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How to infringe a German patent without ever being active on the German market
German Patents' international outreach on the rise

Imagine you had been shipping products to one of your customers say in Canada and wind up being sued by the owner of a German patent before a German court for infringement of that German patent. Sound absurd? Well, you might want to think twice as this is essentially what has recently happened to an Italian manufacturer of tyre sealing systems.

In a recent decision of the German Supreme Court (BGH) the Italian manufacturer was held to infringe the German part of European patent EP 1291158 not only for sales into Germany but also for shipments to a recipient outside of Germany. How can there be a legal basis for such a ruling? Well, the background is that German patent law and case law, notably recent decision ZR 120/15, stipulate in essence that patent infringement may also be enabling or supporting a Third Party in the realization of a patent infringement.

This quite expansive definition of patent infringing acts to date had been balanced by the additional requirement of the existence of concrete circumstances suggesting that the Third-Party will infringe German patent rights. In the past, the standard had been that there must be apparent indications that said third-party would be infringing a patent in Germany. With the recent decision, however, the standard has been lowered to comprise mere negligence in the assessment of whether, further down the line, a patent infringement would be committed based on shipments by the original shipper.

The consequence is that, reverting to the initial example where the US entity ships a product to a Canadian customer, it is no longer legitimate for the US entity to merely presume that its Canadian customer will not do anything illegal, that is will not ship the product to Germany where the product infringes against the patent. Instead, the US entity will be expected not to keep its eyes shut in view of the further fate of the products shipped to said exemplary Canadian customer. In the case recently decided by BGH, the court held that the mere volume of products shipped might be an indicator to the shipper that it is unlikely all products are intended for sale on the customer's domestic market. Thus, while high-volume orders undoubtedly are desirable, it may be advisable to be somewhat suspicious as to whether these high volumes may indeed be intended for further distribution to the German market where distribution of the products is considered to be a patent infringement. In such a case, the original shipper is expected to interrogate the customer if distribution of their products to Germany is

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intended and if so the original shipper is expected to point out to his customer that shipping to Germany will constitute a patent infringement. If no satisfactory answer is provided by the customer, the original shipper must seriously consider himself being a contributor to a patent infringement committed by the customer. Continuing shipments without further ado, in such circumstances, will be considered an infringement of the German patent even though the shipper himself has never shipped to Germany.

In the case recently decided by BGH, shipments included multilingual instruction manuals including German language instructions. Thus, returning to the initial example, the US entity shipping products to a Canadian customer, with the products being supplemented with multilingual instruction manuals including the German language, might make it particularly advisable to investigate whether that Canadian customer will further distribute said products to Germany, thereby committing a patent infringement.

Thus, the lesson learned should be that US entities should be aware that they may be held responsible for patent infringement acts in Germany committed by their customers, even if these customers are based outside of Germany. US entities, therefore, are well advised to keep an eye on the patent situation in Germany even if no shipments are ever made to Germany. Also, it is advisable for US entities to worry about the further whereabouts of products shipped in b-to-b transactions to ensure that these products will not wind up in Germany thereby retroactively rendering a shipment to a destination outside of Germany an act of patent infringement in Germany.

Who would have expected German patents to have such an international outreach? A further take-away, thus, might be that the benefit of a valid patent in Germany should not be underestimated in view of this recent boost to its enforceability.

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U.S. Supreme Court Further Limits Forum Shopping

The U.S. legal system is often considered to be "plaintiff-friendly." Relatively low court fees, the availability of contingency fees, extensive pre-trial discovery, jury trials, and the potential for punitive damages awards all foster that perception. As a result, U.S. courts have attracted claims by plaintiffs even when there is little or no connection between the place where the lawsuit is filed (the "forum") and the plaintiffs or legal issues in question – a practice known as "forum shopping."

In recent years, however, the U.S. Supreme Court has substantially curtailed the phenomenon of "forum shopping" by restricting a U.S. court's jurisdiction – essentially the court's power to hear a case – to certain kinds of claims and types of parties. Of particular interest to German companies is the Supreme Court's recent jurisprudence regarding "personal jurisdiction" – the power of a U.S. court to bring foreign defendants into the U.S. or have them risk the entry of a default judgment. There are two types of personal jurisdiction – "general" and "specific" – and the Supreme Court has recently circumscribed both.

General Jurisdiction

General jurisdiction gives a court the power over a particular defendant to decide claims against that defendant even where those claims arose outside of the forum, including outside the U.S. We have previously reported here (Vol. 2, 2016, at pages 4-5) that, after the U.S. Supreme Court decision in *Daimler v. Bauman,* courts now have *"general* jurisdiction" only (with few exceptions) where the corporate defendant is "essentially at home," i.e., in the state of incorporation or at the location of the company's principal place of business.

Specific Jurisdiction

A court has specific jurisdiction over a defendant if the plaintiff's claim "arises out of" a particular contact with the state, e.g., out of the defendant's sale of a product in the forum state. In June 2017, the Supreme Court clarified the limits of specific jurisdiction by emphasizing the requirement that the claim must "arise out of" conduct that the defendant had "purposefully directed" toward the forum state.

In Bristol-Myers Squibb Co. v. Superior Court, 678 plaintiffs sued a U.S. drug company ("BMS") in a California state court for damages allegedly resulting from a particular drug. Of the 678 plaintiffs, 592 were not residents of California, and BMS challenged the court's personal jurisdiction as to the claims raised by those nonresidents.

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BMS was incorporated in Delaware and headquartered in New York. Thus, the California court did not have "general jurisdiction" over BMS because the company was not "at home" in California.

As to specific jurisdiction, the Supreme Court held that (based on the fairness requirement in the constitutional "due process" clause applicable to state courts) a plaintiff in a state court must demonstrate an "adequate link" between his claim and the defendant's conduct in the forum state. The Court noted that the nonresidents were not prescribed the drug in California, did not obtain or ingest it there, and were not injured in that state. The Court then examined the conduct that BMS had purposefully directed toward California and held: "The bare fact that BMS contracted with a California distributor is not enough to establish personal jurisdiction in the State."

Thus, the Supreme Court found that the nonresident plaintiffs had not shown an adequate link between BMS's conduct in California and the claims of the plaintiffs who resided outside of California. In other words, the claims of the non-Californian plaintiffs did not "arise out of" BMS's California conduct. The California court, therefore, did not have "specific jurisdiction" over any of the claims brought by the nonresident plaintiffs.

The Supreme Court expressly left open the question whether the constitutional analysis that limited the jurisdiction of state courts would apply equally to federal courts.

Conclusion

In recent years, U.S. courts have significantly limited the power of courts over parties and claims that have little if any connection to the forum. As a result, U.S. courts today are far less welcoming than they were only 10 or 15 years ago to plaintiffs who seek to bring claims that either arose outside of the U.S. or are brought against non-U.S. defendants. Nonetheless, plaintiffs (and their counsel) are likely to develop creative arguments and strategies to achieve their "forum shopping" goals, and German companies remain well-advised to continue to be prepared for litigation in U.S. courts and to be knowledgeable about the various jurisdictional defenses available to them.

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Post BREXIT: How will EU-Judgments be enforced in the UK?

Among the many not yet answered questions related to the Brexit, one is of particular importance for businesses: how will judgments of other EU countries be enforced in the UK, and vice versa, after March 2019.

Today, the UK and 27 other countries within the European Union have a very sophisticated and efficient system of mutual recognition and enforcement of foreign judgments in place, laid down in the Recast Brussels Regulation (EU 1215/2012). Judgments handed down by a court of one member state which has competence according to the provisions on international jurisdiction will automatically be enforced by the judicial authorities of any other EU member state. No specific recognition proceedings are necessary. The Recast Brussels Regulation also contains extensive rules on the determination of the competent courts and ways to choose the venue in a contract. Similarly, the EU-Regulation 1896/2006 provides a simplified procedure for obtaining a European Order for Payment between companies in different member states of the EU. It is applicable to undisputed amounts owed by a company located in a member state different from the creditor's country (EU-Regulation 1896/2006 is not applicable in Denmark, though).

With the Brexit taking effect end of March 2019, the UK will, however, automatically leave these systems and a solution for this situation will have to be negotiated between the UK and the European Union. But what happens if a "hard" Brexit happens with no negotiated solution?

In the event that the UK and the EU do not reach any compromise on the matter, the national rules in each of the European member states on the recognition of foreign judgments will apply, just the same way as if the applicant were an overseas company (e.g., from the US). The statutory provisions for such exequatur procedures vary from country to country but, for example, in Germany and France they consist of a test of international regularity which will be the case if (a) the judgment was handed down by a judge who had jurisdiction over the dispute and (2) it does not contravene the public order of the country where it is to be enforced. There may be more requirements for recognition of foreign judgments in other countries. All criteria for recognition are determined by the national laws of the country where recognition is sought for.

The UK might look out for alternative solutions which do not require the unanimous consent of the remaining countries of the European Union. In 2005, the EU and – so far Mexico and Singapore – agreed on the Hague Convention on choice-of-court agreements. The UK is currently not an autonomous member of this Convention but only as part of the EU. However, after leaving the European Union, the UK might apply for acceding the

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Hague Convention directly and thus benefit from the regulations of this Convention which is, however, only applicable to contracts where the contractual parties chose an exclusive place of jurisdiction of one of the Contracting States.

The UK could also become a member of the Lugano Convention on the recognition and enforcement of judgments from one member state in another member state. The Lugano Convention is applicable between the EFTA-states (European Free Trade Association) and can be considered as a predecessor of the Brussels Convention. However, adhesion to either EFTA or the Lugano Convention directly will require the consent of the other members, mainly identical with the members with the countries of the European Union. Thus, the UK will only be able to make use of this alternative by way of negotiations.

It goes without saying that any result achieved through negotiations between the "parties" (UK and EU) is better than no agreement at all. The EU Council already made a proposal suggesting that at least all judgments handed down before the UK's withdrawal (end of March 2019) shall continue to be enforceable in accordance with the current rules (Directives of the EU Council on the Brexit-negotiations, published on 11 May 2017). But, again, also this small achievement is subject to mutual consent.

Mutual recognition and enforceability of judgments is of high value for businesses in a globalized world. Indirectly, it even determines payment behaviors of companies and individuals. Thus, this topic should be given some priority in the Brexit negotiations.

As a practical advice, existing contracts between EU companies and UK companies should be reviewed in due course with regard to jurisdiction and choice-of-law clauses. Obviously, it is too early to determine effective jurisdiction clauses under the post-Brexit regime. However, parties to existing and new business contracts should consider arbitration clauses as an alternative to jurisdiction before public courts. Recognition and enforcement of arbitral awards is not related to the membership to the European Union. It is governed by the New York Arbitration Convention. The vast majority of the member countries of the United Nations (154 out of 193 member countries) have adopted the New York Arbitration Convention, including the UK and all other EU member states. Thus, the UK's withdrawal from the EU will have no impact on the enforceability of arbitral awards.

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Congressional, White House negotiators drop border-adjustment tax from tax reform principles

Congressional Republican leaders and White House officials announced in a joint statement on July 27, 2017 that as part of their shared commitment to tax reform, a border-adjustment tax will not be included in any tax code overhaul that moves through Congress this year. The statement outlines a consensus Republican view of the key principles that should animate tax reform.

The statement is drafted in broad strokes and largely avoids specific policy details such as target tax rates for businesses or individuals. On the issue of corporate taxation, however, the drafters express confidence that "without transitioning to a new domestic consumptio n-based tax system, there is a viable approach for ensuring a level playing field between American and foreign companies and workers, while protecting American
The "Better Way" tax reform blueprint that Ways and Means Chairman Brady and House Speaker Ryan released in June of last year called for a new destination-based cash flow tax with "border adjustments" through an unspecified mechanism that would serve to eliminate US tax on products, services, and intangibles exported abroad (regardless of their production location) and impose a 20% US tax on products, services, and intangibles imported into the US (also regardless of production location). The concept of a border-adjustment tax – which is described only in general terms in the House GOP blueprint and was never fleshed out in a discussion draft or an introduced bill – had divided congressional Republicans and became the focus of an intensive lobbying battle within the business community, with retailers, oil refiners, and other import-dependent industry sectors on one side and export-heavy businesses on the other. It also received only lukewarm support from President Trump.

The border-adjustment proposal in the blueprint has been unofficially estimated to raise over $1 trillion dollars to offset the cost of a corporate rate cut. Significantly, the statement does not propose any alternative revenue source for bankrolling a rate reduction.

In addition to discussing the border-adjustment issue, the statement also addresses some other significant tax reform priorities for businesses and individuals, albeit obliquely.
Rates: The statement calls for tax reform that "protect[s] American jobs and make[s] taxes simpler, fairer, and lower for hard-working American families" and lowers tax rates for businesses of all sizes "as much as possible."

Permanence: The statement urges the congressional taxwriting committees to develop legislation that "places a priority on permanence." This appears to be a call for lawmakers to move forward with comprehensive, revenue- neutral tax reform rather than a tax cut-only bill.
Territoriality: The statement does not include an explicit call to adopt a territorial system

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for taxing foreign-source income of US multinationals. It does, however, call for tax reform that "creates a system that encourages American companies to bring back jobs and profits trapped overseas." The House GOP tax reform blueprint advocates a territorial tax system; Treasury Secretary Mnuchin commented at a July 26 Senate Appropriations and General Government Subcommittee hearing that moving to territoriality is a "main priority" of the Trump administration; and Finance Committee Chairman Hatch has been extolling the virtues of a territorial tax system in recent speeches and materials released by his panel.

Cost recovery and limits on interest deductibility: The statement includes a reference to "unprecedented capital expensing" for businesses; however, it does not specify the extent of any proposed change in the expensing rules nor does it mention pairing that proposal with changes to the treatment of interest deductibility.

With the release of the statement, there appears to be a shift the tax reform process back to the taxwriting committees, saying, "[o]ur expectation is for this legislation to move through the committees this fall, under regular order, followed by consideration on the House and Senate floors."

Regular order should include passage of the bills through both the Ways and Means and Finance committees before moving to the House and Senate floors, with the opportunity for members of both parties to offer amendments. This does not appear to preclude the use of the reconciliation process, by which Republicans could pass the legislation in the Senate with a simple majority vote rather than the three-fifths majority typically required for non-reconciliation bills to clear procedural hurdles in that chamber.

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Employee Expense Reimbursement Plans

For German and other non-U.S. companies starting business in the United States, it is important to become informed about the U.S. tax rules relating to reimbursing employees for business expenses. The consequences for failure to comply with certain procedures can be very costly both to the employer and the employee. Following the "accountable plan" procedures, however, can avoid the expenses being classified as compensation, thus saving the employer payroll taxes on the reimbursements. In addition, the employers would not report any of the expenses as taxable compensation, saving the employees personal income taxes. If the employer reimburses the employees without meeting the accountable plan requirements, expense reimbursements are deductible by the employer as compensation and included in the employee's income, subject to federal income tax withholding and employment taxes.

Accountable Plans

The following requirements must be met to satisfy the accountable plan rules, whether the employee is being reimbursed for the expense or is given an expense account:

- There must be a **business connection** to the expenditure which requires that any advances, allowances or reimbursements be for only specified deductible business expenses that are paid or incurred by the employee in connection with his services as an employee.
- **Substantiation Requirement** – Adequate accounting of the expense must be made within a reasonable time. As a general rule, the employee must submit information to the employer that sufficiently identifies the specific nature of each expense and to conclude that the expense is an employee business expense. Employees should keep record of the expenses (using an account book, diary, or expense statement) along with receipts and other documentation indicating the expense amount, time and place of the transaction, and business purpose of the expense. Certain incidental expenses (such as taxis, telephones, etc), however, may be totaled on a daily basis without specific identification. Employers should be sure to have all required substantiation available in case of audit by the tax authorities.
- **Excess reimbursements or advances must be returned by the employee within a reasonable time.** The determination of a reasonable period of time depends on the facts and circumstances. If the excess amount is not returned, the amount is treated as compensation to the employee which would be subject to payroll tax and withholding.

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If the above three requirements are met and the expenses are reasonable and necessary, there will be no reporting on the employee's W-2 and the employer can take business deductions for the expenses (subject to 50% disallowance for meals and entertainment expenses).

Per Diem Travel Allowances

Instead of payment for actual expenses, an employer may use per diem allowances for lodging, meals and incidental expenses or for meals and incidental expenses alone. The per diem method allows employers to structure an allowance plan using any flat or stated schedule. To the extent the payments do not exceed the established federal rate for the area of travel, the payment does not need to be included in a W-2 or reported as wages. Any amount in excess of the federal rate would need to be included in the employee's W-2. The benefit of the per diem allowance is that detailed expense records do not have to be produced to prove the amount of the travel expenses covered.

The per diem allowance still must satisfy the following requirements:

- Like all business expenses, the allowance must be paid for ordinary and necessary business expenses, with expense reports showing the business purpose, date and place of the trip.
- All accountable plan rules must still be met as stated above.
- The allowance must be paid at or below the applicable federal per diem rate under a stated schedule and must be provided on a uniform and objective basis.

Nonaccountable plans

Expense arrangements that don't meet the business connection, substantiation requirement or return of excess reimbursement amounts are considered to be made under a nonaccountable plan. These reimbursements will be taxed as compensation. While, an employee may then deduct any business expenses as a miscellaneous itemized deduction on his or her tax return, the deductible amount is limited to expenses above 2% of adjusted gross income. As for the employer, nonaccountable plan expenses will be deducted as compensation, subject to withholding taxes and payroll taxes.

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