

# INTERNATIONAL BRIEFING

Dear reader,

Welcome to the first edition of our International Briefing for 2019.

We have compiled a broad array of topics of interest to international business and international law practitioners, with contributions from many of our practice groups, ranging from Corporate Law to Tax to IP/IT.

Since the beginning of this year stricter rules for controlling and approving foreign (non EU) direct investment apply in Germany and the EU just published a framework for screening of foreign direct investments into the Union on 21 March 2019. You will find updates thereof herein.

We also inform on experiences on cross-border conversion of a German GmbH and relocation of its registered office within the EU, also taking into consideration the reforms proposed by the EU Company Law Package in this respect.

From a tax perspective you should be aware of new recent legislative initiative regarding a reform of real estate transfer tax in share deals. The proposed legislation may require a different structuring and therefore should be kept in mind in M&A transactions involving real estate.

Finally, our IP and IT colleagues showcase two interesting cases regarding data protection and trade secret protection as well as on the amendments of the German Trademarks Act applicable since January, implementing an EU Directive.

Last but not least we would like to inform you that the new edition of our investment guide "Investing in Germany" is now available in English and Chinese for download [here](#).

We hope that you will find the information provided helpful in your daily business.

We already look forward to seeing many of you at the IBA Conference in Barcelona or ABA Spring Conference in Vancouver!

Best regards,



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## German Federal Government tightened the rules of foreign investment control

With the adoption of the Twelfth Regulation amending the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung, AWV*) on 19 December 2018, the German Federal Government tightened the rules for the examination of acquisitions of German companies by non-EU investors; especially §§ 55 et seq. AWV were amended.

The AWV and the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz, AWG*) provide the legal basis for foreign investment control in Germany. The AWV differentiates between a general assessment which applies to all sectors (“*cross-sector review*”), and one that applies to sectors that are of particular importance to the national security (“*sector-specific review*”). The outcome of such a review is the prohibition or clearance of a transaction (which may be subject to commitments). Within the framework of the cross-sector examination there is also the possibility to apply for a certificate of non-objection in order to avoid an unexpected investigation of the transaction.

The amendments entered into force on 29 December 2018.

### PREVIOUS LAW

Before the twelfth amendment of the AWV came into effect, an acquisition was subject to review, once foreign purchasers (§ 60 AWV) and non-EU acquirers (§ 55 AWV) acquired directly or indirectly 25 % of the shares and voting rights of a German company. In such cases, the transaction was and is still investigated whether it would be a threat to public order or security.

### NEW LAW

#### REDUCED ASSESSMENT THRESHOLD

With the described amendment, the AWV now provides for a lowered threshold with respect to acquisitions in sectors relevant to security or defence.

The shareholding threshold for sector-specific review pursuant to §§ 60 et seq. AWV has been lowered to 10 %.

The shareholding threshold for cross-sector review pursuant to §§ 55 et seq. AWV has also been lowered to 10 % where the target company is active in civil sectors that are relevant to national security.

This reduction is justified by the need to examine more closely companies active in the defence sector or in critical infrastructure, encompassed water and energy supply, IT, telecommunications, finance and insurance services, health care, freight and transport, or food industries (“*civil infrastructure that is critical to public safety*”).

All other acquisitions of companies, whose activities do not fall under areas as mentioned above, still face the 25 % threshold.

#### EXPANDING THE SCOPE OF THE ACQUIRER'S ACTIVITIES

In addition to companies described above, the media sector is now classified as a critical infrastructure in order to guarantee the independence of German media companies and to prevent them from being taken over by foreign investors and being used to disseminate disinformation.

#### EXTENSION OF THE OBLIGATION TO NOTIFY

In line with the lowered shareholding threshold, the amendments to the AWV also expand the accompanying notification requirements in accordance with §§ 55 para. 4 and 60 para. 3 AWV.

### EU

Apart from the amendments to the German foreign trade legislation, an agreement has been announced at EU level on the creation of a binding basis for cooperation between the EU Member States with respect to non-EU direct investments, which are state-controlled and/or financed. This draft EU Regulation also makes it clear, that critical infrastructure and technologies, security of supply, access to or control of sensitive information and the control and financing of investments by government agencies are particularly relevant for public order and security.

On 15 February 2019 the European Parliament adopted the draft EU framework for the introduction of a review procedure for foreign direct investments (as already pre-informed in our article in the [December 2018 Newsletter](#) entitled “The EU’s path to uniform and stricter standards for screening foreign investments”). On 5 March 2019 the European Council adopted the draft and the set of new rules was published in the EU Official Journal on 21 March 2019 (see also the following article entitled “New EU uniform and stricter standards for screening foreign investments”). The new rules will enter into force twenty days later and will apply 18 months later. To what extent the AWV will need to be amended again in response remains to be seen.

### BACKGROUND OF THE AMENDMENTS

The Twelfth Regulation amending the AWV was adopted in response to the planned takeover of 20 % of the shares in electricity transmission system operator 50Hertz Transmission GmbH by the State Grid Corporation of China (SGCC) in 2018. 50Hertz operates in the German transmission system and is therefore part of the critical infrastructure.

Originally, the shares in 50Hertz were held by the Belgian network operator Elia (60 %) and the Australian infrastructure fund IFM (40 %) via Eurogrid International CVBA. SGCC first tried to acquire shares in the beginning of 2018 when IFM put 20 % of the shares in 50Hertz up for sale. This was thwarted when Elia acquired the shares, after consultation with the German Federal Ministry for Economic Affairs and Energy.

In May 2018, IFM planned to sell its remaining 20 % of shares in 50Hertz and the State Grid Corporation of China was once again interested. After consultation with the German Federal Ministry for Economic Affairs and Energy, Elia again exercised its right of first refusal for the remaining shares. Under the old regime of 25 % threshold, investment control regulations were not applicable. Therefore, it would not have been possible to intervene and prohibit the acquisition of 20 % of the shares in 50Hertz by the SGCC.

Against this background, Peter Altmaier, the Federal Minister for Economic Affairs and Energy, suggested lowering the threshold (from 25 % to 15 %). Finally, the German Federal Government chose the threshold in accordance to the OECD benchmark definition of foreign direct investments, as a “lasting interest” is evidenced when a direct investor owns at least 10 % of the voting rights of the direct investment enterprise.

## TRENDS AND THEIR IMPACT

According to information from the Federal Ministry for Economics and Energy, there has already been an increase both in the number of applications for a certificate of non-objection and the number of investment reviews that have been opened under the foreign trade payments legislation.

Now that the relevant shareholding threshold has been lowered and the obligation to notify a transaction is increased, the number of foreign trade payments investments reviews is expected to further increase.

According to the Federal Ministry for Economic Affairs and Energy, approximately 40 % of the cases (60 of 171 proposed acquisitions) examined during the period between 2016 and October 2018 involved proposed takeovers by Chinese companies.

In practice, M&A transactions involving the acquisition of shares in German companies by non-EU investors, particularly Chinese investors, should generally consider a more generous timeframe in light of the possible investment review under the German foreign trade payments legislation. In order to avoid delays in the process, it is recommended to make an application for a certificate of non-objection at an early stage.



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## New EU uniform and stricter standards for screening foreign investments

The European Union published the Regulation of the European Parliament and of the Council establishing a framework for the screening of foreign direct investments into the Union (**Regulation (EU) 2019/452**) on 21 March 2019 (as already pre-informed in our article in the [December 2018 Newsletter](#) entitled “The EU’s path to uniform and stricter standards for screening foreign investments”). The new rules will enter into force twenty days later and will apply 18 months later.

The framework concerns “the screening by Member States of foreign direct investments into the Union on the grounds of security or public order,” as Article 1 para. 1 of the Regulation stipulates.

The EU Member States retain the power to review and potentially block foreign direct investments on security and public order grounds, said power not having been delegated to the European Commission. Each Member State has, as before, sole responsibility for its national security, as provided for in Article 4 para. 2 of the Treaty on European Union (TEU), and retains its national right to protect its essential security interests in accordance with Article 346 of the Treaty on the Functioning of the European Union (TFEU), as Article 1 para. 2 of the Regulation emphasises. Moreover, the Member States’ discretion as to whether they screen foreign investments will not be curtailed, see Article 1 para. 3.

### DOES THE REGULATION ADDRESS THE SUBSTANCE OR MERELY THE PROCEDURE?

The Regulation provides the framework within which Member States should screen foreign investments, limited to grounds of security and public order. The framework mentions criteria for screening, but does not limit them. In this way, the Regulation provides guidance as to the substantive criteria.

As regards the procedure, the Regulation provides a legal basis for the European Commission and other Member States to get involved in ongoing screening procedures and even to impel a Member State to screen foreign investments.

### THE SUBSTANTIVE CRITERIA FOR SCREENING

The Regulation distinguishes between factors that concern the investment itself, on the one hand, and factors related to the person of the investor, on the other hand.

As regards the investment itself, the Regulation invites the reviewing authority to assess the potential effects of the foreign direct investment on critical infrastructure, critical technologies and dual use items, supply of critical inputs, access to sensitive information, and the freedom and pluralism of the press.

Critical infrastructure is defined in Article 4 para. 1 as “infrastructure, whether physical or virtual, including energy, transport, water, health, communications, media, data processing or storage, aerospace, defence, electoral or financial infrastructure, and sensitive facilities, as well as land and real estate crucial for the use of such infrastructure”.

Critical technologies and dual-use items are defined as in the EU Dual-Use Regulation as “including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defence, energy storage, quantum and nuclear technologies as well as nanotechnologies and biotechnologies”.

The supply of critical inputs includes energy or raw materials, as well as food security. Access to sensitive information includes personal data and the ability to control such information.

With regard to potential issues arising in the person of the investor, the Regulation refers in Article 4 para. 2 foremost to the control of the foreign investor, whether he is directly or indirectly controlled by the government, including state bodies or armed forces, of a third country, including through the ownership structure or significant funding.

### THE PROCEDURAL PROVISIONS

The procedural provisions go beyond the current practice. The Regulation distinguishes between the situation in which a review is ongoing, and the situation of no review; in essence, the rules for the latter situation are such as to enable the European Commission and other Member States to push for a review.

#### FIRST SCENARIO: A REVIEW IS ONGOING

In the first scenario, the reviewing Member State must inform the European Commission and other potentially affected countries of the review, and provide specific information on the envisaged investment (Article 7 together with Article 9). The specific information relates in particular to the ownership structure of the foreign investor and of the undertaking in which the foreign direct investment is planned or has been completed; “the products, services and business operations of the foreign investor and of the undertaking in which the foreign direct investment is planned or has been completed”; and the funding of the investment and its source.

If another Member State considers its security or public order potentially affected by the investment, it may send comments to the screening Member State (Article 6 para. 1). The same applies if it has information that may be relevant to the investigation.

The European Commission may likewise send relevant information to the investigating Member State. Additionally, it can send comments on the foreign investment in the form of an opinion, if it considers that the investment affects more than one Member State or if requested to do so by one or several Member States (Article 6 para. 3 and 4).

#### SECOND SCENARIO: NO REVIEW AND THE EUROPEAN COMMISSION OR ANOTHER MEMBER STATE KEEN TO START

While the first scenario introduces the novel feature that allows the European Commission to issue an opinion on the concerns regarding the investment, and therefore improves the position of other Member States in an ongoing investigation, the provisions regarding the second scenario introduce a powerful novelty. The new feature may well force a Member State to start an investigation in a situation where it wanted to avoid doing so.

The second scenario applies not only to planned, but also to completed foreign investments. Article 7 para. 1 explicitly states that a Member State (other than the Member State of the investment) may provide comments on planned and completed investments, which may affect its security or public order. The Member State and the European Commission may also send relevant information. This triggers a mechanism of exchanges in a so-called cooperation procedure, and possibly an opinion from the European Commission. In contrast to current practice, a Member State can

no longer ignore comments from other countries or the European Commission.

Even though the Regulation stops short of obliging the Member State of the investment to start a formal screening procedure, the cooperation procedure will inevitably lead at least to a “mini-screening”.

#### THIRD SCENARIO: PROJECTS OR PROGRAMMES OF UNION INTEREST ARE AT STAKE

A third avenue for the European Commission to weigh in on foreign investments will be opened whenever projects or programmes of Union interest could be affected by foreign planned or even completed investments (see Article 8).

The Regulation refers to “projects and programmes which involve a substantial amount or a significant share of Union funding, or which are covered by Union law regarding critical infrastructure, critical technologies or critical inputs which are essential for security or public order”. They will be listed in an annex that will be regularly updated.

As with the other above-mentioned options for the European Commission and other Member States to influence or start screening, the Member State concerned remains free to decide on the investment (or whether to start screening the investment). However, the mere obligation to cooperate with the European Commission and other Member States, and to some extent to provide reasons, will compel the Member State to look more closely at foreign investments.

### CONCLUSION

The novel instrument stops short of compelling Member States to screen foreign investments or even to introduce specific legislation. This notwithstanding, the Regulation will most likely be followed by national legislation in the Member States that so far have no rules on investment screening. Moreover, the legislation will, even before its formal application in 18 months' time, encourage a more open discussion of all aspects of investment. Whereas the European Union will always remain open to foreign investment, and has one of the highest, if not the highest level of foreign investment in industry, aspects of security and public order should not be neglected.



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## The cross-border conversion of a German GmbH and relocation of its registered office within the EU – current experiences and reforms proposed by the EU Company Law Package –

A cross-border conversion is the change of legal form of a company from a legal form under the law of the state of departure into a new legal form under the law of the state to which the company is relocating, while simultaneously transferring the registered office to the destination state. The company maintains its legal personality despite the relocation to another state, so that there is no transfer of assets. This article looks at the cross-border conversion for a German GmbH within the EU (known in German as a “*Herausformwechsel*”).

Conversions are often motivated by the desire for better market conditions, a more attractive legal framework, tax savings, more advantageous rules on employee participation, simplified procedures for insolvencies and liquidations or the fact that, in contrast to other transformation forms (e.g. cross border merger), the identity is preserved so that cross-border conversions will as a rule not trigger real estate transfer tax or infringe holding periods and that any public law permits or approvals remain valid.

### CURRENT LEGAL SITUATION

In contrast to cross-border mergers (i.e. the “takeover” of a company from another EU Member State, resulting in the liquidation of that company), the German Transformation Act (*Umwandlungsgesetz*, *UmwG*) does not contain any rules pertaining to cross-border conversions, however the case law and literature now accept that such conversions are allowed.

Nonetheless, in practice the path is still a rocky one. There are no national provisions that establish binding procedures for cross-border conversions. Instead, the fall back is often an analogous application of the rules for national conversions (§§ 190 et seq. *UmwG*), with an analogous application in part of the rules for cross-border mergers (§§ 122a et seq. *UmwG*) or the rules for the transfer of registered office of a *societas europaea* pursuant to Article 8 of the EU Council Regulation on the Statute for an European company (SE Regulation).

In addition, the cross-border transfer of the registered office can lead to a change in the articles of association of the company (e.g. from a German GmbH to a Luxembourg S.à.r.l.), often involving interplay between the legal systems of the state of departure and the state of destination.

### PROCEDURE FOR A CROSS-BORDER CONVERSION

With no binding legal provisions establishing procedures, no recognised models and no practical guidance, the commercial registers in Germany face some uncertainty as to which procedure to apply to cross-border conversions. In addition, with little jurisprudence on cross-border conversions, only the checklist of

criteria prepared by the judges of the District Court (*Amtsgericht*) in Berlin-Charlottenburg in August 2014 offers some assistance.

At present, cross-border conversions are often subject to differing requirements – depending on which commercial register is involved – so that it is best to confirm the requirements with the specific register in advance.

While this background makes it impossible to provide any specific practical recommendations for carrying out a cross-border conversion, the following procedural steps should be observed in line with the current legal position.

### CONVERSION PLAN

As cross-border conversions can have a significant impact on creditor and employee rights, a notarised conversion plan (*Umwandlungsplan*) is required for the implementation of the conversion and must be prepared by the managing board of the company. The conversion plan must include the new legal form and the effects that the conversion will have on employees, as well as information on the future shareholding structure. It must be submitted and disclosed to the commercial register before the shareholders adopt the resolution in favour of the conversion. Depending on the legal basis applied by the relevant commercial register, a period of one or two months must pass between the submission and disclosure of the conversion plan and the adoption of the resolution.

### CONVERSION REPORT

Unless the shareholders have waived the requirement in a notarial deed, a conversion report (*Umwandlungsbericht*) must also be prepared. The conversion report serves to protect creditors and employees and provide information on the impact of the cross-border conversion. The necessary board of the company should prepare it.

### RESOLUTION ON THE CONVERSION

Finally, the shareholders must adopt a resolution in favour of the cross-border conversion (*Umwandlungsbeschluss*); the resolution must be set out in a notarial deed.

### REGISTRATION IN THE COMMERCIAL REGISTER AND CERTIFICATE ON THE TRANSFER OF REGISTERED SEAT

The cross-border conversion must be registered, including related documents and assurances, e.g. on the protection of creditors, with the German commercial register responsible for the area where the company’s registered office is located.

If the commercial register considers that all of the formal requirements for the conversion have been fulfilled, it will issue a so-called certificate on the transfer of the registered seat (*Sitzverlegungsbescheinigung*).

### PROCEDURES IN THE DESTINATION STATE

Registration in the commercial register of the destination state will depend on the laws applicable in that state, in particular the requirements for company formation. The destination state will not assess whether the procedure in Germany was legitimate, but will instead rely on the binding effect of the certificate of transfer of

the registered seat, issued by the competent German commercial register. Once the company has been registered in the register of the destination state, notification of the registration will follow and the company will be de-registered from the commercial register in Germany.

### RECENT EXPERIENCES WITH THE COMMERCIAL REGISTERS

In practice, many commercial registers deviate from the procedures set out above, choosing to wait until the company has been registered in its new legal form in the destination state (e.g. in Luxembourg) before dealing with the matter. The commercial register in Frankfurt am Main, for example, was prepared to informally agree on the procedural steps in advance, but would only otherwise address the registration of the conversion and the application to de-register the company from the commercial register once the company had already been registered in its new legal form in the destination state and the conversion was already in effect.

In the future, binding legal rules on the procedure to follow in the case of a conversion are necessary to prevent constellations in which German commercial registers are only willing to address cross-border conversions once they have taken effect.

The amendments to the German Transformation Act (Fourth Act on the Amendment of the Transformation Act), which entered into force on 1 January 2019, were adopted in light of the impending exit of the United Kingdom from the EU (“Brexit”) and do not contain any rules on cross-border conversions. Instead, the new rules introduced by the Amendment simplify the transformation into a German legal form for companies, which will be affected by Brexit because they have an English legal form, but their registered office is in Germany.

### PROPOSED REFORMS OF THE EU COMPANY LAW PACKAGE

On 25 April 2018, the EU Commission published its EU Company Law Package. It contains proposals designed to regulate and harmonise the procedures for cross-border conversions throughout the EU and to facilitate cross-border conversions in a timely manner with manageable costs.

The EU Commission’s proposal foresees a two-phase procedure for cross-border conversions, the essential elements of which are based on established practice.

In the **first phase** (procedures in the state of departure), the management of the company must prepare and publish a conversion plan explaining the foreseen measures and reports for the shareholders and employees on the foreseen impact of the proposed cross-border conversion. Subsequently, shareholders must adopt a resolution on the cross-border conversion.

A significant new element introduced by the EU Commission is the obligation to appoint an independent expert. Discussions at EU level currently revolve around the question of whether the shareholders of a company seeking a conversion should be allowed to adopt a resolution to waive the examination of the accuracy of draft terms and reports by an independent expert.

Subsequently, the competent authority of the state of departure will assess whether the company has fulfilled the national law requirements for the implementation of the cross-border conversion and complied with the formalities (= lawfulness assessment).

The other aspect being negotiated even more intensely at EU level at present is the issue of whether the competent authority of the state of departure should also be required to perform an abuse assessment.

The aim of the abuse assessment is to prevent “artificial arrangements” which aim to obtain undue tax advantages through the cross-border conversion or to circumvent rights to protect employees, creditors or shareholders. Which criteria should be taken into account in any such an abuse assessment is also currently a subject of intense debate. It is apparent from the current negotiations that the abuse assessment will target in particular “straw man” and “letterbox” companies as “artificial arrangements”.

Once the competent authority in the state of departure has completed the lawfulness assessment and, when appropriate, the abuse assessment, of the planned conversion and has no concerns, it will issue a so-called pre-conversion certificate. This certificate will be transmitted to the relevant authority in the state of destination.

With the issue of this pre-conversion certificate, the **second phase** of the conversion starts (procedures in the state of destination). The pre-conversion certificate serves as conclusive evidence of the due completion of all of the requirements and formalities according to the law of the state of departure. The conversion may not be completed by the state of destination without the pre-conversion certificate.

Once the competent authority in the destination state has assessed whether the converted company complies with all the provisions for its chosen legal form, the authority will register the company in the commercial register of the destination state. This makes the conversion legally effective. As a final step, the company will be de-registered from the commercial register of the departure state.

### CONCLUSION

The planned new rules briefly outlined above begin to introduce the sought after procedural harmonisation for cross-border conversions, providing greater legal certainty. In any case, the new rules could be optimised in various respects. In particular, it remains to be seen whether the new law will require the competent authority of the departure state to perform an abuse assessment and, if this is the case, which criteria should be taken into account in such an assessment.

The EU Company Law Package is currently still part of the EU legislative process. It is clear from the negotiations that the EU Company Law Package is being pushed through the legislative procedure with the aim of seeing it adopted before the European elections in May 2019. Once the law has been adopted at EU level, the EU Member States will have 24 months to implement it into national law. The rules will only enter into force in each EU Member State once the national implementing law has been implemented.

Until then, for certainty, you should confirm in advance with the relevant commercial register, which procedural steps will be necessary for any planned cross-border conversion.



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## Reform of real estate transfer tax in share deals – German Finance Minister Conference adopts draft bill

### BACKGROUND

In June 2018, the German Conference of Finance Ministers (*Finanzministerkonferenz*) considered the issue of the real estate transfer tax applicable in the case of share deals and determined which of the measures proposed by the working group should be included in the legislative proposal to be presented by the German Federal Ministry of Finance (see [International Briefing of September 2018](#)). Following extensive consultations, the Conference of Finance Ministers has now adopted a draft bill.

### CONTENT OF THE DRAFT BILL

At its meeting on 29 November 2018, the Conference of Finance Ministers followed the resolution it had adopted on 21 June 2018 and included in the draft bill, almost without amendment, all of the measures proposed in the resolution. The three core elements of the draft bill to be submitted by the Federal Ministry of Finance for the legislative procedure are as follows:

1. In the future, vendors will have to retain significant shares if real estate transfer tax is to be avoided in share deals involving either partnerships (*Personengesellschaften*) or stock companies (*Kapitalgesellschaften*) (see new § 1 para. 2b of the German Real Estate Transfer Tax Act – *Grunderwerbsteuergesetz*).
2. The shareholding threshold has been reduced from the current level of 95 % to 90 %, so that real estate transfer tax will be due in the case of share deals resulting in a shareholding of more than 90 % in stock companies or partnerships that hold property.

3. The period under review is increased from five years to ten years.

### RELEVANCE FOR PRACTICE

The press release of the Finance Ministry of Hesse of 29 November 2018 makes it clear that, in the future, it will only be possible to avoid real estate transfer tax when purchasing shares in a partnership or stock company that holds real estate if the vendor retains significant shares in the real estate holding company.

According to the resolution of the Conference of Finance Ministers, therefore, investors and their co-investors will normally not be able to avoid the real estate transfer tax when acquiring all of the shares in a property holding stock company.

In addition, real estate transfer tax will be due when more than 90 % – rather than 95 % – of the shares in a real estate holding company are acquired. This applies to real estate holding partnerships and real estate holding stock companies alike.

Experts have raised serious concerns about the compliance of the planned amendments with constitutional law. One concern is that the new § 1 para. 2b of the Real Estate Transfer Tax Act creates an unenforceable structure. It will be next to impossible, especially for companies listed on the stock exchange, to keep track of direct and indirect changes to shareholdings over a period of ten years in order to assess whether the obligation to pay real estate transfer tax has been triggered.

If the proposed rules actually enter into force, the real estate transfer tax burden will be significantly greater for share deals. Above all, regardless of whether partnerships or stock companies are concerned, the fact that an existing shareholder will have to retain at least 10 % of shares in the real estate holding company in order to avoid real estate transfer tax will regularly prevent parties from reaching an agreement on a share deal.

The draft bill submitted by the Conference of Finance Ministers to the Federal Ministry of Finance has not yet been made available to the public. It is therefore not yet possible to say when the planned rules will actually enter into force. There is some speculation, however, that the planned new rules will apply retroactively from 1 January 2019. This will also affect parties involved in share deals that have already been concluded. There is some reason to fear that this will mean that purchasers of real estate holding partnerships, who were planning, when they signed the share deal, to acquire the remaining minority shares within two or three years of the original deal, will now have to wait a few more years before they purchase the remaining shares if they wish to avoid the real estate transfer tax.

### SUMMARY

It is rumoured that the Federal Ministry of Finance was not all that pleased with the legislative initiative of the Conference of Finance Ministers or the draft bill. By all accounts, this is also due to the fact that the draft text contains almost no transitional rules and those that are included are insufficient. It therefore remains to be seen whether the Federal Ministry of Finance will actually introduce the draft bill into the legislative process. The Federal

Ministry of Finance may pass the draft bill back to the Conference of Finance Ministers, instead forcing the German Bundeslaender to present the draft bill for the legislative process.

We will of course let you know as soon as the draft bill is available.



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## German Federal Court of Justice strengthens trade secret protection

In March 2018, Germany's Federal Court of Justice (*Bundesgerichtshof, BGH*) handed down a ruling which serves to strengthen protection for trade secrets across the country (reference: BGH, Decision of 22 March 2018 – I ZR 118/16). The BGH clarified that protection for trade secrets also extends to cases where the employees making use of the trade secret in the form of written documents would have been capable of reproducing the trade secret solely by virtue of their own education and experience and without having to rely on the written documents.

### THE FACTS

In the case before the BGH, a former employee of the claimant, a company manufacturing a “hollow fibre membrane spinning system” which produces hollow fibres used in kidney dialysis, had begun to work for the respondent, a competitor company. The respondent subsequently began producing a spinning system, which was substantially similar to that of the claimant. In response, the claimant instituted proceedings, alleging that the respondent was illegally using their trade secrets, making use of construction plans and other information belonging to the claimant. Before the court of first instance the respondent was ordered to stop the manufacture and sale of their machine and to pay damages. The appellate court reversed this decision and dismissed the claim. The case then came before the BGH upon further appeal by the claimant.

### THE JUDGMENT

The BGH decided for the claimant and restored the decision of the court of first instance. It held that even where the relevant trade secret is considered “state of the art”, it can be protected where the relevant secret can only be discovered and made accessible and useful to another business at considerable time and expense. Therefore, the construction plans were capable of protection as a trade secret, as they would enable a competitor to construct the technical components and machines with a considerable reduction in construction time and cost. Even though the machine itself may not necessarily have been capable of protection, the construction plans would save any competitor a significant amount of time and money when recreating the machine independently and

were therefore capable of protection as a trade secret. Additionally, the fact that others were capable of developing such devices by themselves without reference to the construction plans does not lead to the loss of status as a trade secret.

The BGH reiterated that a former employee may subsequently use the knowledge which they acquired during their employment, provided that they are not subject to a non-compete obligation. Where it differed from the appellate court, however, was in considering that this only extends to information preserved in the memory of the former employee. It held that the entitlement to employ acquired knowledge beyond the termination of employment does not cover information that is only available to the employees because they can refer to written documents which they had prepared or obtained during their employment.

The BGH emphasised that employees are not entitled to refresh their memory by taking or misappropriating construction documentation and to continue to use the “know-how” incorporated in this documentation for their own purposes. This does not lose its significance under competition law simply because the respondent is in a position to develop such devices, or parts thereof, independently without reference to the documentation.

### CONCLUSION

With this decision, the BGH has provided legal certainty for companies seeking to protect their trade secrets and, in so doing, has struck a difficult balance between protection of those secrets and the ability of employees to gain experience through employment and make use thereof in their future professional life. A former employee, who is not bound by a non-compete clause, is free to make use of all acquired skills in future activities. However, the right of employees to acquire and develop skills must not enable them to encroach on trade secrets of their former employers. Even though former employees may be in a position to recreate the process protected by the trade secret by virtue of their education or experience, written documentation such as construction plans provide an enormous shortcut and significant savings in monetary expenditure for a competitor. If this cannot be ensured and enforced then the mere hiring of a competitor's former employee would enable the hiring company to circumvent trade secret protection, acquiring secrets which they would otherwise be unable to access. At its most extreme, this could even lead to trade secrets for sale via employment contracts. The decision of the BGH can therefore be welcomed by both employers and employees alike as a balanced approach to protecting trade secrets.



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*The contribution was created with the collaboration of SAM CROSS.*

## Breaches of the General Data Protection Regulation may be pursued under German competition law

### THE IMPACT OF THE HIGHER REGIONAL COURT OF HAMBURG DECISION IN CASE NO. 3 U 66/17

The Higher Regional Court of Hamburg (*Oberlandesgericht Hamburg*) has held in a decision on 25 October 2018 that breaches of the European General Data Protection Regulation (GDPR) may indeed be pursued by competitors under German competition law on the basis of the German Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb, UWG*). This is one of the latest in a spate of decisions with differing outcomes as to whether the GDPR could give rise to liability under German competition law. Recently, the Regional Court of Würzburg (*Landgericht Würzburg*) held that GDPR breaches were capable of being the basis of claims under competition law (decision of 13 September 2018), whereas the Regional Court of Bochum (*Landgericht Bochum*) had previously held that this was not possible (decision of 7 August 2018).

The German law against unfair competition allows private parties, including competitors, to bring actions against companies for breaches of the UWG. In accordance with section 8 para. 1 and para. 3 no. 1 UWG, competitors may begin proceedings for cease-and-desist or removal against a company for illegal commercial practices. They may also be awarded compensation for damages. As per section 3a UWG, illegal commercial practices include the violation of statutory provisions which are intended to regulate market conduct in the interest of market participants.

The central dispute in the cases regarding the applicability of the UWG to data protection law is twofold. Firstly, there is some dispute as to whether data protection law is truly a provision intended to regulate market conduct, or whether the GDPR is instead intended to grant rights to individuals to control the collection, usage and processing of their personal data. Particularly relevant for this argument could, for example, be that the GDPR is not just directed at private companies, but at anyone processing data, including public bodies and charities. Secondly, it is hotly contested whether this would breach the unwritten principle – developed in the literature and case law – that if a statute exhaustively regulates the possible civil claims, it cannot be the subject of additional claims under competition law. Examples of such exhaustively regulated provisions include certain regulations of antitrust law as well as of intellectual property law. It was this second point which the Higher Regional Court of Hamburg most decisively ruled upon in the present case, arguing that the GDPR does not represent an exhaustively regulated system of sanctions, but rather that it merely stipulates a “minimum standard of sanctions”.

The effects of this decision could be extremely far-reaching for businesses within Europe and for enforcement of the EU-wide GDPR. It could lead to a number of enforcement actions by companies in compliance with the GDPR seeking to make sure their competitors also play by the rules. It further emphasises the need

for all companies operating within Germany to ensure compliance with the GDPR as soon as possible, or face being dragged to court by competitors seeking to exploit their non-compliance.



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## Amendments to German trademark law – the Trademark Law Modernisation Act

On 24 January 2019 the new German Trademark Law Modernisation Act (*Markenrechtsmodernisierungsgesetz, MaMoG*) entered into force. With this law Germany implements the EU Directive 2015/2436 of 16 December 2015 on trademarks into national law – in contrast to various other EU Member States – within the time limits set out in the EU Directive, thus contributing to the further harmonisation of trademark law in Europe. In addition, the MaMoG strengthens the rights of trademark holders and stays abreast of new technical developments.

The following new features are relevant for practice:

### 1. Waiver of graphic representation requirement

Just like EU trademarks, German trademarks no longer have to be graphically representable, so that unconventional mark forms, such as video scenes, motion marks, sound marks as an audio file, holograms, etc., may in principle be registered. They must still be clear, unambiguous and identifiable.

In the future, applicants will still be able to submit their trademarks through graphic representation, to the extent possible, and this remains necessary when the German trademark is to form the basis for international registration. The World Intellectual Property Organisation (WIPO) initially still requires the graphic representation.

### 2. Certification mark

A change that was long awaited by many, certification marks may, as a rule, also now be registered in Germany. In contrast to other trademark forms, the guarantee function and not the origin function is paramount for certification marks. The “guaranteed characteristic” must be evident from the mark itself. The applicant may not offer the goods or services covered by the certification mark himself/herself (duty of neutrality),

and must submit regulations for the use of the mark within two months from the date of application, at the latest. The regulations must fulfil specific requirements.

The certification mark is especially relevant for companies that issue seals of approval or test marks. There has been the possibility to apply for a European Union Certification Mark since 1 October 2017.

### 3. Transit of goods

The new rule establishing the procedure for trademarks in transit is a very welcome addition:

Accordingly, in certain circumstances, trademark owners can have goods destroyed when they are under customs supervision and are only intended for transit and not for import into Germany.

This will make it much easier for trademark owners to fight product piracy, for example when counterfeit goods from the USA are in transit through Germany on the way to Romania.

### 4. Changes to opposition proceedings

As is the case of opposition proceedings before the European Union Intellectual Property Office (EUIPO), the persons initiating opposition proceedings under German law can now also base their opposition on a number of trademarks. The fees are tiered depending on the number of trademarks or signs cited in opposition. The grounds of opposition have been expanded to include protected geographical indications and designations of origin.

The German Patent and Trademark Office (*Deutsches Patent- und Markenamt, DPMA*) now also allows a two-month cooling off period, similar to the practice of the EUIPO. The prerequisite is a joint application for the first time it is granted.

The plea of no-use can only be raised when the grace period expired before the filing or priority date of the disputed mark. It is no longer possible to plea that the mark is not in use when the grace period for use expires during on-going opposition proceedings (so-called “postponed period of use”). Instead, the opposing party in this case would have to try to initiate cancellation proceedings based on insufficient use (new “revocation proceedings”).

Until now, the use “only” had to be credibly shown; now the use must be proven. However, the DPMA will continue to accept affidavits as proof.

### 5. Official revocation and invalidity proceedings

From 1 May 2020, the DPMA will have more decision-making powers. These powers will allow proceedings before the authority to be consolidated, resulting in cost savings for applicants.

The DPMA will be able to decide on the entire case in revocation proceedings based on insufficient use. In official invalidity proceedings, applicants can claim relative grounds for refusal of protection, in addition to absolute grounds for refusal.

### 6. Licences

As in other countries, licences can be recorded in the trademark register. Official fees apply to this recording. The principle willingness to grant licences can also be recorded – free of charge – in the register with the aim of finding potential licensees.

A new feature allows holders of exclusive licences to now bring actions. The prerequisites are that the licensee first formally requests that the trademark holder bring the action, and that holder fails to respond within a reasonable period of time.

### 7. Protection period and extension

Trademark protection is still valid for a period of 10 years and can be extended for a further period of 10 years as often as desired. For all trademarks registered after 14 January 2019, the protection period will end 10 years after the date of the application, instead of at the end of the month 10 years after the trademark was registered. In the future, renewal fees will be due six months before the expiry of the protection period. The renewal fees may also be paid within six months of the expiry of the protection period, but additional charges will apply.

If the classification of a trademark changes after the application day, the class will no longer be identified upon future extensions of the trademark.

### 8. Absolute grounds for refusal

Apart from geographical indications and designations of origin, new absolute grounds for refusal include designations that are protected under national or international laws or treaties. These rules are particularly relevant with respect to food, wine and spirits.

While in practice there was already the possibility for third parties to make written submissions to the DPMA and provide reasons for the DPMA to reject trademark registration before a mark is registered, this right has now been laid down in law.

### 9. Presumption of urgency

While it is not foreseen in the EU Trademark Directive, the presumption of urgency established under § 12 para. 2 of the German Act Against Unfair Competition (*Gesetz gegen den unlauteren Wettbewerb, UWG*) has been included in German trademark law. This will standardise practices in injunction proceedings.



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## New Edition of Investment Guide “Investing in Germany” published

BEITEN BURKHARDT has just published the new edition of the investment guide “Investing in Germany”. This guide provides an overview of the various options available for foreign companies looking to invest in Germany and outlines some of the most important laws and regulations that are commonly involved with foreign investment in Germany. It focuses on corporate law, the different legal forms available to operate businesses in Germany and covers topics such as corporate acquisitions, capital markets law, labour, alien and immigration law as well as investing in real estate, the award of public contracts and tax matters. The investment guide is available in English or Chinese for download [here](#). To order a printed copy, please send an e-mail to [BBMarketing@bblaw.com](mailto:BBMarketing@bblaw.com) with the subject line “Printed copy: Investing in Germany” and the desired language (English or Chinese).

## BEITEN BURKHARDT events

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### IBA 4TH MERGERS AND ACQUISITIONS IN THE TECHNOLOGY SECTOR CONFERENCE, 28–29 MARCH 2019 IN BARCELONA

A conference presented by the IBA Corporate and M&A Law Committee and the IBA Technology Law Committee.

For further information about the event please visit the [event website](#).

### ABA 2019 BUSINESS LAW SECTION SPRING CONFERENCE, 28–30 MARCH IN VANCOUVER

Join the event to experience over 80 CLE programs in all areas of business law prepared and presented by thought leaders, connect and learn at substantive sessions, and experience Vancouver at premier social events where you can network with over 1,600 business law professionals from around the world.

For further information about the event please visit the [event website](#).

## About the Corporate / M&A practice group

### CORPORATE

BEITEN BURKHARDT provides comprehensive corporate law advice on all aspects and issues arising in relation to the establishment and structuring of companies, current company management, reforms in connection with reorganisation or generational changes, or in connection with the sale or acquisition of business units or their liquidation and dissolution. We advise medium-sized companies and multinational groups, family-owned companies and their shareholders, listed and unlisted stock corporations, publicly-owned companies and foundations, start-ups and venture capital firms, as well as strategic and financial investors from Germany and abroad. Excellent technical knowledge and many years of experience in corporate law and across various sectors allow us to provide our clients with individual and practical solutions for complex, specialised topics and legal issues arising in day-to-day business.

### M&A

Mergers & Acquisitions has been a core area of expertise for BEITEN BURKHARDT since the establishment of the firm. We advise medium-sized companies and multinational groups, family-owned companies and their shareholders, listed and unlisted stock corporations, publicly-owned companies and foundations, start-ups and venture capital firms as well as strategic and financial investors from Germany and abroad on national, international and cross-border transactions, auctions and exclusive negotiations, carve-outs, takeovers and mergers. Our know-how and practical transaction expertise allows us to optimally assist our clients during all phases of M&A transactions. We advise on preparations and the conceptual design of a transaction, lead and manage legal, tax and economic due diligence assessments of the target(s), assist with and steer contractual negotiations, provide support during signing and closing of the transaction documents, and assist with post-closing and post-merger activities.

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