied law at the universities of Konstanz and Lausanne (Switzerland) and completed his traineeship in Freiburg im Breisgau. He earned his doctorate from the University of Mannheim with a thesis examining questions related to Internet advertising from the perspective of international competition law, and has been a Certified Specialist Lawyer for Information Technology Law since 2008. From 1999 until 2010, Dr. Klinger worked for the Stuttgart corporate law firm of Kleiner Rechtsanwälte in the IT and media law sector, on matters linked to intellectual property. In his subsequent position from 2010 to 2014, with GSK Stockmann + Kollegen, he was the Local Partner with responsibility for the IP/IT area in GSK's Stuttgart office. As a specialist for IT law and data protection and competition law, Dr. Klinger focuses primarily on projects, transactions, and legal disputes in the IT field, including IT outsourcing, data protection, and IT compliance, as well as Internet, advertising, and IP law.

Newcomers in Frankfurt a. M.

Dr. Ali Sahin
Lawyer
Location: Frankfurt
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As of February 2015, the practice group has been reinforced with the presence of **Dr. Ali Sahin** in the Frankfurt a.M. office. Dr. Sahin worked for Baker & McKenzie for many years in London, Amsterdam and Frankfurt, where he helped build business with Turkey. Before joining Heuking Kühn Lüer Wojtek, he worked with Paul Hastings (Europe). He is a specialist in cross-border and technology-related corporate transactions as well as transactions in the life sciences sector, and has experience in corporate restructuring, compliance, and data protection. Dr. Sahin will significantly strengthen Heuking Kühn Lüer Wojtek's business relationships with Turkey.

Markus Lennartz
Lawyer
Location: Frankfurt
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Markus Lennartz has been working in our Frankfurt office since February. He studied law and economics at the University of Osnabrück before completing a traineeship with Deutsche Telekom AG. He remained with the company after finishing his traineeship, spending three years in the corporate investment management division before moving to the position of Director of the Office of the Supervisory Board. Markus Lennartz spent a further six years as Director of the Corporate Office of Deutsche Telekom AG, reporting directly to the Chairman of the Executive Board. Most recently, he worked on growing business with international public contracting authorities for T-Systems International GmbH, in particular with the institutions of the European Union and with international research institutions such as the ESA. As a specialist in IT, public contracting, and contract law, he has now reinforced the team of Dr. Stephan Witteler.

Markus Beyer
Lawyer
Location: Frankfurt
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Markus Beyer joined the team of the practice group at our Frankfurt office in April 2015. He completed his legal studies at the universities of Leipzig, Fribourg (Switzerland), and Freiburg im Breisgau before doing a legal traineeship at the Higher Regional Court of Frankfurt a.M.. He also worked as legal counsel for a communications company in Munich.

Newcomer in Hamburg

Melanie Belz, LL.M.
Lawyer
Location: Hamburg
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Melanie Belz, LL.M. has been working in our Hamburg office since March 2015, continuing the growth of our practice group. She completed her legal studies at the University of Münster with a focus on information, telecommunications, and media law, before earning her LL.M. through a course in "International Studies in Intellectual Property Law" at the Technical University of Dresden and the University of Exeter. Most recently, she worked for Rödl & Partner in Hamburg.

Awards

Michael Schmittmann is awarded "Best of the Best 2015" title

Our Düsseldorf partner Michael Schmittmann has been recognized by the publication "Expert Guides" of the Legal Media Group, London, as "Best of the Best 2015" in the "Media" category. The award, given out every two years, is his fifth. "Expert Guides" is published every two years, and is based on annual surveys of some 4,000 leading attorneys from law firms and companies regarding outstanding work and reputation in the industry.

HEUKING KÜHN LÜER WOJTEK

This Newsletter does not constitute legal advice. While the information contained in this Newsletter has been carefully researched, it only offers a partial reflection of the law and its developments. It can be no substitute for individual advice appropriate to the facts of an individual case.

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