

Intellectual Property & Technology Update

Summer 2012

Court Widens Scope of Protection For ISPs Under English Law	1
Federal Circuit Overhauls Willful Patent Infringement Test	3
Protect Yourself Against Twitter Squatters.....	5
Could You Be Responsible For What Your Customers Do Online?	7
The German Legislature Introduces Changes to the Ordering Process of E-Commerce Transactions	8

Court Widens Scope of Protection For ISPs Under English Law

By Gillian Dennis

In the recent case of *Payam Tamiz v Google Inc* the High Court appears to have broadened the defenses available to ISPs sued for hosting unlawful third party content.

Background

Mr. Tamiz, an English Conservative party candidate, sued Google for defamation in respect of certain comments made about him and hosted on Blogger.com. Blogger.com is a free Google service, which allows an Internet user to create a blog, which is then hosted on Blogger.com. A blog headed *London Muslim*, contained eight comments made about Mr. Tamiz (comments A-H) in response to an article posted by Mr. Tamiz.

Sequence of Events

Mr. Tamiz' article was posted on 27 April 2011 and comments A-H were written during 28-30 April 2011. Mr. Tamiz initially complained to Google using its "Report Abuse" facility on 29 April but received no response until after he wrote a letter of claim, which was passed to Google, who responded on 8 July, asking Mr. Tamiz for confirmation that comment A was untrue. Mr. Tamiz gave the confirmation and also complained for the first time about comment B. On 19 July, Google sought permission to forward the complaint to the bloggers concerned.

Mr. Tamiz gave this permission on 22 July and at the same time extended his complaint to include comments C, D, E, F and G. On 11 August, Google forwarded the complaint to the bloggers concerned and on 14 August the article and the blog posts were removed by the bloggers voluntarily. Earlier, Google itself had indicated that it would not be removing the posts despite having the technical ability to do so.

Proceedings Issued

On 16 August, Mr. Tamiz issued proceedings against Google for defamation, citing comments A-G and adding for the first time a complaint about comment H. Mr. Tamiz claim centered on the period after he had notified Google of his complaints. He did not issue proceedings against the authors of the comments or the original article. This was largely for practical reasons as each of these had been posted anonymously. Mr. Tamiz succeeded in obtaining leave from the English High Court to serve proceedings on Google out of the UK jurisdiction in California. Google subsequently applied to have that order set aside and at the same time asked the court to decline jurisdiction over the defamation claim altogether.

The Decision

Mr. Justice Eady found for Google on each of the key issues in the case.

The court had granted Mr. Tamiz permission to serve Google outside the UK jurisdiction on the basis that he had sustained damage (to his reputation) within it. Eady J said that Mr. Tamiz actually needed to demonstrate that

there was “real and substantial publication” of comments A-H in the UK. The fact that these comments had appeared on the Internet was not enough. Mr. Tamiz had to show that they had been downloaded and read by identified individuals who had given the comments a measure of credence (such that his reputation could be affected), i.e. they had been read by people other than merely his supporters or those in his “camp,” who would not attach any weight to the words.

Eady J found that some of the comments – A, B and D – might be given credence as they contained allegations of criminal conduct. This was likely to adversely affect Mr. Tamiz’ reputation and so could form the basis of a defamation claim.

Was Google a Publisher?

Having concluded that comments A, B and D were sufficient for a cause of action for defamation, Eady J then held that Google was not liable for defamation. For Google to be liable for defamation, Eady J would have had to be satisfied that Google was a “publisher” of the comments. He found that Google’s role in relation to the *London Muslim* blog, and indeed all blogs hosted on Blogger.com, was neutral and passive and not in the nature of a publisher. The fact that Google had been notified of comments A-H did not suddenly convert Google into a publisher. Also, the mere fact that Google had the technical capability to remove the offending posts did not change its status to that of publisher. Eady J used the analogy of graffiti on a wall. Google was no more a publisher of comments A-H than the owner of a wall was the publisher of graffiti comments painted there.

As Google was not a publisher of comments A-H the claim against it for defamation could not succeed.

Would Defenses Be Available?

Eady J went on to consider whether or not two statutory defenses would have been available to Google had it been a publisher.

The first defense was under Section 1 of the Defamation Act 1996 provides that a person has a defense to a claim for defamation if he can show that:

1. He was not the author or publisher of the comments;
2. He took reasonable care in relation to their publication; and
3. He did not know, and had no reason to believe, that what he did caused or contributed to the publication of a defamatory statement.

In relation to ground (1), the Defamation Act states that a person shall not be regarded as a publisher if he is only involved as “the operator or provider of access to a communications system by means of which the comment is transmitted or made available by a person over whom he has no effective control.” Eady J said that these words were an accurate description of Google’s role in this case, meaning that Google could not be regarded as a publisher.

In relation to ground (2), Eady J was satisfied that taking around three weeks to forward the complaint to the bloggers resulting in the comments being removed was a reasonable, albeit dilatory, response by Google.

In relation to ground (3), Eady J said that comments A, B, and D were on the face of it defamatory because of their nature. However, this fact was not enough in itself to deprive Google of the defense. Google would not know whether or not defenses were available to the bloggers. Because of this, merely notifying Google of the comments was not sufficient to cause Google to “know or have reason to believe” that it contributed to the publication of defamatory statements. Google would need more information about the nature of Mr. Tamiz’ claim (some sort of “adequate substantiation”) before it could be deprived of the Section 1 defense. Accordingly, this defense would have been available to Google.

Defense Under the E-Commerce Directive

Article 14 of the E-Commerce Directive provides that a service provider will not be liable in respect of unlawful content that they host unless they know about the unlawful content or do not remove it expeditiously once they become aware of it. Although comments A, B and D were on the face of it defamatory,

Eady J again found that this was not sufficient to make Google aware of the unlawful nature of the content. Google was not in a position to assess whether or not the bloggers might have a defense, making the comments lawful. For Google to be fixed with actual knowledge, Mr. Tamiz would have needed to do more than simply notify Google of the comments. He would have had to give Google much more information about his claim by way of “adequate substantiation” of his allegations. Accordingly, Google would again have been entitled to rely on the Article 14 defense.

“The Game Would Not Be Worth the Candle”

Finally, Eady J said that in the event that Google was liable for defamation, the period of its liability (from notification to removal by the bloggers) was so short that it could be regarded as trivial and not such as to justify the maintenance of the proceedings. In other words “the game would not be worth the candle.”

The Importance of This Judgment

This judgment is important for four reasons:

1. The clarification of the law surrounding ISP liability. Google was found not to be a publisher because of its passive and neutral role. Previous authorities on this issue were conflicting.
2. The expanded notification requirement. Only if a claimant gives an ISP full information about the nature of his claim by way of “adequate substantiation” will the ISP be deprived of the Section 1 and Article 14 defenses. Merely notifying an ISP that an offending post exists and asking for it to be removed will not be enough. Following this case, anyone who believes they are being defamed online must notify the ISP concerned as soon as possible giving as much detail as they can.
3. The assessment of what is reasonable care for the section 1 defense. The court was satisfied that taking around three weeks to forward Mr. Tamiz’ complaint to the bloggers was

reasonable action. This could be applied by analogy to what would amount to “acting expeditiously” for the purposes of the Article 14 defense. It might be said that three weeks where remarks which are defamatory on their face are involved is actually quite a long time.

4. The finding that the “game would not be worth the candle.” Usually a publisher of defamatory material without a valid defense is held to be liable however long or short the defamatory material is available. The court usually deals with claimants in such circumstances by making a nominal award of damages (and refusing to award them costs); in particular if the claimant is not able to demonstrate that there has been a widespread negative impact on their reputation.

Comment

ISPs and website operators will welcome this decision which, in practice, may limit the circumstances in which they could be found liable for defamation in respect of content which they host. However, they should not rely solely on this judgment by way of protection against liability and to minimize the risk of becoming embroiled in proceedings (whether or not they are subsequently successful) they should continue to operate a prompt and effective notice and take down policy. ISPs should also avoid moderating any user generated content as previous decisions have indicated that this could prejudice their ‘neutral and passive’ role and convert their status into that of publisher.

Federal Circuit Overhauls Willful Patent Infringement Test

By Christopher Mays

In its June 14, 2012, decision in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Assoc., Inc.*, the Federal Circuit appears to have made it more difficult to prove willful infringement of a patent. Absent a showing of

willfulness, a plaintiff in a patent infringement case has almost no chance of obtaining “enhanced damages,” i.e., treble actual damages and attorneys’ fees.

In its 2007 opinion, *In re Seagate Technology*, 497 F.3d 1360, the Federal Circuit established a two-prong test for proving willful patent infringement:

1. The infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent (the “objective prong”); and
2. That the objectively-defined risk was either known or so obvious that it should have been known to the accused infringer (the “subjective prong”).

At issue in *Bard Peripheral* was the *Seagate* test’s objective prong. The defendant, W.L. Gore, argued that it did not act despite an objectively high likelihood that its action constituted infringement of the plaintiff’s patent because Gore had a valid defense to the infringement claims, negating *Seagate*’s objective prong. Gore asserted several defenses that it argued were reasonable, including inventorship, inadequate written description, obviousness, and anticipation. Gore further argued that Bard Peripheral failed to present evidence proving willfulness by clear and convincing evidence.

The trial court submitted the issue to the jury, who rejected Gore’s argument and returned a finding of willfulness. The jury awarded Bard US\$185 million for willful infringement of its patent relating to blood vessel grafts. The trial court upheld the jury award, explaining that the jury’s award was supported through the extensive litigation history before the PTO. Additionally, the trial court exercised its discretion and awarded double damages of US\$371 million.

The Federal Circuit panel initially upheld the willfulness finding. In a subsequent *en banc* review, however, the court vacated the first panel’s opinion as to willfulness and instructed the panel to revisit that issue and “explicat[e] the standard of review applicable to it.”

After undertaking the further analysis required by the *en banc* panel, the Federal Circuit held that the trial court had fundamentally erred in allowing the jury to decide whether there was an objectively high likelihood that the accused products infringed the patents in suit – i.e., the first prong of the *Seagate* test. Although this had been a regular practice among trial courts, the panel noted that the Federal Circuit’s opinions on willfulness since *Seagate* “have begun to recognize that the issues are more complex” and that

...simply stating that willfulness is a question of fact oversimplifies the issue. While the ultimate question of willfulness based on an assessment of the second prong of *Seagate* may be a question of fact, *Seagate* also requires a threshold determination of objective recklessness.

The Federal Circuit explained that this objective prong analysis entails an objective assessment of potential defenses based on the risk presented by the patent “which may include questions of infringement but also can be expected in almost every case to entail questions of validity not necessarily dependent on the factual circumstance of the particular party accused of infringement.” The court, not the jury, is best positioned to make this determination.

In light of this, the panel held that the “threshold determination of objective recklessness . . . is best decided by the judge as a question of law subject to *de novo* review.” Importantly, the panel noted that a trial court may still allow the jury to determine the facts underlying *Seagate*’s objective prong, so long as the “the ultimate legal question of whether a reasonable person would have considered there to be a high likelihood of infringement of a valid patent” is decided as a matter of law by the judge.

A remaining open question is in what form *Seagate*’s standard requiring clear and convincing evidence of willfulness will survive post-*Bard*. In *Seagate*, the Federal Circuit held that a patentee must establish both prongs of the willfulness test by clear and convincing evidence. However, under *Seagate* both prongs of the test were

seemingly questions of fact to be decided by the fact finder. Now, under *Bard*, the objective prong of the *Seagate* test is a question of law to be decided by the judge. Importantly, as highlighted by Justice Stephen Breyer's concurrence in the Supreme Court's *Microsoft v. i4i Ltd. Partnership*¹ decision last year, the clear and convincing standard of proof only applies to questions of fact, not questions of law.

The *Bard* panel did not expressly discuss the impact of its decision on the standard of proof for willfulness. However, it is possible that courts will apply a split-standard for the different prongs of the *Seagate* test. In other words, courts will likely isolate the factual inquiries of the *Seagate* test – the subjective prong as well as any factual questions underlying the willfulness allegations – and continue to apply a “clear and convincing” standard. On the other hand, a clear and convincing standard “has no application” to the first prong of the test – now a legal issue for the judge.²

Ultimately, it seems that patentees post-*Bard Peripheral* may have a more difficult time proving willfulness. A number of factors contribute to this:

- Trial courts may now rule on willfulness at summary judgment or through other proceedings separate from trial. Courts are generally better equipped to determine objective inquiries – such as the reasonableness of an accused infringer's defense – than juries. This will lead to many willfulness allegations being filtered out before trial.
- Courts may also now rule that a particular defense – for example, one based on a claim construction position – is reasonable as a matter of law.
- Appellate review of willfulness findings will now be conducted *de novo* instead of for clear error. Consequently, the Federal Circuit will give no deference to a

willfulness determination, and trial courts may be more reluctant to find willfulness out of concern for being reversed.

Moreover, the Federal Circuit's independent review will permit it to unify its objective prong jurisprudence, leading to more consistent rulings.

Protect Yourself Against Twitter Squatters

By Beth Seals

An increasing number of companies are trying to establish a presence on the popular information network Twitter, only to find that “Twitter squatters” have beaten them to the punch. Fortunately, companies can take steps that may help them reclaim their brand. In some cases, a Twitter squatter's use of a company's trademark may constitute trademark infringement, and the company can assert claims under the Lanham Act and demand that the squatter release the username for the company's use. Alternatively, in cases where a Twitter squatter is in violation of Twitter's Trademark Policy, companies may be able to use Twitter internal policies to force the Twitter squatter of their mark.

Claim your Name

With more than 100 million active users sending 250 million tweets per day, an increasing number of businesses are using Twitter to share information and build relationships with consumers of their brands. If they have not already, it makes good business sense for companies to act fast to establish a presence on Twitter by securing their trademarks as Twitter usernames.

Reclaim Your Name

If a company is unfortunate enough to find that another Twitter user has already registered one or more of the company's trademark as a Twitter username, there may be ways for the company to reclaim its brands based on trademark rights.

Although courts have not ruled on this specific issue, trademark owners should be able to assert claims under the Lanham Act for

¹ ___ U.S. ___, 131 S.Ct. 2238, 2253, (2011) (citing *Addington v. Texas*, 441 U.S. 418 (1979)).

² See *id.* (“where the ultimate question . . . turns on the correct answer to legal questions . . . today's strict standard of proof has no application.”).

trademark infringement, although this may depend on how the squatter uses the Company's Twitter username and account. Establishing trademark infringement under the Lanham Act requires proof that (i) a defendant has used the plaintiff's mark in interstate commerce (ii) in connection with the sale or advertising of goods or services, (iii) resulting in a likelihood of confusion as to the origin of the defendant's goods or services. Under this test, a Twitter squatter who registers a company's trademark as its username, and uses the account to send tweets advertising goods or services competitive to those of the company is almost certainly violating the Lanham Act as well as a myriad of other state law trademark and unfair competition statutes.

In some cases another user may have innocently claimed the company's trademark as his or her username. This will be especially common if the company's trademark is also a frequently used word or name. In such a case, if the Twitter user is not using its account in a confusing or misleading manner, asserting claims under trademark or unfair competition law will be tenuous at best. Nonetheless, a company may still have success in simply sending the squatter a Twitter direct message, asserting their trademark rights in the username and requesting that the squatter change his or her username, so that the username is released for the company's use. It may be helpful to point out to the "squatter" that his or her followers and past tweets will automatically be transferred to his or her new username, so there is little cost or inconvenience to the innocent squatter that would form an obstacle to cooperation. While a company might believe that it can pay off a Twitter squatter to facilitate obtaining a desired username, be warned. Twitter policy specifically forbids paying for usernames in such circumstances. What exactly Twitter would do if it discovered that payments had been exchanged, however, is unclear.

If it is more likely that the squatting is intentional or a potential violation of the Lanham Act, companies may wish to send a stronger cease and desist letter to the squatter, demanding the release of its trademark as a username. This letter may have to be sent through a Twitter direct

message – it may be difficult to find the squatter's identity if his or her profile does not reveal identifying information. However, an examination of the squatter's past tweets may reveal some clues to his or her identity.

Ask Twitter for Help

If the squatter refuses to cooperate, companies may be able to turn to Twitter for help. Specifically, Twitter maintains a [Trademark Policy](#) that provides that users cannot use a company name or trademark in a manner that may mislead or confuse others with regard to its brand or business affiliation.

Companies can report a violation by submitting the username of the report account, as well as the company's name, Twitter account, website, and trademark (including registration number and jurisdiction). The report should also include a description of the confusion and the action the company is requesting, such as removal of the violating account or transfer of the trademarked username to the company's existing account. Reports can be submitted online through Twitter's support forms.

Twitter relies on its own discretion when receiving reports and may take one of two approaches when dealing with the potential violations. When Twitter finds "a clear intent to mislead others" through the unauthorized use of a trademark, it will suspend the account and notify the account holder. Alternatively, if Twitter determines that an account appears to be confusing users, but "is not purposefully passing itself off as the trademarked good or service," it will give the account holder an opportunity to clear up any potential confusion. Twitter may also release the username for the trademark holder's active use.

Trademark owners may be able to help persuade Twitter to suspend the account if they can show evidence of actual confusion, such as the fact that other Twitter users have actually been confused and erroneously followed the Twitter squatter. Additionally, if the Twitter squatter's account is inactive (i.e., no tweets for six months), Twitter may be more inclined to remove it. However, the Trademark Policy does state that "[u]sing another's trademark in a way that has nothing

to do with the product or service for which the trademark was granted is not a violation of Twitter's trademark policy." Thus, there is a chance that Twitter will not find the squatting a violation and will do nothing, especially in the case of a commonly used word or name.

Twitter's Trademark Policy specifically allows only holders of registered trademarks to report possible trademark policy violations to Twitter's Policy Team. However, nothing in the policy suggests that only owners of registered marks can take advantage of the policy. If a Twitter squatter takes an unregistered mark, the owner should still file a report of brand or entity impersonation, but should include with that report some persuasive evidence showing the brand owner's rights to the mark.

Although it is not yet clear how courts will rule on issues related to Twitter squatting, there are steps that trademark owners can take that fall short of filing a lawsuit. Of course, the best strategy for companies is to register their trademarks right away to establish a presence for their brands on Twitter.

Could You Be Responsible For What Your Customers Do Online?

By Alex Butterworth

A recent High Court of Australia decision might let Internet service providers off the hook for the moment, but what does it mean for the future?

After completing their university degrees, Michael Malone and Michael O'Reilly established iiNet Limited in Michael Malone's garage in Perth. By 1995, iiNet grew dramatically, hiring their first employee whose office was Michael Malone's bedroom... A storeroom held iiNet's servers.

From the Malone family garage, iiNet became one of Australia's largest Internet service providers (ISPs). iiNet was the first company in Western Australia to offer dialup Internet access to the public, as well as the first organization to base their operations on the Linux operating system. In 1999, iiNet was

listed on the Australian Stock Exchange in 1999. iiNet is proud to be the second largest ISP in Australia, which they routinely boast about in a long running and prominent advertising campaign.

However, being Australia's second biggest ISP has its pitfalls. One of the pitfalls iiNet faces is becoming a target for the Australian Federation Against Copyright Theft (AFACT). AFACT was established in 2004 to protect the film and television community, retailers and movie fans from the adverse impact of copyright theft in Australia. According to AFACT, movie piracy caused the loss of \$1.37 billion in revenue across Australia's economy, 6,100 jobs and tax losses of up to \$193 million.

On 20 November 2008 AFACT filed a lawsuit against iiNet in the Federal Court of Australia. AFACT claimed iiNet had infringed the copyright of 34 studios by failing to prevent its subscribers from downloading pirated material using the BitTorrent peer-to-peer protocol. The lawsuit was co-filed by these 34 film and affiliated companies, including Village Roadshow, Universal Pictures, Warner Bros and 20th Century Fox as well the Seven Network (an Australian television broadcaster).

In response to the claim, iiNet issued a statement that they had been passing the reports from AFACT to law enforcement authorities, and that iiNet could not disconnect a customer's phone line based on an allegation unproven in the courts.

In 2010 the Federal Court's Justice Cowdroy found in favor of iiNet. Justice Cowdroy decided that, while iiNet users did infringe the copyrights of the 34 Australian and US copyright owners, it was not iiNet's responsibility to stop the infringement of its customers. AFACT appealed the decision to the Federal Court Full Court but found a similarly unsympathetic bench; the Federal Court Full Court affirmed the decision of Justice Cowdroy, and AFACT appealed again, this time to the High Court of Australia.

The High Court of Australia is the most senior court in the Australia. The court only considers matters by special leave, and often refuses to consider matters at all. The status

of the case as a major test case was confirmed when the High Court granted leave to consider it on 12 August 2011.

On 20 April 2012 the High Court of Australia confirmed the decisions of the lower courts by a unanimous verdict. In doing so the court set out a test for determining whether the Internet service provider has authorized the copyright breach. The test includes:

1. The extent (if any) of the person's power to prevent the doing of the act concerned;
2. The nature of any relationship existing between the person and the person who did the act concerned;
3. Whether the person took any other reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

The High Court considered a number of facts around the way that iiNet operates in coming to their decision. First, the court noted that iiNet was completely disconnected from the BitTorrent system. iiNet had no power to control or alter any aspect of the BitTorrent system and therefore could not be held responsible for it. Likewise, iiNet did not actively assist its customers to locate copyright infringing content, and therefore was not responsible when it occurred. The High Court also pointed out that iiNet did not have the power to prevent its customers from downloading BitTorrent files and once the material was downloaded, iiNet had no power to remove the material from the customer's computer.

Curiously, the High Court also considered it relevant that iiNet did not have the power to prevent its customers from using another Internet service provider to breach copyright. This particular argument seems a bit strange, as the line of reasoning suggests that it is acceptable to assist someone in doing the wrong thing, simply because if you did not facilitate them, they would be facilitated by some other entity. Nonetheless, the court considered this a relevant factor.

The conclusion reached was that iiNet had no direct technical power at its disposal to prevent a customer from using the BitTorrent system to download the appellants' films on that customer's computer.

While the High Court's ruling was unanimous and decisive, it does not necessarily mean that this is the end of the matter. AFACT, having failed three times in the courts, is now lobbying the Commonwealth Government for legislative changes to the Copyright Act 1968 to reverse the effect of the ruling. This is in addition to existing discussions between film makers and Internet service providers around creating a code of practice for the Australian market. With an election due in 2013, this could become a politically charged issue. Unfortunately, voters are unlikely to be too sympathetic to the intellectual property rights of a group of 34 film makers and television producers. The final result waits to be seen.

The German Legislature Introduces Changes to the Ordering Process of E-Commerce Transactions

Dr. Annette Demmel, Partner, Berlin
Matei Ujica LL.M., Associate, Berlin

As of 1 August 2012, businesses engaged in the provision of goods or services to German consumers via the Internet face considerable new information requirements. According to new legislation adopted by the German Parliament in March 2012, German consumers must be provided with all the relevant information required to conclude a contract in a clear, understandable and prominent manner directly before they place an online order, otherwise a binding contract will not be formed.

Introduction

By way of an early implementation of Article 8 (2) of the new EU Directive on Consumer Rights 2011/83/EU (the Directive) – due to be implemented into national law of the Member States by 13 December 2013 – the German Federal Legislator incorporated mandatory rules on how to structure an online ordering

process in a consumer-friendly manner into the existing Section 312g of the German Civil Code (BGB).

The new rules – included into the Directive on the initiative of Germany – are deemed to protect consumers from cost and subscription traps on the Internet and other electronic platforms.

Who Does This Concern?

From 1 August 2012, any contract entered into through electronic means of communication and leading to payment obligations for a consumer will only come into force if, directly before placing an order, the consumer has been clearly and visibly notified by their contractual partner of:

- The main characteristics of the goods or services;
- The minimum duration of the contract, if the contract provides for permanent or periodic services;
- The total price of the goods or services inclusive of taxes and all price components, or – where the nature of the goods or services is such that the price cannot reasonably be calculated in advance - the manner in which the price is to be calculated; and
- Any additional charges (such as freight, delivery or postal charges).

What Has to Be Done?

The new law further provides that businesses shall structure the ordering process so consumers explicitly acknowledge that the order implies an obligation to pay. Where placing an order entails activating a button, or a similar function, the last button (or function) of an order process shall be labeled in an easily legible manner only with the words



(“zahlungspflichtig bestellen”) or a similarly unambiguous communication to indicate that placing the order entails an obligation to pay.

Against this background the widely used label “Confirm Order” (or “Bestellung bestätigen”), currently in operation, will no longer suffice.

What Transactions Are Covered?

The new law generally applies to any contractual transaction between a business and a consumer entered into using electronic means of communication and leading to payment obligations for the consumer, such as e.g. the purchase of an app, the order of a chair via an online shop or a subscription to a movie streaming service. However, certain financial services, such as banking services and those in connection with the granting of credit, insurance, a pension fund or investment are expressly excluded from the scope of the new rules.

It is worth noting that, in general, the requirements imposed by the new law apply to contractual transactions concluded under German law only and that it is permissible under German law to draft and use contracts governed by a foreign jurisdiction for consumers in Germany. However, when the targeted consumer is in Germany, the mandatory rules of German consumer protection law – including the information requirements as implemented by the new Sec. 312g BGB – will apply regardless of whether or not the underlying contracts drafted are subject to a jurisdiction other than Germany.

What Consequences Can Arise?

Once entered into force, the new law provides that if the requirements imposed by the new Sec. 312g BGB (regarding consumer information and the structuring of the ordering process) are not met, the underlying contract will be null and void. The burden of proving fulfillment of these obligations lies with the business and not the consumer. Thus, in case of a breach of the new requirements, those doing online business with consumers in Germany will not be able to demand payment from the consumer but may only claim return of any goods already delivered under the void contract.

Moreover, businesses failing to comply with the new rules run the risk of warnings, claims

for injunctive relief, or claims for information and damages from consumer protection organizations and/or competitors based on Germany's laws on unfair commercial practices.

Practical Tips

Businesses with online offerings directed towards German consumers should adjust their ordering processes before 1 August 2012 to conform to the information obligations imposed by the new German law on "cost traps" and, in particular, the "button solution". In cases of doubt over the scope and content of the new information requirements, competent legal advice should be obtained before that date. Otherwise, businesses run the risk of void contracts as well as of warnings, claims for injunctive relief, or claims for information and damages from both competitors and consumer protection organizations.

Squire Sanders Intellectual Property & Technology Practice

Andrew Clay

*Intellectual Property & Technology
Update* Co-Editor
Birmingham
+44 121 222 3358
andrew.clay@squiresanders.com

Joseph A. Meckes

*Intellectual Property & Technology
Update* Co-Editor
San Francisco and Palo Alto
T +1 415 954 0201
joseph.meckes@squiresanders.com

David S. Elkins

Intellectual Property & Technology
Practice Group Leader
Palo Alto and San Francisco
T +1 650 843 3378
david.elkins@squiresanders.com

Carl Rohlser

Intellectual Property & Technology
Practice Group Leader
London
T +44 20 7655 1662
carl.rohlser@squiresanders.com

Contributors

Alex Butterworth

Perth
T +61 8 9429 7685
alex.butterworth@squiresanders.com

Dr. Annette Demmel

Berlin
T +49 30 72616 8226
annette.demmel@squiresanders.com

Gillian Dennis

London
T +44 20 7655 1337
gillian.dennis@squiresanders.com

Christopher D. Mays

Palo Alto
+1 650 843 3230
christopher.mays@squiresanders.com

Beth Seals

San Francisco
+1 415 954 0245
beth.seals@squiresanders.com

Matei Ujica

Berlin
T +49 30 72616 8226
matei.ujica@squiresanders.com