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CONTENTS

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Revamp of National German Trademark Law

While the world, presumably including the IP stakeholders, is anxiously following the developments in Europe in relation to the BREXIT, with the developments on that front undoubtedly being dramatic and, depending on how much one is individually affected by it, perhaps even entertaining, Germany has brushed up on its national trademark law. The trademark reform which became effective on 14 January 2019, was necessitated by an EU directive which needed to be implemented in national law. As a side note, this may produce a sardonic smile on BREXITEERS no longer wishing to be under EU command for reforming national trademark legislation.

Perhaps, however, in this case, the amendments to the German trademark law, fully independent of what necessitated them, are to be welcomed by trademark holders and trademark practitioners alike on both sides of the Atlantic.

For the most part, the amendments serve to conform national German trademark law to fairly recent amendments to EU trademark law in conjunction with the European Union trademark.

In this context, most prominently, the German legislator has lifted the requirement of graphic representation as is already the case for EU trademarks. This important liberalization will open up an array of possibilities for obtaining trademark protection hitherto unavailable on the national German level. In line with market demands and in consideration of technological advancements in maintaining an official trademark register it will now be possible to obtain protection e.g. for sound marks, multimedia marks, holograms or other trademark forms. For the mentioned trademark types, the German Patent and Trademark Office has put in place technical requirements relating to the electronic data format to be used.

A further milestone can be seen in the introduction of a national German certification mark, which, again, has already been available for EU trademark on the EU level. A certification mark, in this context, serves to distinguish goods and services for which the trademark owner has certified a certain set of characteristics defined by him from such goods and services for which no such certification exists. Such trademark protection could not be directly conferred by traditional individual marks. Worse yet, with a recent court decision, existing individual marks seeking to indirectly protect a certification business model most likely are vulnerable to revocation for lack of genuine use. Entities offering certification services under their mark to others in Germany should therefore be seeking protection by way of newly introduced national certification mark.

A further change to the German trademark law has introduced the possibility to enter data pertaining to licenses in the German trademark register. US licensees of national German trademarks may therefore now be registered as such in the German trademark

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register, this leading to more transparency and, under certain circumstances, may conceivably facilitate enforcement of trademark rights by the licensee.

A further amendment worth mentioning is the newly introduced option of basing an opposition against a trademark upon an unlimited number of earlier rights, which has always been possible in proceedings relating to EU trademarks. Hitherto, opponents disposing of more than one earlier right, e.g. a word Mark and one or more word and device marks, were forced to pick one earlier right as the basis for the opposition. In order to enforce rights based on other earlier rights it used to be necessary to file additional oppositions. The downside, of course, from the perspective of trademark owners will be that opposition proceedings will become more complex when they are based upon a number of earlier rights.

All in all the amendments serve to assimilate national German trademark procedures to existing EU trademark procedures. At the same time, the changes cater to stakeholder's demands in respect of new trademark forms and in respect of the availability of protection for certification marks. US trademark users active on the German market should seek professional advice in order to review their trademark portfolios in light of the new legislation.

U.S. Supreme Court Decision in *Wayfair:* Implications for Germany-Based Businesses with U.S. Customers

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The recent U.S. Supreme Court decision in *South Dakota v. Wayfair ("Wayfair")* significantly broadens the obligation of Germany-based sellers of goods and services to collect U.S. taxes on sales to U.S. customers.

U.S. Sales-and-Use Tax Regime

The United States has no national-level value-added or consumption tax. Instead, most states (and Washington, DC) have their own consumption taxes, colloquially known as "sales and use taxes" (the "Tax"). The Tax generally applies to the sale at "retail" of tangible personal property and, to a more limited extent, intangible personal property and services. The Tax is imposed by the state where the taxable goods and services are "used" by the retail purchaser.

If the taxable sale and use take place in the same state, the vendor is required to collect the Tax at the point of sale and remit it to taxing authorities. If the sale takes place outside of such state (because, for example, the vendor receives the payment and mails the good from a location outside the state where the purchaser uses the good), the remote vendor is obligated to collect and remit the Tax only if it shares a "substantial nexus" with the purchaser's state. If the vendor does not comply with the Tax collection obligation, the law generally requires it to come out of pocket to pay the Tax, plus interest and penalties.

Non-U.S. sellers are subject to the Tax collection obligations in the same manner as U.S. sellers. Until *Wayfair,* this Tax collection obligation was not a priority item in the risk management matrix of most non-U.S. vendors because, under rules established by the Court decades ago, physical presence (e.g., personnel, stores, offices, or warehouses) was deemed a prerequisite for the substantial nexus of an out-of-state vendor with a particular state.

The *Wayfair* Decision

Wayfair revisited the question of whether physical presence still was a prerequisite for establishing the substantial nexus of an out-of-state vendor in the age of the Internet. Specifically, the Court looked at whether online retailers without a physical presence in a state (South Dakota) can be required to collect that state's Tax on consumer goods sold and delivered to that state's residents via common carriers (e.g., the U.S. Postal Service). The Court determined that the states could satisfy the "substantial nexus" standard based

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on a remote vendor having "economic nexus" with the taxing state, even if such vendor had no in-state physical presence.

The Court held that South Dakota's economic nexus law satisfies this requirement because it imposes reasonable minimum thresholds of economic activity connecting the remote vendor with South Dakota. Under South Dakota law, this economic nexus is established if a vendor delivers more than U.S. $100,000 of goods or services into the state or engages in 200 or more separate transactions for the delivery of goods or services into the state on an annual basis. However, the Court did not provide a bright-line test for the economic nexus, creating ambiguity on the part of the states and vendors. Many U.S. states have adopted or are in the process of adopting an economic nexus requirement similar to that of South Dakota, while others are experimenting with other forms of economic nexus.

Wayfair's Impact on Germany-Based Businesses

In our view, *Wayfair* impacts Germany-based businesses in two significant ways: First, German businesses selling goods and services to customers in the United States may now be subject to Tax collection obligations in states where they historically did not have such obligations under the physical presence standard of prior law. Given the development of the cross-border e-commerce of consumer goods, it is easy to foresee a vendor of consumer goods located in Germany exceeding the economic nexus thresholds in large U.S. states (e.g., California) using the $100,000 or 200 sales per year test of South Dakota law.

Second, the Tax collection obligation may not be limited to German businesses selling consumer goods and services, as this obligation applies to "sales at retail," which in many states means any sale of goods and services that are not for resale or other exempt purposes. For example, a German company occasionally selling construction equipment or materials to a South Dakota general contractor may easily exceed the requisite sales dollar amount even with just one sale, if the use of the construction materials does not qualify for an exemption.

Germany-based businesses must stay apprised of developments relating to *Wayfair,* and their potential obligation to collect U.S. sales and use taxes.

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Germany Prepares for No-Deal-Brexit

Even though there is still a lot of uncertainty with regard to the exit of the United Kingdom from the European Union, over the past several months the German lawmaker initiated a series of laws which shall mitigate the consequences of a "no-deal"-Brexit as this option becomes more likely from day to day.

The various legal projects tackle questions as diverse as the residency status of British citizens in Germany, scholarships for students, cross-border mergers for the many British Limited companies still existing in Germany, and taxation. Even the protection against dismissal of top bankers has been loosened up to make Germany a more attractive place for foreign banks moving away from the UK.

Residency Status of British Citizens in Germany and Naturalization

British citizens who live and work in another country of the European Union will lose their right of residence after the Brexit because the principle of free movement within the European Union will not be applicable to them anymore. Germany is planning to introduce a transition period of three months after the Brexit to give British residents the opportunity to apply for an official residence status. British residents working in Germany will most likely also have to apply for a work permit. The application for German citizenship (naturalization) shall not require that British people renounce to British citizenship.

Scholarship for German students in the United Kingdom and British students in Germany

German students in the United Kingdom and British students in Germany who benefit from a public scholarship (BAFöG) shall continue to be entitled to these subsidies until the end of their training and education if they stared before the Brexit comes into force.

British Private Limited Liability Companies in Germany

According to recent estimations, there are still more than 7,000 companies active in Germany which are organized as a Private Limited Liability Company under English Law and do not have an administration in the UK. This legal form had been adopted by many German start-up entrepreneurs in the past because it does not require a statutory minimum capital (Germany introduced a sub-form of the traditional limited Liability company without capital requirements later as a reaction to this development). When the UK leaves the European Union, UK-Limiteds that are active in Germany without an

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administrative domicile in the UK will not be recognized as a legal entity anymore in Germany and will either have to be transformed into a German Limited Liability Company before the UK leaves the European Union, or they will be considered as an entity without the privilege of limited liability exposing its owner(s) to unlimited liability for the company's debts. In an attempt to help the affected companies to transform into a comparable legal form under German law, the requirements for a transformation have been lowered: if the transformation process will have been notarized before the UK leaves the EU, all other formalities may still be accomplished within a period of the following two years.

Taxation

Various measures shall mitigate the consequences of the Brexit for companies with regard to taxation. The Brexit may, without the company's intervention, have tax consequences for companies with a legal form under British law which have their administrative headquarters in Germany. According to the rulings of the German Federal Supreme Court, these companies will in the future be treated as general partnership, partnership under civil law or even as sole traders (unless they opt-in for a transformation to a limited liability company in due time). An amendment to the Act on Corporate Tax shall assign the business assets without disruption to the tax subject "Limited" so that Brexit alone does not trigger the disclosure and taxation of hidden reserves.

Top-Bankers

German employment law is well-known for the protection of the employees against dismissals. Until recently, the protection against dismissals was applicable to all employees regardless of their salary unless they are top executives. Politicians were afraid that the protection against dismissals might make foreign banks shy away from Germany when looking for an alternative to London as their future place of business. Therefore, recently the protection against dismissal was loosened-up and will not be applicable to bank employees with an annual salary in 2019 of more than 234,000 EUR (Eastern Germany)/241.200 EUR (Western Germany).

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Why U.S. Export Control Laws Are Relevant to German Companies

It is not unusual for German (and other non-U.S.) companies to ignore U.S. export control laws, including for the re-export of U.S.-originated goods or components. Such an approach can turn out to be shortsighted. Generally, while the U.S. is very export-friendly, it controls how and to which countries its products are directly or indirectly exported. The U.S. export control laws which apply to goods, software and technology have a wide ranging extraterritorial reach, and the U.S. government seeks to penalize companies and individuals who breach these laws, regardless of where they are located. The application of the U.S. export control laws will be even broader with the addition of "emerging and foundational technologies" to the list of controlled products (authorized in the Export Control Reform Act of 2018).

INTRODUCTION

There are many reasons as to why the U.S. controls exports—they range from the fight against organized crime and terrorism, nuclear non-proliferation and the control of chemical and biological weapons, to foreign policy and regional stability concerns, and national security considerations. Multiple U.S. departments and agencies are involved in export control. The three primary authorities are:

- the Department of State's *Directorate of Defense Trade Controls* (DDTC) which is in charge of the application and the enforcement of the International Traffic in Arms Regulations (ITAR);
- the Department of Commerce's *Bureau of Industry and Security* (BIS) which is responsible for implementing and enforcing the Export Administration Regulations (EAR); and
- the Department of the Treasury's *Office of Foreign Assets Control* (OFAC) which administers and enforces U.S. embargoes and sanctions against specific countries and individuals.

EXPORT ADMINISTRATION REGULATIONS (EAR)

Whereas the ITAR pertains to defense articles, defense services and related technical data, items subject to the EAR include civilian items, items with both civil and military application and items exclusively used for military applications but which do not warrant control under the ITAR, i.e., less sensitive military items (also note that in 2013 certain articles were moved from the ITAR to the EAR). This article focuses on the EAR.

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The types of items subject to the EAR are commodity (e.g., material, equipment), software and technology. The EAR contain the Commerce Control List (CCL) which lists all items that are subject to the export licensing authority of the BIS. All of these items have an Export Control Classification Number (ECCN) which indicates their level of control. This in turn determines whether the export of an item to a certain country requires a license from the BIS. In case a license is required, the EAR set forth a number of license exceptions which might apply depending on the product, the country of destination and other factors.

The EAR distinguishes among "export," "re-export," and "release." Export means the actual shipment or transmission of items out of the U.S. Re-export means the actual shipment or transmission of items subject to the EAR from one non-U.S. country to another non-U.S. country. Release (or deemed export) means the release of technology or software to a non-U.S. person in the U.S.

RE-EXPORT OF U.S. GOODS UNDER THE EAR

Companies may not assume that the permitted export of goods from the U.S. means that these goods may then be re-exported to a third country without further consideration of U.S. export control laws. Rather, the EAR require that the export and re-export of goods are assessed separately. The same licensing requirements apply to re-exports as to exports because the U.S. export control laws regulate U.S.-origin products regardless of where they are located.

Example: A German company purchased specific mechanical high speed cameras from a U.S. company. The U.S. seller determined that while the camera in question was subject to the EAR, no license was required for an export of the camera to Germany based on the CCL and the Commerce Country Chart which is a look-up table in the EAR listing all countries. The German company now plans to sell these mechanical high speed cameras to a customer in Brazil, which from an EAR perspective would be a re-export. Even though no license was required for the initial export to Germany, the German company would need a license from the BIS for the re-export of the cameras to Brazil because the export licensing requirements for this product are different for Germany and Brazil.

EXPORT OF GERMAN PRODUCTS WITH U.S. COMPONENTS OR TECHNOLOGY

The EAR may also apply to German companies that manufacture goods which contain U.S. components or technology. The EAR set forth de minimis thresholds based on the value of the U.S. components or technology incorporated into a non-U.S.-made

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product to determine if the product is subject to the EAR. The threshold rules apply in case (i) a non-U.S.-made commodity "incorporates" controlled U.S.-origin commodities or is "bundled" with controlled U.S.-origin software, (ii) non-U.S.-made software "incorporates" controlled U.S.-origin software, or (iii) non-U.S.-made technology is commingled with or drawn from controlled U.S.-origin technology. For most destinations and items, a non-U.S.-made product or software is subject to the EAR if the value of the U.S.-origin controlled content exceeds 25% of the total value of the finished item. For some destinations (e.g., Iran, Syria), the de minimis threshold is 10%. The application of the threshold depends on the ECCN of the U.S.-origin controlled content and the ultimate destination to which the non-U.S.-made item is exported; special rules apply to high performance computers and encryption commodities and software. By comparison, there is no *de minimis* rule for defense articles, defense services and related technical data under the ITAR. As soon as a single ITAR component is installed in a non-U.S.-made product, the ITAR applies.

Example: A German company purchased software designed for the operation of numerically controlled finishing machine tools from a U.S. company. The U.S. seller determined that while the software in question was subject to the EAR, no license was required for an export to Germany. The German company would like to use the U.S.-origin software with its own hardware and sell the bundled products to a company based in Ukraine ("bundled" means that the software that is re-exported together with the item is configured for the item but not necessarily physically integrated into the item). If the value of the software exceeds 25% of the value of the bundled product, the German company would need a license from the BIS before being able to lawfully export the product because the export licensing requirements for this software are different for Germany and Ukraine.

ENFORCEMENT ACTIVITIES

In 2017, 31 individuals and businesses were convicted and there were 52 administrative cases which resulted in large fines. In recent years, the U.S. government has been placing more and more pressure on businesses outside the U.S. to comply with U.S. export control laws. By way of example, in March 2017, ZTE Corporation, a Chinese telecommunications company, pleaded guilty to conspiring to violate U.S. export control laws by illegally shipping U.S.-origin items to Iran and North Korea and agreed to pay the U.S. government a record-high combined civil and criminal penalty of $1.19 billion. In April 2017, a Chinese national pleaded guilty to violating U.S. laws in connection with a scheme to illegally export to China, without a license, high-grade carbon fiber, which is

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used primarily in aerospace and military applications. In October 2015, three individuals were convicted of conspiring to illegally export controlled technology to Russia.

German companies which are involved in the re-export of U.S. goods or technology or use U.S.-origin components or technology in their products are well-advised to familiarize themselves with U.S. export control laws and seek legal advice.

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