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Topics at a glance

Patent law

G 4/19 – Confirmation of the prohibition of double patenting before the EPO

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In its most recent decision G 4/19, the Enlarged Board of Appeal of the European Patent Office deals with the so-called prohibition of double patenting. The Board confirms therein that a European patent application may be refused if it claims the same subject-matter as a European patent, granted to the same applicant, which is not part of the state of the art. This applies irrespective of whether the application to be refused was filed on the same day as the European patent already granted, is a parent or divisional application thereof or claims the same priority as the European patent already granted.

Previous practice

The prohibition of double patenting is based on the assumption that the applicant has no legitimate interest in granting of a second patent for the same subject-matter for which he already owns a patent.

The European Patent Convention (EPC) does not contain any explicit provisions on the prohibition of double patenting. However, such a prohibition was derived from general principles of law ("Ne bis in idem"), for example in an "obiter dictum" in decisions G 1/05 and G 1/06. Under Art. 125 EPC, principles of procedural law generally recognized in the contracting states may be used in EPO decision-making practice, provided that corresponding provisions are not provided by the EPC.

The problem of a possible double patenting may arise for the following three situations:

(1) Two applications containing at least one identical claim are filed on the same date.

(2) At least one claim of a parent application and a divisional application derived therefrom are identical.

(3) At least one claim of a first application and a subsequent application claiming the priority of the first application are identical.

A practical interest of the applicant in double patent protection exists in particular in the third of the mentioned situations. The term of a patent is 20 years. The relevant date for calculating the term is the filing date of the application, but not its priority date. This means that the maximum term of protection of a subsequent application filed one year after a first application and claiming its priority ends 21 years after the filing date of the first application. In other words, an effective extension of the term of protection by one year can be achieved for the subject-matter claimed in the subsequent application.

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The question brought before the Enlarged Board of Appeal was whether a European patent application can actually be refused with reference to double patenting and, if so, whether a distinction must then be made between the above three possible situations. In particular, the question was raised whether in the practically very relevant third case (application and its priority application) a legitimate interest of the applicant in double patenting would result from the fact that the filing date and not the priority date is decisive for calculating the term of the patent.

The Enlarged Board of Appeal initially affirms that a European patent application can be refused with reference to double patenting. A prohibition of double patenting could indeed be derived from the legislative history of the EPC and can be applied under Art. 125 EPC.

Nor was it necessary to distinguish between the three situations outlined above. From the “travaux préparatoires”, i.e. the official records of the history of the proceedings of the EPC, it would be clear that the legislator did not want to distinguish between these cases. Therefore, the question of a legitimate interest of the applicant in double patenting could also remain unanswered in the case of an application and its priority application.

Conclusion

The decision follows the established practice of the EPO on the prohibition of double patenting, in particular the decisions G 1/05 and G 1/06. It makes explicitly clear that the prohibition of double patenting can indeed be applied under the EPC and also applies to an application and its priority application. The fact that the Enlarged Board of Appeal leaves the question of a legitimate interest of the applicant in a second patent in such a case unanswered is to a certain extent unsatisfactory. Such an interest would probably not have been easily to deny in the light of the effective extension of the term of the patent.

The decision also leaves open when two claims relate to “the same subject-matter” and therefore fall under the prohibition of double patenting. According to established practice, an application is refused with reference to the prohibition of double patenting only if the scope of protection of the claims is identical. Overlapping scopes of protection of non-identical claims, on the other hand, are generally regarded as uncritical.

Even if this question remains unanswered in the decision, it can probably be assumed, in accordance with established practice, that the prohibition of double patenting is still to be interpreted narrowly and thus remains limited to identical claims. This is also supported by the fact that the reasoning of the decision distinguishes between “double protection” (overlapping claims) and “double patenting”.

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Patent Law

Recent German Court Decisions and Legislation shape the future of European Patent Litigation

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The German Federal Constitutional Court has recently rejected two urgent applications directed against the creation of the European Unified Patent Court. If political support for the project continues and no further unexpected hurdles arise, the unitary patent could thus be – finally! – on the home straight and, according to optimistic estimates, could enter into force within the next 9 to 12 months. At the same time, legislation is overhauling the rules of national German patent litigation. The revised German Patent Act provides for a new and controversially discussed proportionality exception for injunctive relief as well as measures to accelerate patent nullity proceedings and to better align them with patent infringement proceedings.

The unitary patent on the home straight?

The European patent system so far only provides for a centralized grant procedure, resulting in a bundle of national patents. This may be about to change, and in the future the European Patent Office might also grant a genuine European patent with unitary effect in all participating member states (currently all EU members with the exception of Spain, Poland and Croatia). These patents shall in future be enforceable against patent infringers before a Unified Patent Court (UPC) with effect for all participating member states.

The first ideas for such a unitary patent already existed when the European Patent Office was established in the 1970s. Efforts have intensified over the past fifteen years, and since 2013 the relevant agreements to implement this idea have been in place and have already been ratified by numerous EU member states. However, the German ratification of the agreement on the UPC, which is essential for its entry into force, was held up twice by constitutional complaints, first in 2017 and then again in 2020. These complaints allege violations of the rule of law, of the fundamental right to effective judicial protection, as well as violations of EU law. The plaintiffs complained, in particular, that the judges at the Unified Patent Court are only appointed for a limited time period, so that judicial independence is not sufficiently guaranteed.

The Constitutional Court dismissed these complaints in June 2021. In the opinion of the Court, the plaintiffs were not able to prove that the organizational structure of the Unified Patent Court violated the rule of law, and to what extent this impaired the principle of democracy. After a four-year interval, the unitary patent has thus cleared a decisive hurdle. In August 2021, the German President already signed the German ratification bill into law.

However, some further obstacles on the way to realization remain. As a consequence of Brexit, the United Kingdom already withdrew from the UPC project last year. This poses organizational and legal challenges, because London is explicitly designated in the agreements as one of the three seats of the Unified Patent Court (alongside Paris and Munich). Germany has proposed a division of jurisdiction between Paris and Munich. In the Explanatory Memorandum, the German Federal Government argued that the withdrawal of the United Kingdom would not prevent the implementation of the Unitary Patent. The provisions of the agreements were to be interpreted in such a way that the withdrawal of a member state, which could not be foreseen by anyone, did not prevent the entry into force for the remaining participants. In addition, the agreements were to be interpreted in such a way that, in the event of the London seat ceasing to exist, its responsibilities could be taken over by Paris and Munich, at least on a transitional basis. France, on the other hand, would prefer to consolidate in Paris. Several other countries have also signaled their interest in taking over the London seat. Italy, for example, has brought Milan into play and has pushed for a corresponding revision of the agreements. Even though the political will to move ahead apparently remains strong, we might still see some heated discussions on the details of the implementation.

Moreover, preparations for the establishment of the Unified Patent Court and the selection of judges have come to a standstill due to Brexit and the German constitutional complaints. This work now needs to resume as soon as possible, but might still take several months, according to estimates published by the Preparatory Committee.

Germany has deliberately postponed the deposition of the ratification bill with the Council of the European Union, to delay the start of the UPC system until the preparations are complete. Despite the remaining obstacles, optimistic voices believe that the unitary patent could become a reality within the next 9 to 12 months – a manageable timeframe given the 50 years of preparations.

If the unitary patent system finally comes into existence sometime in 2022 or 2023, patent owners will face tough decisions if and how to use it.

After the system will have started to operate, unitary protection can be requested within one month after grant of a European patent, without an extra fee. But you should be aware that the UPC system not only affects newly granted European patents, but all existing European (bundle) patents in countries that have ratified the UPC Agreement. By default, they will all be subject to the jurisdiction of the UPC. There will be a transitional period of at least seven years (possibly extended by another seven years) during which patent owners can opt out of the new system, but this requires an active filing of an opt-out request. Patent owners will be able to file their opt-out requests in a "sunrise period" even before the UPC Agreement comes into force, to avoid being trapped in the new system by commencing litigation.

Should you request unitary protection? Should you opt out your existing patents? It's a tough decision that depends on many factors, including the costs of validating and maintaining the unitary patent (moderate) and the costs of litigating patents before the UPC (probably also moderate), but also your faith in a completely new court system without any case law to rely on. Many big filers have vowed to make use of the new system, but may decide to opt out their crown jewel patents, at least for the start.

Hardship exceptions for injunctive relief and faster nullity proceedings – the reform of the German Patent Act enters into force

While Europe is preparing for the unitary patent, Germany is currently overhauling its national patent litigation system, in an attempt to cure some perceived imbalances.

Injunctive relief is the sharpest sword in German patent infringement proceedings. If an infringement court has found a patent infringement, it not only orders the patent infringer to pay damages for past infringing acts, but also rules that the infringing product must be removed from the market and that the infringing process may no longer be carried out.

This mandatory or quasi-automatic injunctive relief has come under increased criticism by parts of the industry. In particular, the telecommunications industry and the automotive industry with their suppliers see a risk of abuse when the patent-infringing product is only a small and subordinate component of a complex overall product, for example a mobile phone chip installed in a car, but the injunctive relief ultimately affects the overall product. In these constellations, the threat of injunctive relief means that the patent proprietor often has to grudgingly accept excessively high license fees in order to avoid a production stoppage and the associated enormous costs.

The revised Patent Act now explicitly provides for a proportionality test for injunctive relief in Sec. 139 (1):

> "The claim for injunctive relief is excluded to the extent that the claim would lead to disproportionate hardship for the infringer or third parties not justified by the exclusive right, due to the special circumstances of the individual case and in accordance with the principle of good faith. In this case, the infringed party shall be granted appropriate compensation in money. The claim for damages pursuant to paragraph 2 shall remain unaffected."

The Utility Model Act was amended correspondingly. For the first time, the amendment expressly provides for the possibility of an exclusion of the injunctive relief if this would lead to unjustified hardship for the infringer himself, or for third parties. In such a case, the infringer could, for example, be granted a conversion period or sell-off period by the court, which would allow him to continue to market the patent-infringing product, at least temporarily. In extreme cases, the injunctive relief could even be permanently excluded.

Most commentators, however, expect the infringement courts to use the new rule with extreme restraint and to limit it to special cases of hardship. Voices from the judiciary also point out that the new rule merely explicitly codifies in the Patent Act what they were already able to rule anyway by applying the case law of the Federal Court of Justice. In its “Wärmetauscher” (“heat exchanger”) decision (case ref BGH X ZR 114/13), the Federal Court of Justice already held in May 2016 that the patent infringer may be granted a grace period in exceptional cases. The Federal Government’s explanatory memorandum also emphasizes the exceptional nature of the hardship provision. In this respect, the decision-making practice of the infringement courts may not change much at all. However, the exception will presumably be invoked by the defendants more frequently in the future than in the past.

How the additional monetary compensation provided for in the amendment to Sec. 139 (1) will be structured remains to be seen in practice. In particular, it is still unclear, and a topic of heated debate, whether this compensation is higher than the claim for damages to which the patent proprietor is entitled anyway.

Another significant and much less controversial reform concerns the streamlining of the patent nullity proceedings in order to better align them with the patent infringement proceedings.

In German patent infringement proceedings, the alleged infringer can only defend himself by claiming that he does not infringe the patent, for example, because his product differs from the patented solution or because he is entitled to use the invention. However, if he wants to claim that the patent was wrongly granted, for example that it is not novel or obvious in view of the prior art, he must attack the patent in separate nullity proceedings before the Federal Patent Court. This is usually called bifurcation or separation.

Due to the role of the nullity proceedings, they usually already start with a considerable time delay compared to the infringement proceedings, and then even progress much more slowly. As a result, the alleged infringer often faces the unfortunate situation that the infringement court has already found a patent infringement before the Federal Patent Court decides on the validity of the patent many months later. Even the preliminary opinion of the Federal Patent Court, which the legislator had introduced with a previous reform in 2009, often comes too late to have an impact on the infringement proceedings. In the meantime, under the pressure of the threatened injunctive relief, the patent infringer may already have felt compelled to agree with the patent proprietor on a high royalty payment, even though the patent would ultimately have turned out not to be invalid.

In order to remedy this deficiency (sometimes known as the “injunction gap”), in the future the patent proprietor must submit his defense arguments against the nullity action already within two, in exceptional cases at the latest three months after service of the nullity action, and the Federal Patent Court should prepare its preliminary opinion at the latest six months after service of the nullity action. In typical case constellations, these deadlines should result in the infringement court having the preliminary opinion of the Federal Patent Court at hand before its decision on the patent infringement. The infringement court could then suspend its proceedings on the basis of the preliminary opinion, until the final decision in the nullity proceedings.

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This approach is promising and could synchronize the patent nullity proceedings with the patent infringement proceedings much better than before. However, its success essentially presupposes that the Federal Patent Court will be in a position to issue its preliminary opinions quickly and in a reliable quality, and that the speed-up at the initial phase of the nullity proceedings will also translate into a shorter time to final judgement. This might become the acid test for the new system.

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Patent law

From Artworks and Copyrights, NFTs make their way into Inventions and Patents

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While the world's creativity and digital artwork sector have been reaping the benefits of NFT based transactions, more recently inventions and patents have also joined the trend.

The last few months have seen a tremendous increase in activities surrounding Non-Fungible Tokens (NFT). It started when Mike Winkelmann a.k.a. Beeple sold his digital art named "EVERYDAYS: THE FIRST 5000 DAYS" for 69 million dollars. Following that there were other successful sales as well, including the Canadian musician Grimes, who sold her digital artworks in an auction for $6 million.

In fact, IBM Corp and a start up, IPWe, had recently announced their plans of representing their patents as NFTs on a blockchain based network. Telling more, in 2019, Nike had secured a patent for a blockchain based system known as "CrpytoKicks" wherein ownership and transfer of ownership of trainers will be recorded. On purchase of a physical pair, the purchaser will get a corresponding NFT which verifies the authenticity of the shoe, along with some other perks. This is one of the unique ways in which NFTs are helpful in fighting counterfeiting.

What are NFTs?

NFTs, based on blockchain technology, certify digital assets as unique and non-fungible. What this means is that unlike fungible crypto currencies, NFTs cannot be broken down or exchanged for another NFT of an equal amount. Each NFT is unique in itself and has a different characteristic of its own. Once minted and tokenized, they are stored on a blockchain as a representation of an asset, such as a digital art. Once entered on the blockchain, the data is immutable and this is one of the main reasons why NFTs and blockchain technology are popular.

Background of NFTs

The basic concept of NFTs is not new. The concept of NFTs came into existence in December 2012, with the "Coloured Coins". These coins were initially issued on Bitcoin blockchain, as a representation of real-world assets and a proof of ownership. This is where the idea of collectability was associated with the NFTs. The idea behind coloured coins was to use the blockchain for assets such as digital collectibles, coupons, property, etc.

In 2017, Cryptopunks was launched as the world's first marketplace for rare digital, based on an Ethereum blockchain. Over 10,000 different cartoon characters were available to be claimed for free, by anyone who had an Ethereum wallet. The concept behind cryptopunks was that no two characters were the same and were limited in number, adding to their uniqueness.

The biggest leap in the popularity of NFTs took place with the arrival of CryptoKitties in 2017. The virtual cat with the ability to breed, with each carrying its own genome with DNA and distinct traits was the marker of NFTs coming out into the mainstream. This process of buying, breeding and trading cryptokitties had exploded to a volume of 5,000 ETH. The popularity was so huge that it led to an increase in pending transactions on Ethereum, along with taking up over 10 per cent of the traffic on Ethereum and causing a threat to other applications via crowding.

Following this explosion, market places like OpenSea and RareBits cropped up to further this phenomenon. In order to highlight the use of NFTs as artistic collectibles on blockchain, Germany's ZKM Center for Art and Media Karlsruhe Museum had also featured CryptoKitties.

From digital art, NFT has expanded to popular culture and the commercial world as well. Nike's CryptoKicks and Taco Bell's taco art are examples for that. In pop music, artists such as Grimes, King of Leon, Stever Aoki have hopped on the trend with creating their own NFTs.

In the academia as well, NFTs have made their way, providing yet another use of their collectability. An example was seen with UC Berkely's auction of an NFT that represented patent disclosure and research documents related to research concerning the CRISPR-Cas9 gene editing. While there was no transfer of patent rights in the transaction, the idea behind it was to provide bragging rights something magnificent.

How are NFTs helpful in the Patent world?

From providing a platform for transactions related to digital collectibles, NFTs are now moving into the Patent transactions by providing a way to exchange authorship or licensing of patents and research. In a collaboration with University of Kentucky, IPwe has launched an Advisory Committee for University Technology transfer, in order to explore methods and avenues through which universities can monetize and manage their patent portfolios. The collaboration between IBM and IPwe to create an NFT based marketplace for patent transactions is another example.

NFTs rely on distributed ledgers, or blockchain and this provides the biggest advantage of authenticity and verifiability. Complexities and execution time of transactions are reduced as the transactions are stored on the ledger for everyone to see and verify for themselves. This transparency is what makes NFTs particularly attractive.

Patent attorneys may spend hours searching different IP databases and reviewing assignments and transaction contracts in order to ascertain the true owner of a patent. NFTs have the potential to ease the process by providing a clear and assorted database of each transaction, making further transactions simpler and more cost-effective. For a company such as IBM, with large patent portfolios, a blockchain based marketplace can be beneficial. The distributed network verification system provided by blockchain brings certainty to transaction, which is an invaluable feature. When it comes to patent licensing and sales, the system provides confidence with having a clear current title and history of transactions. This provides a remarkable tool for standardization of the fragmented patent marketplace.

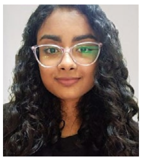
It is also important to highlight the difference between NFTs that represent digital art and the ones based on the model of IPwe and IBM. The former deals with collectability and ownership over an original artwork. The related artwork being traded is unique and cannot be reproduced. The latter concerns itself with ensuring transparency and efficiency in transactions, whereas ownership of the patent may or not be included.

Potential Risks

Along with the various benefits pointed above, it is also important to be aware and mindful of the risks that accompany transactions taking place on a distributed blockchain ledger. At the outset, the potential of NFTs to avoid counterfeiting has been lauded time and again, however, there are challenges too. NFTs are not a grand saviour of the issue. There is scope of withholding any information, or putting in erroneous information as there are no checks to ensure that correct data by authorised individuals are being entered. Once the information is entered on a blockchain, it is immutable, and this is where the major problem arises in cases where the information put up is itself false or wrong. The blockchain will keep perpetrating the wrong information. While some platforms are working towards solving this issue, it is advisable to be careful until completely fool proof systems are installed.

As pointed out above, unlike copyrights where NFTs deal with collectability and ownership, in terms of patents, the only use of NFTs is to ensure transparency by creating a database. However, some have voiced their concerns that this development is nothing but duplication of something that already exists. For one, the patent office holds an extensive database of patents and assignmentsalong with other important information. There are also other services providingpatent databases, such as patentinspiration.com and patents.google.com. Further, it is also doubtful as to how many companies will be ready to put their patents record as NFTs onto a public ledger.

While NFTs present a new opportunity to explore a new territory and find a new marketplace, the risks cannot be ignored. For patent transactions, NFTs and blockchain can help with easing the cumbersome search process and sifting through numerous patent databases. However, the biggest hurdle in the process is convincing the playersto adopt the a system based on blockchain. There is a famous quote by Mark Cuban on Blockchain, that says, "It's like the early days of the internet'- brand new, no one really knows what it's going to be. when 'a lot of people thought we were crazy'". Whether Blockchain technology and NFT turns out to be as big as the internet is something only time can tell. However, NFT has provided a solution to various issues that form a part of digital transactions, such as transparency and improved security. NFTs hold immense potential to revolutionize the way transactions take place in future.



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Trade Marks

Protection of the Swiss Army Knife

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With judgement rendered on 15 June 2021 in the case 33 O 7646/20, the Regional Court of Munich ruled on the use of various indications of geographical origin with reference to Switzerland. Specifically, the ruling concerned the famous Swiss Army Knife of the traditional Swiss company Victorinox. The court clarified that the indications "SWITZERLAND", "SWISS" as well as the national flag of Switzerland enjoy a high reputation as indications of geographical origin in relation to pocket knives and multifunctional tools.

Background

In the underlying case, the traditional Swiss company Victorinox objected the offer and sale of pocket knives and multifunctional tools bearing the indications "SWITZERLAND" and the national flag of Switzerland. In the proceedings Victorinox has alleged that the defendant was appropriating the reputation of these indications of geographical origin for its own products. While Victorinox manufactures the Swiss Army Knife and multifunctional tools in Switzerland, the defendant's products are produced in China and belong to the low-price segment.

Nevertheless, these products were labelled with the words “SWITZERLAND” and the national flag of Switzerland. Only a small sticker on the back of the packaging of the defendant’s pocket knives and multifunctional tools suggested that the products originate from China.

Decision of the court

The Regional Court of Munich granted the action and specifically ordered the defendant to cease and desist from further offering and selling the pocket knives and multifunctional tools at issue. The indications of geographical origin “SWITZERLAND”, “SWISS” and the Swiss national flag are associated with special values in relation to pocket knives and multifunctional tools and therefore enjoy a high reputation. In the court’s opinion, this is even obvious in the legal sense and hence does not require proof in the proceedings. Consumers would expect a high quality from products from Switzerland; this is also true for the Swiss Army Knives sold by Victorinox. Accordingly, such products are associated with special quality and enjoy a high degree of recognition. By transferring this special reputation to the products manufactured in China by means of “Switzerland-related” labelling, the defendant exploits this reputation. The public would inevitably make an association with the quality and tradition of Swiss pocket knives, with the result that the target public would associate the defendant’s products with similar ideas of quality and value. For these reasons, it was irrelevant whether or not the indications on the defendant’s products misled customers as to the geographical origin of the products. Delocalising references on the products, such as a reference to their origin from China, were irrelevant.

Conclusion

The Regional Court of Munich has confirmed that the indications of geographical origin “SWITZERLAND”, “SWISS” as well as the national flag of Switzerland enjoy a special reputation with respect to pocket knives and multifunctional tools. Accordingly, there is an extended scope of protection with regard to these and similar indications. Whether or not an indication referring to Switzerland in connection with pocket knives and multifunctional tools may actually mislead the public, is of no relevance. Insofar as the products are not from Switzerland, the use of such indications is per se unlawful.

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Trade Marks

Health Claims Regulation: The use of trademarks containing health claims finally banned

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As of 20 January 2022, the use of trademarks containing health claims will be definitively prohibited.

Many products are advertised by the food industry as having health benefits. Margarine were "low in cholesterol" and dried fruits would "promote digestion." Even in the case of sweets, the vitamin content is emphasised. By doing so, it is intended to provide incentives to buy. Many consumers are willing to spend more money on "healthy" foods.

Increased consumer protection through the Health Claims Regulation

Due to the risk of misleading consumers about alleged health effects, the European legislator passed the Health Claims Regulation (Regulation (EC) 1924/2006) in 2006. It regulates the requirements for nutrition and health claims on foods. The Regulation has a wide scope of application. The term "claim" includes any labelling or advertising of the product that declares or even implies that a food has positive nutritional characteristics or that establishes a link between the food and health.

Nutrition claims are only permitted if they are truthful. The Health Claims Regulation lists over 200 common claims such as "sugar-free" or "low-fat" and sets limits for the product name. For example, if a product contains less than 0.5 g of sugar per 100 g, it may be advertised as "sugar-free".

Health claims are generally prohibited under the Regulation. Products may not simply be associated with a specific health effect ("helps strengthen the immune system"). However, there is the option of going through an approval procedure at the German Federal Office of Consumer Protection and Food Safety (BVL). In 2012, the EU additionally adopted another regulation (Regulation (EU) No. 432/2012), which contains a list of permitted health claims for foods. According to this Regulation, a product with a specified minimum calcium content, for example, may refer to its positive influence on bone preservation.

Need for action by trademark owners

Word and figurative marks are also to be understood as identification of the product. Therefore, they may not readily contain nutrition or health claims such as "low carb" (Hamburg Court of Appeals, 24.04.2014 – 3 W 27/14). Terms such as "vital", "fit" or "healthy" are also affected. A well-known German drugstore chain found themselves forced to rename its own brand "Das gesunde Plus" to "Mivolis" due to the Health Claim Regulation.

To protect trademark owners, the Health Claims Regulation contains a transitional provision. According to Art. 27(2), products with trademark protection existing before 1 January 2005 (also by virtue of reputation or renown) may be marketed until 19 January 2022. Only from 20 January 2022, the requirements of the Regulation will also be applying to these trademarks. Trademark owners who nevertheless use trade names that are prohibited under the Health Claims Regulation after 19 January 2022 face the risk of warnings and official measures.

In this context, trademark owners from the food industry should conduct a review of their older trademarks.

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Data Protection

GDPR – New Standard Contractual Clauses

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Since the CJEU annulled the EU-US Privacy Shield in July 2020, the European Commission's Standard Contractual Clauses have in practice formed the most relevant basis for cooperation with service providers and partners outside the EU. The Standard Contractual Clauses have now been fundamentally reformed and the new clauses must be implemented since 27 September 2021. We summarise the most important changes and the resulting need for action.

Background

The GDPR protects personal data of EU citizens also outside the EU. Personal data may only be transferred to countries outside the European Union (so-called third-countries) if an adequate level of data protection comparable to the GDPR is guaranteed in these third-countries. For a number of countries, such as most recently the United Kingdom, the adequate level of data protection has been positively established by an adequacy decision of the Commission. For most countries, however, no such adequacy decision exists. This also applies to the USA since the CJEU declared the EU-US Privacy Shield, which has been in force since 2016, null and void in 2020 (judgment of 16.07.2020 – C311/18 – Schrems II). As an alternative, the focus shifted to the possibility of ensuring an adequate level of data protection on a contractual basis by executing the European Commission's Standard Contractual Clauses.

These Standard Contractual Clauses have now been thoroughly revised by the European Commission and adopted in their latest edition on 4 June 2021 (Implementing Decision (EU) 2021/914). The new Standard Contractual Clauses are to be applied to all new agreements as of 27 September 2021. For legal relationships established by then, the old Standard Contractual Clauses will remain applicable for another 15 months. However, by 27 December 2022 at the latest, all data transfers to third-countries must be adopted to the new Standard Contractual Clauses or an alternative instrument to ensure an adequate level of data protection.

Modular construction principle for different constellations

To cover the different scenarios of international data transfers, the new Standard Contractual Clauses rely on a modular building block principle instead of the previous separate sets of documents for each scenario. On the one hand, this leads to increased flexibility, especially since data transfers between processors and (sub)processors and between processors and controllers are now also covered. On the other hand, the application of the Standard Contractual Clauses thus gains in complexity, especially since the principle remains that the clauses are only considered a suitable guarantee for ensuring an adequate level of data protection if they are used essentially unchanged.

Model order processing agreement included

In addition to guaranteeing an adequate level of data protection, the new Standard Contractual Clauses also explicitly serve to fulfil the obligations under Article 28 (3) and (4) of the GDPR to conclude a data processing agreement. They are thus at the same time a model data processing agreement. For this purpose, the European Commission also adopted separate model data processing clauses, which can be used in domestic processing scenarios (Implementing Decision (EU) 2021/915). Since the use of these clauses is not mandatory, it remains to be seen whether they will prevail in practice compared to the numerous freely available templates for data processing agreements.

New testing and documentation requirements for the implementation of Schrems II

The new Standard Contractual Clauses are in parts obviously designed as a response to the risks identified by the CJEU in Schrems II in the context of third-country transfers, in particular regarding excessive access to personal data by public authorities. However, they do not solve the practical problems arising for implementing companies. For example, the CJEU explicitly requires implementers of the Standard Contractual Clauses to assess the legal provisions applicable in the recipient's country to see whether the statutory framework even allows the data recipient to comply with the provisions of the Standard Contractual Clauses. If, as in the USA, the legal regulations permit access by public authorities that the CJEU considers incompatible with European standards, the parties must take additional organisational and technical measures to effectively counter these risks.

The new Standard Contractual Clauses manifest this obligation by requiring the contracting parties to conduct a prior impact assessment, the outcome of which must be documented. As a result, both parties must explicitly confirm that there are no concerns about the ability to comply with European data protection standards. The clauses also contain obligations for the data recipient to notify the sending entity about requests from public authorities and to exhaust legal remedies where such remedies are prohibited.

Outlook and recommendation for action

The new Standard Contractual Clauses undoubtedly fit better into the regulatory system of the GDPR and offer practical advantages, such as an increased flexibility and the implementation of the CJEU's requirements from Schrems II. The mandatory transfer impact assessment on the first view appears to be an intensification of the legal obligations, but ultimately merely implements the situation that applies since Schrem II. Furthermore, the explicit implementation of this requirement in the Standard Contractual Clauses could increase the practical willingness of third-country service providers to participate in a transfer impact assessment as well as the remediation of identified risks through technical and organisational measures.

If no real alternative to the conclusion of the Standard Contractual Clauses is established at the political level, which currently is not foreseeable, there is no way of avoiding the new Standard Contractual Clauses for a cooperation with service providers in third-countries, such as the USA. The current relevance of the topic is also shown by recent measures of the German data protection authorities, which in July 2021 sent questionnaires to companies throughout Germany in a coordinated focus audit regarding the handling of third-country transfers in accordance with Schrems II. Corresponding audits are to be expected in particular in connection with the changeover deadlines for the use of the new Standard Contractual Clauses on 27 December 2022.

Against this background, all EU-based companies should be prepared, whereby the following measures seem advisable for a practicable implementation of the legal requirements:

- Conducting an internal screening for processes that involve the transfer of data to third-countries, such as the USA (e.g., in the context of website tracking, software tools, etc.).
- Evaluating the possibility of suitable alternative providers based within the European Union.
- Preparing different sets of the Standard Contractual Clauses according to own needs.
- Preparing a standardised impact assessment process for third-country transfers and a catalogue of appropriate, technical and organisational measures to reduce identified risks.
- Ongoing documentation and review of the measures taken, as evidence for submission to the data protection supervisory authority in case of an audit.

If you have any questions about the new Standard Contractual Clauses or about third-country transfers in general, please do not hesitate to contact us.

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