

# Recent Case Law in German Trademark Law



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# CONTENT

Foreword .....	2
<b>I. Infringement proceedings</b>	
1. Amazon's liability as perpetrator for third-party offers that infringe trademarks .....	3
<i>CJEU judgment of 22 December 2022 in cases C-148/21, C-184/21 – Christian Louboutin/ Amazon Europe Core Sàrl u. a.</i>	
<b>II. Eligibility for protection / cancellation proceedings / opposition proceedings</b>	
2. Scope of protection of a trademark with a high degree of reputation when there is dissimilarity of goods .....	5
<i>European General Court judgment of 21 December 2022 in case no. T-4/22 – Puma/ EUIPO - DN Solutions (PUMA)</i>	
3. 'Huckleberry Gin' descriptive for spirits .....	7
<i>Federal Patent Court order of 27 April 2022 in case no. 29 W (pat) 536/20 – Huckleberry Gin</i>	
4. Risk of deception due to use of the ® registration symbol.....	9
<i>Federal Patent Court order of 14 September 2022 in case no. 29 W (pat) 559/19 – livevil</i>	
5. The combination of a letter with a colour mark lacks specificity .....	11
<i>Federal Patent Court order of 15 December 2021 in case no. 29 W (pat) 572/19 – Weißes k auf rotem Grund</i>	
<b>III. Design of agreements</b>	
6. Validity of ipso facto dissolution clauses .....	13
<i>Federal Court of Justice judgment of 27 October 2022 in case no. IX ZR 213/21 – Insolvenzabhängige Lösungsklausel</i>	
7. Claims to liquidated damages based on cease-and-desist declarations are barred by limitation – advantages and disadvantages of the 'Hamburg custom' popular among practitioners.....	15
<i>Federal Court of Justice judgment of 27 October 2022 in case no. I ZR 141/21 – Vertragsstrafen- verjährung</i>	

## FOREWORD

This issue of our 'Recent Case Law in German Trademark Law' is the seventh review, compiled by the attorneys in the Trademark Practice Group at EISENFÜHR SPEISER, of current court decisions relevant for practitioners in the field. The Trademark Practice Group pools the firm's competencies in the field of trademark law from and for the various offices and discusses new developments in case law and practice on a regular basis. Collectively, the Practice Group can draw on experience amassed over the past 50 years. Our clients benefit accordingly.

The following discussions explain the background and the main features of each decision and include the respective author's personal assessment. The overview is structured in three sections, the first covering proceedings before patent offices and courts concerning the eligibility for trademark protection, the second dealing with the design of agreements, and the third section on infringement proceedings.

With regard to trademark eligibility issues, we present some Federal Patent Court decisions relating to risk of deception, distinctiveness and the specificity of signs, and in the area of similarity with a notorious trademark we address a decision handed down by the European Court of Justice in Luxembourg that we ourselves obtained. The topic of designing agreements includes a discussion of Federal Court of Justice decisions on the issues of whether ipso facto dissolution clauses can be valid and how claims to liquidated damages in cease-and-desist declarations are to be treated. You will also find a critique of the European Court of Justice judgment on Amazon's liability as a perpetrator for offers that infringe trademarks.

We wish you an interesting read. If you have any questions or comments on specific decisions or about other trademark topics, please do not hesitate to contact us!

September 2023

**EISENFÜHR SPEISER**

# I. INFRINGEMENT PROCEEDINGS

## 1. Amazon's liability as perpetrator for third-party offers that infringe trademarks

*CJEU judgment of 22 December 2022 in cases C-148/21, C-184/21 – Christian Louboutin/Amazon Europe Core Srl u. a.*

### BACKGROUND

Christian Louboutin is the chief designer and rights holder of a shape mark registered for the Benelux countries on 25 February 2005 and as an EU trademark on 10 May 2016.



On 19 September 2019, Louboutin brought an action before the Luxembourg District Court, and on 4 October 2019 before the francophone Brussels Companies Court, against various Amazon companies for trademark infringement under Article 9 (2)(a) EUTMR.

Amazon, for its part, referred to other CJEU rulings on (pure play) online marketplaces such as eBay and denied responsibility for trademark-infringing products offered on Amazon by third-party sellers.

### DECISION

In its decision of 22 December 2022, the CJEU firstly clarifies that, according to its ordinary meaning, 'use' within the meaning of Article 9 (2) (a) EUTM involves active behaviour and direct or indirect control of the act constituting the use.

The infringer must also use the sign in its own commercial communication. There is therefore no act of use on pure play online marketplaces that provide only the technical infrastructure and shipping services, but are unaware of the fact that the goods at issue infringe trademark rights and also do not pursue the purpose of offering the stored goods themselves, or placing them on the market.

The CJEU reaffirms its case-law in *L'Oréal/eBay* (2011) and *Coty/Amazon* (2020), but at the same time points out that it was not asked in those proceedings about the impact of the fact that the online sales platform in question also includes offers by the platform operator itself, in addition to the online marketplace.

The Grand Chamber then approaches its answers to the questions referred to it by stating that a service provider who uses the sign in question on third-party websites to advertise goods marketed by one of its customers with the aid of that service, it uses the sign in question itself when it uses it in such a way that a link is established between the sign and the services it provides (CJEU, *L'Oréal*; CJEU, *Frisdranken Industrie Winters*).

Such a link is established, inter alia, when the operator of an online marketplace advertises on third-party websites, by using keyword adverts, goods bearing that sign that are offered for sale by its customers on its online marketplace. For Internet users who conduct a search on the basis of that keyword, such advertising creates an obvious association between those trademarked products and the possibility of buying them via that marketplace.

For that reason, the proprietor of the trademark may prohibit such use by the operator in question, if the advertising infringes trademark law because it is difficult or impossible for a normally informed and reasonably observant Internet user to ascertain whether the goods originate from the proprietor of the trademark or an undertaking economically associated with it, or from a third party instead.

The question to be asked, therefore, in the case of a sales platform with an integrated online marketplace such as Amazon, is whether that advertisement is able to establish a link between the services offered by Amazon and the sign in question, on the ground that a normally informed and reasonably observant user might believe that Amazon is the one who is marketing, in its own name and on its own account, the goods for which the mark in question is being used.

The manner in which the advertisements are presented on Amazon, both individually and as a whole, and the nature and scope of the services provided by its operator, are particularly important in that regard.

If Amazon displays its own advertisements alongside those of third-party sellers and displays its own logo as a renowned distributor on both its platform and on all those advertisements, including those for goods offered by third-party sellers, then there is uniform presentation of the advertisements. This strengthens the impression given to the normally informed and reasonably observant user that Amazon is marketing the goods thus advertised in its own name and on its own account. That is all the more the case when the various offers originating from Amazon itself or from a third party bear labels such as 'Best Seller', 'Most Wished For' or 'most often given as a gift', without distinguishing them according to their origin.

This is reinforced when Amazon also provides third parties with services that involve dealing with users' questions about those goods, or about the storage, shipping and returns of those goods.

After answering the questions referred to it, the CJEU referred the matter back to the Benelux courts for a decision on whether a trademark infringement has actually occurred in this particular case.

## ASSESSMENT

Until now, it has been unclear whether objective circumstances alone are decisive for the question of trademark use by hybrid platforms, or whether a role is also played by the impression created in the minds of customers. The CJEU has now come down on the side of the latter.

The judgment is also consistent with the current case law of the European courts, according to which online platforms are to be held liable for the infringement of IP rights by their users if the platforms adopt third-party content as their own by means of uniform presentation and advertising.

It remains to be seen how the national courts will apply the prerequisites for liability, although it was already clear from the Benelux court decisions that they will not treat Amazon in the same way as pure play online marketplaces.

To escape contributory liability for trademark infringement in future, hybrid platforms must therefore ensure to an increasing degree, both preventively and reactively, that their respective third-party sellers are not offering goods that infringe IP rights. This can be done beforehand by strengthening the platform's own IP infringement and monitoring tools, and after the event by immediately deleting the infringing offers as soon as one becomes aware of them.

For proprietors of IP rights, the decision provides another answerable party that the rights holder can effectively bring an action against if civil or criminal enforcement of IP rights against the infringing third party is unsuccessful, for example because the latter is domiciled in a non-EU country or because there is no other way to serve the writs. (Böhm)

## II. ELIGIBILITY FOR PROTECTION / CANCELLATION PROCEEDINGS / OPPOSITION PROCEEDINGS

### 2. Scope of protection of a trademark with a high degree of reputation when there is dissimilarity of goods

*European General Court judgment of 21 December 2022 in case no. T-4/22 – Puma/ EUIPO - DN Solutions (PUMA)*

#### BACKGROUND

DN Solutions Co. Ltd., South Korea (formerly 'Doosan Machine Tools Co. Ltd'), filed an application in 2012 for the mark

**PUMA**

for '*Lathes; CNC (computer numerical control) lathes; machining centres; turning centres; electric discharge machines*' in Nice Class 7. Puma SE, the well-known manufacturer of sports shoes and clothing, filed an opposition before the EU Intellectual Property Office (EUIPO), based on its earlier trademark

**PUMA**

under Article 8 (4) of the EU Trademark Regulation (EUTMR).

EUIPO rejected Puma's opposition on the grounds that the goods covered were too dissimilar, and Puma's appeal

against that decision was also rejected by the Board of Appeal.

The European General Court (EGC) overturned the decision of the Board of Appeal in 2018 because the Board of Appeal had not properly taken account of the degree of reputation of PUMA SE's mark and its inherent distinctive character. The matter was remitted to EUIPO, which then upheld the opposition. Following an appeal by DN Solutions, however, the Board of Appeal rejected the opposition again on the following grounds: despite the very high degree of reputation of the Puma SE trademark for Class 25 goods, its inherent distinctive character, its uniqueness and the fact that it the signs at issue are almost identical, Puma SE had not demonstrated that the public would establish a link between the marks at issue in the light of the specific nature of the goods covered by the mark applied for and the public at which they are aimed.

Puma again filed a notice of appeal with the EGC against the latter decision.

#### DECISION

The General Court dismissed that appeal.

Article 8 (5) EUTMR stipulates that a trade mark shall not be registered upon opposition if it is identical or similar to an earlier trademark, irrespective of whether the goods or services in question are identical or similar or dissimilar, where the earlier trademark has a reputation and the use without due cause of the trademark applied for would

take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark.

Case law has developed the concept of 'mental association', or a 'link in the mind of the relevant public', for which the following factors, among others, must be taken into account when deciding on the individual case: the similarity of the signs, the nature of the goods/services at

issue, including their degree of closeness, the strength of the trademark's reputation, the distinctive character of the earlier mark (whether inherent or acquired through use) and the existence (or absence) of the likelihood of confusion.

The Board of Appeal had listed and discussed all these individual criteria, but Puma's action sought to interpret the decision in such a way that it was based solely on the lack of similarity between the goods.

This was facilitated by unfortunate wording by the Board of Appeal, which had referred to another General Court judgment (March 2021) that likewise concerned an opposition by Puma (and which was likewise rejected by the Court). That opposition was filed against the 'Puma-System' trademark, which was filed also for specialised woodworking tools in Class 7 (*inter alia*).

The General Court confirmed that the marks are almost identical, that Puma's trademark has a very high degree of reputation, an inherent distinctiveness and an enhanced distinctiveness acquired through use. It also established that the goods are completely different and are targeted at completely different publics.

It was therefore necessary to weigh up whether the product dissimilarity was sufficient to deny a link in the mind of the relevant public. PUMA had argued, *inter alia*, that the relevant publics overlap, because their customers are the general public, and that professional publics (who buy the goods under the opposed trademark) are also part of the general public. According to the General Court, however, that did not suffice for a link in the mind of the relevant public (because otherwise, for goods such as sporting goods, that criterion would also apply to all other products).

Puma had also argued, for example, that 'Caterpillar' sold/licensed not only large machines but also shoes; in the present case, however, the 'diversification' was reversed, namely from products for a mass market to specialised technical equipment, and the General Court considered it unlikely that the publics would expect such diversification.

In its analysis, the EGC also referred for the first time to the fact that the word 'Puma' was understood by the public first and foremost as designating an animal, not a sports brand (unlike 'Adidas', for example). The standard of proof required must therefore be higher.

## ASSESSMENT

The judgment confirms that a proprietor of a trademark with a high degree of reputation cannot always expect to eliminate another trademark with an appeal under Article 8 (5) EUTMR, entirely regardless of which particular goods the younger trademark covers.

However, the long procedural series with referrals back to previous instances shows that not only examiner decisions, but also decisions by the EUIPO Boards of Appeal, are not always worded in a legally watertight manner. (Brecht)



### 3. 'Huckleberry Gin' descriptive for spirits

*Federal Patent Court order of 27 April 2022 in case no. 29 W (pat) 536/20 – Huckleberry Gin*

#### BACKGROUND

In 2018, the applicant registered the 'Huckleberry Gin' word mark, *inter alia* in Class 33 for spirits [beverages]. The German Patent and Trademark Office denied any eligibility for protection on the part of the of the word sign, on the grounds that the sign included a reference to gin, a spirit, and that the translated meaning of the other term,

'Huckleberry', was '*Heidelbeere*' (blueberry), so the term as a whole clearly specified a descriptive feature relating to the content of the spirits. The applicant filed an appeal with the Federal Patent Court against the decision to reject the application.

#### DECISION

The Federal Patent Court upheld the decision to reject, arguing that the trademark will be understood by the relevant public as a description of a relevant product feature and is therefore ineligible for protection pursuant to Section 8 (2) No. 2 of the German Trademark Act (MarkenG). The aim of the latter regulation is to ensure that indications describing the features of the registered goods can be freely used by all economic operators.

The American English word 'huckleberry' is a common name for blueberry in North America. Taken as a whole, therefore, 'Huckleberry Gin' simply indicates that the spirits in question are gin that has been 'infused' with (American) blueberries. The Court also dismissed the applicant's argument that the broad segments of the market in Germany did not understand the meaning of the word

'huckleberry'. According to the Court, the basis for the decision was rather how it was understood by professional circles in Germany (such as traders in beverages, or specialist spirits stores), who can be assumed to understand clearly descriptive indications even in foreign languages. It could be assumed in any case there would be a need in future to use the designation 'Huckleberry Gin' for a flavour-enhanced gin, as shown by various flavour categories that are actually used already for gin products. Furthermore, 'Huckleberry Vodka' and 'Huckleberry Whiskey' are already being offered for sale in the USA, so it can be expected, due to the trade relations between the USA and Germany, that a product called 'Huckleberry Gin' will also find its way to Germany, so a (future) need to keep the trademark free therefore seems plausible.

#### ASSESSMENT

The descriptive indication as an absolute reason for refusal pursuant to Section 8 (2) No. 2 MarkenG is a formidable obstacle on the path to successful trademark protection, since according to the principles of case law established by the Court of Justice of the European Union (CJEU), the factors precluding protection are not only that a feature is specified descriptively, but also that the term could be used for such descriptive purposes. 'Huckleberry' is certainly not a commonly known term in Germany, but in this case the Court could refer to the fact

that a spirit such as gin can usually be infused with different flavours, which means that the use of blueberries is also an obvious option, and the Court could refer to such uses for other spirits as well, in the USA at least. Given these facts of the matter, it makes sense to say that such use may also gain in significance for the German market. The decision makes sense, therefore. Before a trademark application is filed, careful checks should be carried out to determine whether the term is already used descriptively in other languages for relevant products, or whether

there are any indications that this might be the case in the future, as might have been obvious in the present case, given the trade relations between the USA and Germany, in the spirits sector especially.

The name 'Huckleberry Gin' is particularly catching, of course, because it reminds one of the 'Huckleberry Finn' character in Mark Twain's novel of the same name, and thus has imaginative content to a degree. However, this is a criterion that has no bearing on descriptive indications as an absolute reason for refusing protection. When it comes to the question of a trademark's distinctiveness, such imaginative content can help to overcome the barrier to protection. However, if descriptive content can be

established or predicted, such a play on words is of no help at all.

It is interesting that the applicant managed to obtain protection for the word mark 'The Original Huckleberry Gin' for gin, namely with another application dating from 2018. That trademark's eligibility for protection should not actually be assessed any differently if the above criteria laid down by the Federal Patent Court are applied, as the addition of 'The Original' can hardly contribute to eligibility. This example shows that, in cases of doubt, applying for trademark protection is often worth a try, because registration practice is (unfortunately) far from uniform. (Ebert-Weidenfeller)

## 4. Risk of deception due to use of the ® registration symbol

*Federal Patent Court order of 14 September 2022 in case no. 29 W (pat) 559/19 – livevil*

### BACKGROUND

If, in an application for a composite trademark, the ® symbol is associated with only one component which in itself is not protected as a trademark, the trademark applied for is likely to deceive and the must therefore be refused.

An amendment of the representation of the mark applied for is no longer possible during the application procedure, even if it merely involves deletion of the ® symbol. The only remedy here is to file a new application for the trademark with a representation that is not likely to deceive.

The Federal Patent Court order discussed here addresses the prerequisites for a risk of deception within the meaning of Section 8 (2) No. 4 of the German Trademark Act (MarkenG), in conjunction with Section 37 (1) MarkenG. The case in question concerned the application for a composite word and figurative mark 'livevil'. At the time of the application, the ® symbol was inserted after the 'livevil' component as follows:



The Trademark Section at the GPTO had objected to and rejected the sign applied for, due to the fact that there was a risk of deception. The applicant was unable to overturn the rejection, not even by filing a new 'corrected' representation of the 'livevil' composite word and figurative mark, without the added ®. The trademark was still refused.

### DECISION

The Federal Patent Court upheld the Trademark Section's decision to refuse registration due to the risk of deception. Its rationale focused first of all on the fact that when assessing the risk of deception, the key aspect is whether misleading information regarding the claimed goods or services already ensues from the content or message of the trademark itself.

The Federal Patent Court stated that there is no deception if use of the trademark for the claimed goods or services is possible. Referring to the case law of the Federal Court of Justice (BGH, *grill meister*), there is a risk of deception within the meaning of Section 8 (2) No. 4 MarkenG, however, if the trademark a) contains the ® symbol and b) said symbol has not been added to the trademark as applied for, but is merely a trademark component that is ineligible for separate protection under trademark law.

In the case under consideration, the Federal Patent Court confirmed that the trademark as applied for would deceive the public, because the ® symbol was placed after the 'livevil' word component and not on the sign as a whole, namely in a way that clearly indicates that the ® was meant to apply to the composite trademark applied for. However, since the applicant does not have separate trademark protection for the 'livevil' component on its own, the shape applied for was likely to deceive the public.

The representation of the mark subsequently filed by the applicant was also unable to overcome the ground for refusal of registration, as it is no longer possible to amend the content of the representation of the trademark, which is one of the mandatory requirements for establishing a filing date, once the application has been filed. This follows from Sections 32 and 33 MarkenG, according to which the

trademark constitutes an immutable and indivisible unit that precludes any amendment which affects the object of protection in a relevant way. According to the Federal Patent Court, the prohibition of amendment also applies as a

basic principle to details that are ineligible for protection or impermissible. In such a case, the only way to overcome the objection is to file a subsequent application.

## ASSESSMENT

To avoid unnecessary objections, trademarks should be registered without the ® registration mark, as far as possible. Adding the ® symbol is particularly problematic if it is not placed after the trademark as a whole, but after only a trademark component which is not itself protected as a trademark or which may not be eligible for protection at all. In such cases, one can expect that the trademark will be refused due to the risk of deception.

The trademark applied for can no longer be corrected during the application procedure, either, so the aforementioned cases will require a new application. The applicant

will not only incur new costs as a result, but will also lose the seniority of the first application.

It should also be noted, as a final point, that the applicant could be sued under competition law if the application is for a trademark that includes the ® registration mark, and that trademark is used simultaneously during the application procedure. This is because the applicant is pretending during the application and examination procedure to have a protective right which has not (yet) been registered in its name. (Holderied)

## 5. The combination of a letter with a colour mark lacks specificity

*Federal Patent Court order of 15 December 2021 in case no. 29 W (pat) 572/19 – Weißes k auf rotem Grund*

### BACKGROUND

The trademark applicant filed a trademark with the German Patent and Trademark Office (GPTO) as an 'Other type of mark' with the following graphical representation



and the description *'The trademark consists of a letter 'k' in white lettering, on a red surround of no specific shape.*

*The red colour is HKS (Z) 13'*. The Trademark Section rejected the application because of the object of protection lacked sufficient specificity. The Federal Patent Court upheld that decision in the next instance. The applicant's appeal, on the grounds that its right to its day in court had purportedly been breached, was also dismissed by the Federal Court of Justice.

### DECISION

The decision focused on the specificity of signs within the meaning of Section 3 (1) of the German Trademark Act (MarkenG), or Section 8 (1) in conjunction with Section 32 (1) MarkenG. The point of requiring specificity as a prerequisite for trademark eligibility is to prevent trademark protection from proliferating in the form of many different appearances of a single trademark application. The subject-matter of the application must accordingly be defined in specific terms and not just abstractly. 'Variable trademarks', in particular, which claim protection for an abstractly unspecified number of different appearances, or for a general design principle, lack the required specificity.

The GPTO and the Federal Patent Court were agreed that, when the trademark description is taken into consideration, the trademark filed for registration is not specific, but a variable trademark. The applicant argued that both the abstract colour mark and the white 'k' were each sufficiently specific in themselves and therefore eligible for trademark protection, and this must therefore apply also to the combination of signs.

The GPTO and the Federal Patent Court disagreed with that argument. The GPTO's assessment was that, when previous case law on the eligibility of abstract colour marks for trademark protection is applied, there is no specification in the present case of the area ratio between the white letter 'k' and the red area, or of the arrangement of the colours in relation to each other. The Federal Patent Court concluded that the 'k' in the midst of the red surrounding is a figurative inward boundary of the red colour, so there is no longer an abstract colour mark. The result is an image which, because of the outer boundary of no specific shape, includes a multitude of different red surrounding areas with different visual effects.

Following the failure of the applicant's appeal to the Federal Court of Justice, the Federal Patent Court's decision is now final.

## ASSESSMENT

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In this decision, the Federal Patent Court continues its established practice regarding the assessment of variable trademarks, and rules that the combination of a letter with a colour mark is not eligible for registration. 'New' types of trademark forms are subject to the same requirements of eligibility and specificity (formerly 'representability'), which have been sufficiently clarified by the case law hitherto.

Had the application been successful, this would have included protection for many different appearances, for example triangular, square or star-shaped surrounding areas, as well as different size ratios of the letter 'k' to the surrounding area.

The principle of the freedom to combine trademarks comes up against its limits, therefore, where the combination of the trademark shapes results in a 'variable mark', since the prerequisite of specificity is not met in such a case. The present decision is relevant for the combination not only of a colour mark with a word mark, but also with a figurative mark, because the combination gives the colour mark a figurative boundary in equal measure. In such cases, accordingly, it is recommended that two separate trademarks be filed for registration, namely one figurative mark or word mark, and one colour mark. (Kröger)

### III. DESIGN OF AGREEMENTS

#### 6. Validity of ipso facto dissolution clauses

*Federal Court of Justice judgment of 27 October 2022 in case no. IX ZR 213/21 – Insolvenzabhängige Lösungsklausel*

##### BACKGROUND

Licensing agreements, particularly for trademark licences, routinely include a clause stipulating that one or both of the parties may terminate the licensing agreement without notice if the other party is insolvent. This raises the question as to whether such provisions are also valid, or invalid because they impermissibly curtail the rights of the insolvency administrator from the outset. According to Section 103 of the Insolvency Code (InsO), the latter has the right to choose whether to terminate or fulfil the agreement, in the case of agreements that have not yet been fully fulfilled reciprocally (and this generally includes licensing agreements with running royalties).

The decision discussed here, handed down by the Ninth Civil Division of the Federal Court of Justice, the 'Insolvency Division', addresses ipso facto dissolution clauses in reciprocal agreements. Although the decision does not specifically relate to the protection of IP rights, some of the thoughts expressed in it can indeed be applied to licensing agreements, so some recommendations concerning the design of such agreements can be derived from the decision.

##### DECISION

A debtor who later became insolvent was a sole trader bus operator. The respondent contracted the debtor to provide school transportation services to five schools. To that end, the respondent and the debtor concluded a contract of carriage. The contract included a right on the part of the respondent to terminate without notice in the following cases:

'The Contractor has become insolvent, insolvency proceedings or similar proceedings have been filed or opened in respect of the Contractor's assets, the opening of such proceedings has been refused for lack of assets, the Contractor is in the process of liquidation, or the Contractor has ceased operations.'

The claimant in the case was appointed provisional insolvency administrator at the debtor's own request. The respondent subsequently terminated the contract of carriage without notice. The claimant deemed the notice of

termination to be invalid and sued for payment of remuneration less expenses saved.

Whether and under which conditions ipso facto termination/dissolution are valid or invalid has been a controversial issue until now and has not yet been ruled upon in a supreme court decision. The Ninth Division has now decided on this issue as follows:

- According to Section 119 InsO, an agreement is invalid if, from the outset, it precludes or limits the exercising of the insolvency administrator's right of choice under Section 103 InsO in cases where agreements have not yet been fully and reciprocally fulfilled.
- However, there is no such limitation of the right of choice in the case of insolvency-related dissolution clauses if these are closely associated with a statutory

dissolution option, for example in the event of default, breach of contract or in general if it is unreasonable to continue the contract.

- Despite discussion by legislators, there is no explicit provision in Section 119 InsO or elsewhere in the law to the effect that ipso facto dissolution clauses are invalid.
- The law provides a differentiated rule instead. The decisive factor is whether, from an ex ante perspective – be it with regard to the circumstances existing at the time the contract was concluded, or with regard to the circumstances triggered by an insolvency – there is a factual reason for an ipso facto dissolution clause, which gives the dissolution clause a different character than the mere intention of the contractual partner

to escape the mandatory provisions of Sections 103–118 InsO. The objective, factual situation is of primary importance here, whereas subjective notions concerning the individual case are irrelevant.

- In the specific individual case ruled upon by the Insolvency Division, there were no findings in lower courts as to whether a factual reason for the contested dissolution clause existed, for example because there was an imminent risk, if the debtor became insolvent, of the task of transporting school students not being fulfilled, or no longer being fulfilled reliably. In that respect, the Federal Court of Justice referred the case back to the Higher Regional Court in Celle for a further decision.

## ASSESSMENT

The decision indicates the particular conditions under which ipso facto dissolution clauses are valid. In the case of trademark licensing agreements, in particular, the factual reason required by the Court for such clauses to be valid should generally exist. In most cases, regardless of whether the licensor or the licensee becomes insolvent, the image of a (successful) trademark will probably be damaged by the insolvency. Notwithstanding that, it is good advice when drafting the agreement to include relevant details in the termination clause. For example, by stating that the right to terminate the agreement in the

event of the licensee becoming insolvent is supplemented, because there are grounds for concern that continuing the agreement in the wake of the insolvency is liable to damage the image of the licensed trademark. However, this should not be supplemented in a purely formal manner, but with reference to the specific individual case where possible, i.e. by specifying the image the licensed trademark enjoys and why this would be jeopardised by continuing the agreement in the wake of insolvency. (Eberhardt)



## 7. Claims to liquidated damages based on cease-and-desist declarations are barred by limitation – advantages and disadvantages of the ‘Hamburg custom’ popular among practitioners

*Federal Court of Justice judgment of 27 October 2022 in case no. I ZR 141/21 – Vertragsstrafenverjährung*

### BACKGROUND

The Federal Court of Justice had to rule on the point in time at which the limitation period for a claim to liquidated damages begins. Whereas the previous courts focused on the end of the infringing act, the Federal Court of Justice drew attention to the fact that, in addition to the ensuing claim, a further condition for the limitation period to commence is that the claim is also due for payment. According to the ‘Hamburg custom’ (‘Hamburger Brauch’),

however, a claim is not due for payment until the creditor has determined the amount to be paid. An essential prerequisite to be met before the limitation period can begin is therefore that a specific amount of liquidated damages be set by the creditor. Nothing changes in that respect even if there is a long interval between the infringing act and the assertion of the liquidated damages.

### DECISION

In 2013, a professional photographer issued a letter of warning to a seller on eBay Classifieds due to unauthorised use of a photo. The warned party gave a declaration to cease and desist against payment of liquidated damages according to the ‘Hamburg custom’, which the photographer accepted in June 2013. The declaration did not specify the actual amount of liquidated damages to be paid, therefore, but rather that the reasonable amount would be determined by the creditor for each case of infringement (Section 315 of the German Civil Code (BGB)) and in the event of dispute must be reviewed by the court specified in the clause. The photo at issue was still being offered for sale in the eBay Classifieds advert until May 2014. The photographer did not issue his claim for €3,600 in liquidated damages until December 2016, two and a half years later. The seller refused to accept delivery of the registered letter. A further year later, the photographer sent an email with identical content, but no reply was received. Finally, in November 2019, an attorney’s letter demanding payment of the liquidated damages was successfully served on the eBay Classifieds seller. When the latter failed to pay, the photographer filed an action with the Local Court on 23 December 2019, suing the seller for payment of the liquidated damages plus attorney’s fees. The writ was not served until 23 January. It was undisputed that the declaration to

cease and desist against payment of liquidated damages had been breached, but the respondent invoked the defence of statute-barring (Section 214 (1) BGB).

The courts of instance acknowledged the respondent’s right to refuse payment and ruled that the claim to liquidated damages became statute-barred no later than the end of 2017, based on a three-year limitation period from the end of the year (Section 195 BGB). In the view of the courts, the limitation period began at the end of 2014 because that was the year in which the photo was last available for purchase in the eBay classified advert. A limitation period that does not begin until later, when the amount to be paid has been determined by the creditor, would run counter to the meaning and purpose of the statute of limitations. The photographer could otherwise control and postpone, at his own convenience, the point in time at which the limitation period commences, which could compromise the debtor’s ability to furnish evidence. Such consequences conflicted with the principle of legal certainty.

The Federal Court of Justice disagreed with that assessment and took the view that, in addition to the claim arising, an essential prerequisite for commencement is that the claim is also due for payment (Section 271 BGB). To

interpret the relevant Section 199 BGB (commencement of the limitation period), it delivered a textbook example of how to apply the legal principles of interpretation. In addition to literal interpretation, the decision gives prime consideration to the origins of the legal norm as well as its meaning and purpose. According to the wording of Section 199 (1) No. 1 BGB, the only relevant factor would be the point in time at which the claim arose. However, this would disregard the fact that, in the major reform of the law of obligations in 2010, Section 199 BGB may have been reworded, but no changes to its content were intended. It follows from the rationale for the legislation that everything should remain the same. And the old version required that the claimed payment be due (Section 271 BGB). The wording had been changed for another reason. The aim was to clarify the principle of the 'unity of damage' (*Grundsatz der Schadenseinheit*), i.e. the principle that future, unforeseeable losses can already be claimed when an initial loss has been incurred. There was no intention to alter the requirement that the claimed damages be due for payment.

In the view of the Federal Court judges, the outcome is also consistent with the meaning and purpose of the rules on statute-barring. The creditor generally has no interest in delaying assertion of the liquidated damages. A debtor is also free to provide a cease-and-desist declaration specifying a fixed contractual penalty, as opposed to liquidated damages according to the 'Hamburg custom'.

In that case, the limitation period begins when the act of infringement ends, because the claim is to a set amount of payment. Furthermore, in the 'Hamburg custom' case, a debtor could apply to have the amount of payment reviewed by a court and thus request that the court (rather than the creditors) specify the amount of reasonable liquidated damages, in the form of a judgment modifying a legal right or status. The Federal Court of Justice refers, lastly, to the general barrier of good faith (Section 242 BGB) and to the debtor's duty under the cease-and-desist agreement to exercise due consideration (Section 241 BGB).

For these reasons, the limitation period did not begin until the claimant specified the amount of payment in December 2016, and therefore ended at the end of 2019. The action filed in December 2019 was just in time.

However, the Federal Court of Justice was not allowed to decide on the merits of the case, because the writ was not served on the respondent until January 2020, after the limitation period ended. Although the filing of an action generally stays the limitation period (Section 204 I No. 1 BGB), the prerequisite is that service is 'soon'. This temporal assessment is denied to the Federal Supreme Court because the lower courts had not made any comments in that respect. Referral of the case back to the lower court is de facto a mere formality, and the court of instance will award the claim.

## ASSESSMENT

The decision makes it clear that the creditor will generally have an interest in seeking a promise to pay liquidated damages according to the 'Hamburg custom'. This gives it the freedom to determine the amount of the liquidated damages itself. The principle of reasonableness enshrined in Section 315 BGB provides a compass for the amount of liquidated damages. If specific circumstances allow, the creditor can delay assertion of the claim without risking it becoming statute-barred. In this decision, the Federal Court of Justice has clarified that the limitation period does not commence until the amount of liquidated damages has been specified. The only legal barriers

are the duty under the cease-and-desist agreement to exercise due consideration, and the principle of good faith.

In this specific case, the creditor first lodged its claim two and a half years after the end of the infringement, but then did so at regular intervals until the action was brought. The debtor could not rely, therefore, on the creditor being no longer interested in prosecuting the case. The conclusion to be drawn is that it is still possible, at least, to wait three years from the end of the infringement before asserting the liquidated damages. This is also in the interests of the party concerned, because the

limitation period would be that long if the amount of contractual penalty were determined beforehand. However, the creditor should not wait any longer than that without good cause, because it would otherwise run the risk of acting in breach of good faith and forfeiting its right to liquidated damages.

The debtor, for its part, should consider when signing a declaration to cease and desist against payment of a penalty, whether it really prefers liquidated damages according to the 'Hamburg custom', with the uncertainties discussed above, to a specified amount of contractual penalty. The former alternative is often chosen because it allows the creditor to negotiate with the debtor about the

amount it has set and to question its reasonableness. However, there may be circumstances in which a fixed contractual penalty is preferable.

As a basic principle, the cease-and-desist declaration sent by the warning party, which is usually pre-formulated as a draft, should not be thoughtlessly signed, even in cases of an obviously justified warning; the choice of wording for the cease-and-desist declaration as well as the liquidated damages should be prudently reviewed and carefully worded. The draft sent by the warning party is by no means binding. In legal terms, the only relevant aspect is that the declaration to cease and desist against payment of a penalty dispels any risk of repetition. (Ehlers)



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