Weinhold Legal

Legal Update

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Markéta Koubová, Právní prostor

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Draft law on artificial intelligence

The Ministry of Industry and Trade has prepared a draft law on artificial intelligence, which implements Regulation (EU) 2024/1689 of the European Parliament and of the Council (hereinafter referred to as the "**AI Act**"). It is a minimalist draft law that does not place an unnecessary administrative burden on companies. It only regulates the necessary institutional, procedural, and sanctioning mechanisms that the AI Act entrusts to member states for independent decision-making. The draft is expected **to enter into force in 2026, but no later than August 2, 2026**.

The draft provides for the establishment of a **regulatory sandbox for artificial intelligence**, to be operated by the Czech Standardization Agency. This is a **controlled testing environment that allows providers or prospective providers of AI systems to develop, test, and validate innovative AI systems for a limited time before their placement on the market or putting into service.** These sandboxes may also involve testing in real-world conditions, but they will always be under the direct supervision of the relevant authority. Participation in it is based on a contract and its purpose is to increase legal certainty and support innovation and competitiveness, especially for small and medium-sized enterprises and start-ups. The requirement to operate at least one such sandbox at the national level within the member states is one of the key provisions of the AI Act, which will be applicable **from August 2, 2026**.

In the case of **high-risk AI systems** under the AI Act, these are **systems that may pose a risk of harm to the health, safety, or fundamental rights of natural persons. Therefore, the strictest rules apply to them**. Typically, this involves healthcare, employment, education, justice administration, critical infrastructure, etc. The draft law regulates the procedural aspects for two situations. The first is the **testing of high-risk AI in real-world conditions,** where the entity must first apply for approval of this testing. Regarding this application, the draft sets a specific deadline for the supervisory authorities to issue a decision in particularly complex cases of **90 days** from the initiation of the proceedings. The second is the **operation of high-risk AI**, with a decision deadline for the application of up to **120 days**.

The proposal divides the supervision of compliance with the rules among several institutions. The main institution that will **supervise compliance with the obligations** under the AI Act and this draft law will be the **Czech Telecommunications Office**. It will also act as a single point of contact for the public. Other supervisory authorities will include the **Czech National Bank**, which will supervise persons subject to its supervision, the **Office for Personal Data Protection**, the **Public Defender of Rights**, and the **Czech Office for Standards, Metrology and Testing**.

The provisions of the AI Act are based on several fundamental principles, including a risk-based approach, human oversight of key decisions, transparency, protection of fundamental rights, and ensuring the quality and safety of AI systems. Violations of the obligations established by the AI Act may result in heavy penalties, with **fines of up to EUR 35,000,000 or 7% of the entity's global turnover**.

Case law updates

Limitation of compensation after withdrawal from the contract

(Supreme Court Judgment of 10 December 2025, File No. 28 Cdo 1551/2025)

The District Court in Ostrava awarded the plaintiff contractual penalties

and damages totaling CZK 25,961,229.40 plus interest. The subject of the dispute was the plaintiff's claims, as the client ordering the demolition of industrial buildings and the seller of the resulting waste, against the defendant, as the contractor and buyer, who **breached its obligations under two interdependent contracts (a contract for work for demolition and relocation of networks in connection with a purchase contract for waste).** In both contracts the parties agreed that the payment of contractual penalties would not affect the right to full compensation for damage. At the same time, **they agreed on a limitation of compensation** by stipulating that "the total amount of compensation which the contracting parties are obliged to provide as a result of a possible breach of obligation under this contract or in connection with it shall not exceed, for all damage incurred by the respective contracting party on the basis of or in connection with this contract taken together, 10% of the purchase price agreed in the contract. **This provision shall not apply to compensation for damage caused intentionally.**"

The defendant failed to fulfill several contractual obligations, even though contractual penalties for delay and a provision stating that payment of contractual penalties did not affect the right to full compensation for damage had been agreed in the contracts. The plaintiff subsequently validly withdrew from the purchase agreement due to the defendant's delay, thereby also terminating the contract for work. In causal connection with the defendant's breach of its contractual obligations (leading to the termination of the contracts), **the plaintiff suffered damage when it later concluded a contract for work with a new entity at a higher price and sold the waste produced by the demolition to it at a lower price. The total damage thus amounted to over CZK 51,000,000.**

The Regional Court in Ostrava upheld the first-instance judgment. The **key factor** for it was that the **agreement on limitation of damages** in the purchase agreement also applied to damage resulting from a breach of the dependent contract for work and that this agreement remained in force even after withdrawal, as it is an agreement which, by its nature, **is binding even after the termination of the contract (Section 2005(2) of the Civil Code). For this reason, it awarded damages only up to 10% of the purchase price of the scrap metal and dismissed the claim in the remaining part.**

Both parties appealed to the Supreme Court. The plaintiff raised the question of whether it could be inferred from interpretation that the agreement on the limitation of damages to an amount corresponding to 10% of the purchase price also applies to damage arising from a breach of contractual obligations under the mutually dependent contract for work. She also **raised the question of whether, as a result of the withdrawal from the purchase agreement, the agreement on the limitation of damages resulting from a breach of contractual obligations had also expired pursuant to Section 2005 of the Civil Code**.

The Supreme Court **interpreted Section 2005(2) of the Civil Code as meaning that, unless the contracting parties agree otherwise, withdrawal from the contract** (in accordance with the express wording of the provision) **does not affect the right to compensation for damage arising from a breach of contractual obligations prior to withdrawal from the contract**. Respecting the autonomy of the contracting parties, where the **right to compensation for damage arising from a breach of contractual obligations prior to withdrawal from the contract has been contractually limited, the limitation agreement** – in the absence of any different contractual arrangement and unless the purpose of the contractual provision is to be frustrated – **should be assessed as an agreement which, by its nature, is binding on the parties even after withdrawal from the contract**.

The interpretation of Section 2898 of the Civil Code is crucial – the Supreme Court relied on the explanatory memorandum and prevailing doctrine and concluded that this provision is absolutely mandatory in nature. An agreement that excludes or limits in advance the obligation to compensate for damage caused intentionally or through gross negligence **is therefore putative (Section 554 of the Civil Code), i.e. it is disregarded ex officio**.

The Supreme Court therefore annulled the decision of the appellate court to the extent that it applied the limitation across the board to damages without examining whether they were caused by gross negligence and instructed the lower courts to address this issue explicitly. It rejected the defendant's appeal, found the plaintiff's appeal to be well-founded, quashed the judgments of the aforementioned courts, and returned the case to the court of first instance for further proceedings.

Subject-matter jurisdiction of courts in disputes arising from industrial property

(Resolution of the Supreme Court of December 17, 2025, File No. 23 Cdo 2385/2025)

The District Court in Kladno awarded the plaintiff a claim for payment of a contractual penalty in the amount of CZK 1,000,000, arising from the defendant's breach of a concession agreement. The plaintiff, as the supplier, **granted the defendant a non-exclusive right to promote, distribute, and sell new vehicles and to provide related services**. In the event of termination of the agreement, the parties agreed that the defendant would be obliged to immediately remove and refrain from using all banners, posters, logos, and other symbols belonging to the plaintiff or the vehicle manufacturer. For breach of this obligation, the agreement stipulated a contractual penalty of CZK 25,000 for each day of the breach. Despite this, after the termination of the contract the defendant continued to display the manufacturer's logo on its banners and website, thereby presenting itself to the public as an authorised dealer of new cars of this brand.

The defendant appealed to the Regional Court in Prague, which **overturned the original judgment and referred the case to the Municipal Court in Prague as the court with subject-matter jurisdiction**. It did so because the claim for a contractual penalty for breach of the contractual obligation to refrain from using the specified trademark is a claim arising from industrial property rights. In view of this, pursuant to Section 6(1)(a) of Act No. 221/2006 Coll., on the Enforcement of Industrial Property Rights, as amended (the "**EIPR**"), and Section 39(2) of Act No. 6/2002 Coll., on Courts and Judges, as amended, the Municipal Court in Prague has exclusive jurisdiction to hear and decide the case at first instance.

The **plaintiff subsequently filed an appeal with the Supreme Court**, arguing that the appellate court had failed to adequately address the question of whether and why the claim for payment of a contractual penalty should be so closely linked to industrial property rights as to establish the exclusive jurisdiction of the Municipal Court in Prague.

The Supreme Court referred to the Paris Convention and its previous case law, according to which trademarks undoubtedly belong to industrial property rights; for claims based on the statutory absolute protection of these rights, the Municipal Court in Prague has exclusive jurisdiction.

The key conclusion is that the **contractual nature of the strengthening of the obligation (contractual penalty) does not in itself preclude it from being a claim "arising from industrial property".** If the right to a contractual penalty is linked to a breach of an obligation whose content is respect for trademark rights (i.e. an obligation not to interfere with them), the court must **first determine whether there has been an infringement of the trademark rights**.

The Supreme Court emphasised that the opposite interpretation would

lead to an inefficient fragmentation of jurisdiction. It also drew attention to **case law on disputes concerning intellectual property rights under Section 9(2)(g) of Act No. 99/1963 Coll., the Code of Civil Procedure, as amended, which distinguishes between claims arising from "general" obligations and claims arising from the regulation of intellectual property rights. It applied similar criteria in this case as well.**

The Supreme Court expressly distinguished the situation under consideration from cases where the parties would, by contract, independently create an obligation to refrain from certain conduct (including a prohibition on using an intangible object) regardless of whether it is the industrial property of a specific person. In such a case, for the assessment of the dispute it would not be relevant to whom the designation in question "belongs" and whether an industrial property right exists, and the dispute over the contractual penalty would not be a dispute over a claim arising from industrial property rights.

In the present case, however, according to the plaintiff's submissions, the **contractual penalty was agreed precisely for the event of a breach of the obligation not to use the designations** belonging to the plaintiff or the manufacturer, i.e. for an infringement of their industrial property rights. **The decisive factor is therefore whether these designations were the subject of their industrial property rights and whether the defendant infringed those rights. It is therefore a claim arising from industrial property rights.**

The Supreme Court concluded that the **dispute over the payment of a contractual penalty in this case is a dispute over a claim arising from industrial property rights** within the meaning of Section 6(1)(a) of the EIPR. It therefore considered the contested decision of the Regional Court to refer the case to the Municipal Court in Prague as the court with subject-matter and territorial jurisdiction to be **correct and dismissed the plaintiff's appeal**.