

IP/IT Info

European Edition



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Stricter Unfair Competition Rules in Germany

On 30 December 2008, a major revision of the German Act against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb*—“UWG”) came into force. Under the revised UWG companies doing business in Germany have to abide by stricter rules. The revision implements the requirements of the European Unfair Commercial Practices Directive 2005/29/EC. The new law significantly broadens the scope of the UWG and increases obligations to provide sufficient information to consumers before the consumer places an order or otherwise enters into a contract.

While the old UWG was applicable only to commercial conduct before the conclusion of a contract, the new law will also apply to commercial practices during and after the conclusion of a contract. For instance, it will be considered an act of unfair commercial conduct if a company persistently ignores customer complaints or if an insurance company systematically fails to respond to claims under an insurance policy or requires the customer to produce documents irrelevant for substantiating a claim in order to dissuade the customer from exercising statutory or contractual rights.

All I say is nothing—Misleading by Omission

A new provision amending an existing clause of the UWG expressly addresses misleading practices by omission of

material information. Under this provision it is considered an unfair practice to withhold information which—under consideration of all aspects including possible limitations of the means of communication—are necessary to enable the consumer to an informed decision.

The provision lists several elements of information which are deemed necessary *vis-à-vis* the consumer whenever an offer allows a consumer to enter into a contract. While some of the information has only been added for clarification purposes others broaden the scope of liability. *Inter alia* the trader is required to duly characterize the offered goods or services, provide his address and accurate price information and inform the consumer about unusual terms and conditions as well as on revocation and withdrawal rights.

Inside This Issue

Stricter Unfair Competition Rules in Germany	1
Realizing the Value of Intangibles—IP in Secured Lending Transactions	3
Sampling infringes German Copyright Act	4
Stricter Rules for Video Games in Germany	5
Using the name of VIPs in Advertising Without Their Permission	6
Notion of “Genuine Use” in Trademark Opposition Cases	7

It will be considered an unfair practice to withhold information which is necessary to enable the customer to make an informed decision.

Blacklist of Forbidden Commercial Practices

In compliance with the European Directive the bill includes a so-called "blacklist" of unfair commercial practices as an Annex to the UWG which specifies a total of 30 misleading or aggressive commercial practices which will in all circumstances be considered unfair and forbidden *vis-à-vis* the consumer. These practices include, *inter alia*,

- falsely claiming that a trader or a product has been approved, endorsed or authorised by a public or private body;
- falsely suggesting that rights given to consumers in law are a distinctive feature of the trader's offer;
- claiming that the trader is about to cease trading or move premises when the trader is not;
- including in marketing material an invoice or similar document which gives the consumer the false impression that the product has already been ordered.

These changes should be taken into account when planning marketing campaigns in Germany.

Electronic Marketing

The revision of the UWG clarifies that consent for e-mail, phone and fax marketing has to be explicit. The change confirms a recent judgment of the German Federal Court of Justice (16 July 2008, VIII ZR 348/06) that requires opt-in boxes for consent in electronic marketing.

In addition to the changes in the revised UWG the German Parliament considers another bill dealing specifically with cold-calling. The Justice Committee of the German Parliament has scheduled a hearing on the bill for 28 January 2009. The bill introduces measures like fines up to EUR 50,000 for cold-calling and a restriction for companies to withhold caller IDs during marketing calls.

Furthermore, on 10 December 2008 the German Government proposed a revision of the German Data Protection Act (*Bundesdatenschutzgesetz*) implementing restrictions on the use of personal data for marketing purposes. ■

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Realizing the Value of Intangibles—IP in Secured Lending Transactions

In times of tightened credit conditions, lenders involved in secured lending transactions are placing a heavy emphasis on diligence to identify any risks to value in their underlying security package. Therefore, the issues to consider when taking security over IP assets become more important.



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In an age where global brands, information and technology are the major drivers of the economy, more often than not the real value in today's businesses lies in their intangible rather than tangible assets. It is hardly surprising that intellectual property is increasingly being recognised by

both borrowers and lenders as a valuable asset on secured lending transactions. When taking security over IP assets, a lender will need to consider the nature of the IP assets (and the appropriate form of security to take), as well as issues around value, including what value the IP will have to the lender if the borrower defaults and how the lender would exploit the IP if it had to enforce its security interest. It is not possible to treat each category of IP in the same way and these differences not only affect legal considerations involved in taking a security interest but can also have an effect on the value placed on any security taken over them.

An IP asset may have the potential to exist indefinitely or have a more limited duration, *e.g.* trademark registrations can be renewed indefinitely, whilst patents can only be renewed for 20 years and each form of copyright has its own specific duration defined by statute. The IP asset may be registered (*e.g.* trademarks or patents) or unregistered (*e.g.* copyright); this may impact on the form of security the lender chooses.

In the UK, Germany and France, security over registered IP assets is normally taken by way of first fixed charge as registered assets can be clearly identified and scheduled, and the lender's security interest can be recorded at the relevant registry. If the borrower's IP portfolio is comprised primarily of valuable unregistered IP (such as copyright in music libraries, films or computer software), a lender may prefer to take security in the form of a legal mortgage (by way of assignment to the lender and license back to the borrower). However, in order to avoid the responsibilities that go with ownership lenders

It is not possible to treat each category of IP in the same way.

often opt to take a first fixed and floating charge over all the IP, rather than a legal mortgage unless it is financing a specific project (*e.g.* in film financing, an assignment of copyright by way of legal mortgage is commonplace).

A lender who takes a charge can still seek extensive IP-specific warranties and impose appropriate undertakings on the borrower (*e.g.* in relation to the borrower's use of the IP, and obligations to notify the lender of any infringement proceedings or other proceedings that could adversely affect value). IP diligence issues vary depending on the specifics of the secured lending transaction and on the type of IP assets concerned. However, typical issues for a lender to consider include the identification of the borrower's IP assets (which may also include liaising with external IP valuation experts to determine value) as well as IP ownership, licensing and infringement issues (including IP ownership verification searches in relation to registered IP, chain of title investigation in relation to copyright, examining the unexpired term of copyright, validity and opposition proceedings, all of which could adversely affect the value of the IP).

As security becomes more important following the sub-prime crisis, both lenders and borrowers are increasingly turning to IP as a new asset class. The intangible nature of the assets, contractual fetters on their use and in many cases their limited lifespan, means it is critical to conduct thorough diligence and structure the security correctly to ensure any financing is not secured on "sub-prime" IP. ■

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Sampling Infringes German Copyright Act

The German Federal Court of Justice (FCJ) decided on 20 November 2008 (I ZR 112/06) on the ancillary copyright protection of a short sequence of an audio recording. A band claimed that a short sequence of one of their songs had been copied into another audio recording. Prior to the new judgment, it was highly controversial under which requirements the unauthorised re-use of a short sequence might constitute an infringement of ancillary copyrights.

The members of the German band "*Kraftwerk*" sued the producer and two composers following the publication of the audio recording of the title "*Nur mir*". The German singer Sabrina Setlur performed the song and the defendants sampled into the recording a two-second melody sequence from the title "*Metall auf Metall*" performed by *Kraftwerk*.

The plaintiffs argued that the sampling infringed their ancillary producer copyright in the audio recording of the song "*Metall auf Metall*". They applied for an order against the defendant to cease and desist from such infringement, to inform about the scope of the infringement and to hand over the existing audio recordings for the purpose of destruction.

The Hamburg Court of Appeal ruled that the re-use of the two-second melody sequence from the title "*Metall auf Metall*" infringed the ancillary copyrights of the plaintiffs because the defendants continuously sampled into the recording of the title "*Nur mir*" a specific, unique sequence from the audio recording of "*Metall auf Metall*". In 1992, the same Court of Appeal had denied an infringement in a sampling case because the copied sequence was not sufficiently creative to enjoy protection.

The Hamburg Court of Appeal applied similar requirements for the protection under ancillary copyrights as applicable to general copyright protection in Germany. The approach intended to avoid more comprehensive protection of the producer compared to the copyrights of an author. As a consequence, neither the author as copyright owner nor the producer as holder of ancillary copyrights could have taken action against the unauthorised re-use of a short sequence of a song which did not enjoy general copyright protection.

The FCJ enhances the protection of ancillary copyright holders and grants ancillary copyrights beyond the copyright of an author. According to the judgment of the FCJ, the ancillary copyright protection for producers covers every part of a recording since the producer contributes to the whole recording process. Section 85 German Copyright Act protects the commercial, organisational and

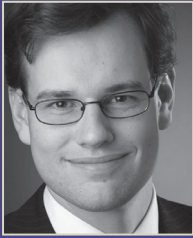
The FCJ enhances the protection of ancillary copyright holders and grants ancillary copyrights beyond the copyright of an author.

technical performance of the producers of audio recordings. The FCJ, therefore, went further than the Hamburg Court of Appeal and stated that even the re-use of the shortest sequences of an audio recording constitutes an infringement of the ancillary copyrights of the producer in the original recording.

However, the FCJ annulled the decision of the Hamburg Court of Appeal and ordered the court to analyse whether or not the right to fair use according to Section 24 German Copyright Act applies. Under this provision, an independent work created by fair use of another protected work may be published and exploited without the consent of the original author. However, the fair use exemption does not apply if a melody has been recognisably borrowed from another work and used as a basis for the new work. The Hamburg Court of Appeal will have to further analyse whether the requirements of fair use are fulfilled under the current circumstances.

The decision of the FCJ is a landmark decision for composers and producers of songs, because, as a general rule, the FCJ extends their ancillary rights as compared to the protection granted to the author. However, fair use limits the rights and therefore the victory might turn out to be less spectacular at the end. It will be down to the Hamburg Court of Appeal to apply the fair use test under Section 24 German Copyright Act. ■

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Stricter Rules for Video Games in Germany

Changes in the Youth Protection Act lead to more restrictions for video game distribution in Germany and require changes to existing video game boxes if they do not fulfill the new requirement. Detailed scenes of violence like murder or slaughter and suggesting arbitrary law as the only reliable possibility to uphold an alleged justice will bring data media into the list of publications harmful to young persons.

The German Parliament changed the Youth Protection Act that came into effect on 1 July 2008 to enhance the protection of children and young persons from violence in the media. Data media (e.g. CD-Rom, DVD, etc.) that contains very realistic, cruel and lurid scenes will become subject to more restrictions. *Inter alia*, the Act restricts advertisement for and distribution of such games heavily. For example, it is not allowed to display, sell or advertise such games at places accessible for young persons or through mail order. Therefore, it will become extremely difficult to distribute such games in Germany. A violation of such restrictions will be a criminal offence with a threat of punishment of up to one year in prison.

The Federal Review Board for Publications Harmful to Youth has to rate every video game before it can be distributed in Germany. Such ratings range from "released for general audiences without age restrictions" to "restricted to audiences above 18 years of age" (so-called "USK 18"). The other age levels available for the rating range from six, 12 to 16 years. In addition, the Board may refuse to rate video games in extreme cases.

In the past, the Federal Review Board was criticised for rating so-called "killer games" as USK 16 or USK 18 instead of banning them. The discussion often referred to the popular video games *Half-life*, *Grand Theft Auto*, *Doom* and *Counterstrike* or, in general, "ego shooters", even if some violent scenes were modified in the German version of such video games.

The recent changes to the Youth Protection Act aim to prevent liberal ratings because a video game which fulfills one of the new requirements cannot be rated. Critics say that the regulation is very broad and it could become even more difficult in the future to distribute video games for a more mature audience in Germany, since it is sometimes extremely difficult to change the problematic scenes or concepts of the games. In addition, not only "ego shooters" are affected, but nearly all genres. For example, real-time strategy games (*Command & Conquer*; *Generals*; *World in Conflict*) or massive multiplayer online role playing games (*Age of Conan*) are only distributed in an altered version in Germany.

Ratings over the past month indicate that the changes to the Youth Protection Act are taken into account by the Federal Review Board and lead to a stricter

The recent changes result in more banned video games, which would have received an age 16 or 18 rating under the previous regulation.

rating. It seems that video games, which would have received a USK 16 rating before, now receive USK 18 instead. However, it is hard to verify such findings because the Federal Review Board's reviews are only available to the parties concerned and are not published.

The law also states the minimum size of the rating label on the surface of the data media and on its cover. In addition, it defines the place of the label (bottom left corner of the cover). The sale of data media not fulfilling the minimum requirements was only possible until 31 August 2008. Offering data media without fulfilling the new requirements is a public offence and suppliers can be punished with fines of up to EUR 50.000 per case. The law does not oblige Internet access providers to block access to online games or other illegal content like unrated video games. However, on 13 January 2009 the German government initiated a meeting with the leading German Internet access providers to discuss the blockage of child pornography sites. Further meetings are scheduled with regard to other illegal content (gambling, file sharing). At present, it is difficult to enforce German law if the content is accessible in the Internet and not hosted in Germany. Complaints regarding illegal content can be addressed to a German ombudsman, but he has no administrative power if the content is located outside Germany.

If the government would introduce general blockage obligations against Internet access providers for pornography sites, they might be extended to other illegal content. This could also include access to online or video games which have not been reviewed by the Federal Review Board or received any rating or USK 18. ■

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Using the Name of VIPs in Advertising Without Their Permission

The German Federal Court of Justice (FCJ) ruled that VIPs are not entitled to claim damages if their names are used without their permission in satirical advertisements (Judgments of 5 June 2008, file no. I ZR 223/05 and I ZR 96/07). The FCJ thereby overruled two decisions of the Higher Regional Court in Hamburg granting the music producer Dieter Bohlen EUR 35.000 and Prince Ernst August von Hannover EUR 60.000 because their names were used in commercials of the cigarette brand "Lucky Strike".

Merchandising one's own personality by way of entering into licensing agreements is increasingly becoming a prevailing source of income for pop stars, popular athletes and other well-known people because personality traits such as the name and the image are gaining more and more value for advertising purposes. However, many individuals whose identity and personality is of value for marketing and advertising purposes do not license with companies to use their personality traits. Thus, the question arises whether companies can exploit such individual characteristics for their commercials without permission or whether individuals can claim damages in this case.

The Federal Constitutional Court in Germany has ruled that individual interests to commercially exploit aspects of one's own personality such as the image, name or voice are not part of the personality rights which are protected by Art. 1 (1) and 2 (1) of the Federal Constitution. However, the FCJ grants protection to the commercial interests in marketing one's personality even though not protected by the constitution. In two landmark decisions, "*Marlene Dietrich*" (file no. I ZR 49/97) and "*Der Blaue Engel*" (file no. I ZR 226/97), the FCJ confirmed that—in the absence of legitimate interests—advertisements using personality traits infringe commercial aspects of the individual's personality rights because the individual concerned is financially disadvantaged.

According to the FCJ, mere advertising purposes, in general, cannot be deemed to constitute a legitimate interest for the unauthorised exploitation of the personality traits of others. Thus, the individuals concerned can claim damages if a company uses their personality traits without their permission, in the event that the company does only pursue advertising purposes.

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In its decisions of 5 June 2008, the FCJ, however, confirmed that the individuals concerned cannot claim damages if the company not only uses the individuals' name to attract attention, but also tries to convey a certain message with regard to current affairs, e.g. by using satiric slogans. In this case, the freedom of speech which is protected by Article 5 (1) of the Federal Constitution outbalances the commercial interests to exploit one's own identity which do not enjoy constitutional protection. This is in particular the case if the advertisements do not adversely affect the reputation of the individual concerned.

On these grounds, the court did not grant damages to either Prince Ernst August von Hannover for the question used in a Lucky Strike commercial "*War das Ernst? Oder August?*" ("Was it Ernst? Or August?") or Dieter Bohlen for the slogan "*Schau mal, lieber Dieter, so einfach schreibt man super Bücher*" ("Look, dear Dieter, how easy it is to write excellent books"). ■

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Notion of “Genuine Use” in Trademark Opposition Cases

The Court of First Instance of the European Communities has refined the notion of “genuine use” for a trademark applied to goods of everyday consumption by the necessity of showing at least one instance of regular use of such trademark when the commercial volume of its exploitation is limited.



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The Spanish underwear manufacturer Cuadrado, on the basis of its earlier word trademark “SONIA” registered for ladies’ underwear in class 25, had filed an opposition before the Office of Harmonisation in the Internal Market (OHIM) against the registration of the semi-pictorial Community trademark “SONIA SONIA RYKIEL” filed by Sonia Rykiel notably for clothing in class

25. It claimed that such trademark filed for identical or similar clothing articles was confusingly similar to its earlier trademark. The relevant territory at stake was Spain.

Sonia Rykiel, in defense, argued that no likelihood of confusion could arise between both trademarks since the word “SONIA” is not strongly distinctive for ladies’ underwear and it would therefore be unlikely that the average Spanish consumer would consider linking the more specific name “Sonia Rykiel” with “SONIA” notably taking into account the reputation of the French fashion designer. In light of the scant evidence submitted by Cuadrado concerning the sale of ladies’ underwear on the Spanish market under the “SONIA” trademark, Sonia Rykiel also asked the OHIM to dismiss the opposition on the ground that the earlier “SONIA” trademark had not been genuinely used during the relevant five-year period, in accordance with Articles 43(2) and (3) of Council Regulation No. 40/94 of 20 December 1993 on the Community trademark.

The Opposition Division rejected the opposition but the Board of Appeal upheld it and rejected the “SONIA SONIA RYKIEL” Community trademark application in class 25. Sonia Rykiel filed an application before the Court of First Instance of the European Communities seeking the annulment of the Board of Appeal decision of the OHIM.

By decision dated 30 April 2008, the Court of First Instance of the European Communities annulled the Board of Appeal decision (Case T-131/06, Sonia Rykiel Création et Diffusion de Modèles). This decision is of particular interest in respect of the question of “genuine use” of a trademark since it

gave the Court of First Instance the opportunity to refine existing case-law according to which even minimal use can be sufficient to be deemed genuine and which had sometimes been interpreted all too liberally by the OHIM.

Product sales in a total amount of 432 Euros are not sufficient to establish a genuine use of a trademark.

The Court of First Instance held that the nine invoices submitted by Cuadrado, drawn up between January 1997 and March 1998, evidencing the sale of 85 products for a total amount of 432 euros were not sufficient to establish genuine use of the “SONIA” trademark. The Court considered that the articles at stake were goods of everyday consumption sold at a very reasonable price and therefore goods to be sold to a large number of consumers throughout Spain. The Court further added that the small volume of sales of such goods was not offset by a very regular use since the nine relevant invoices were concentrated on two or three months and not spread over the whole period. The Court therefore considered that, taking the nature of the goods into account, the total amount of transactions over the relevant period was so token that it could not maintain or create market shares for the goods protected by the “SONIA” trademark. The Court concluded that the Board of Appeal failed to take into account all the relevant factors for the purpose of determining whether the use of the “SONIA” trademark could be regarded as genuine.

After this judgment of the Court of First Instance of the European Communities, it is to be expected that the OHIM will monitor more closely the evidence submitted by opponents to justify genuine use of their earlier trademark when requested by Community trademark applicants in opposition proceedings. ■

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