

## **IBT Essay Answer Outlines Spring 2011**

The following are outlines of model answers in narrative form. They indicate what issues were reasonably raised by the questions, but do not contain the level of detail that an answer would ideally include.

### Question II.A (75 points)

To ensure that the licensing agreement is enforceable under EU law, Tabula Rasa (TR) will want to fit within the Technology Transfer Block Exemption Regulation (TTBER). The TTBER applies to mixed patent/know-how licenses like ours, even if they contain provisions relating to other intellectual property rights like trademarks, so long as those other rights are not the primary object of the agreement. For non-competing parties, the TTBER applies on the condition that each of their market shares in Spain does not exceed 30%. Currently, neither has any percentage of the Spanish market. TR and Manzana (M) would be non-competing parties because they do not sell interchangeable products in the same geographic market.

Under the TTBER, between non-competing parties, territorial restrictions on active selling are permitted, but territorial restrictions on passive selling are permitted only with respect to territories exclusively reserved to the licensor or into territories exclusively reserved to other licensees for the first two years of those other licensees' agreements. Paragraph 1 prohibits M from all selling outside Spain. Unless it is redrafted the entire agreement would lose the benefit of the block exemption.

Paragraph 2's grantback clause is both too narrow and too broad. For non-severable improvements, it may require an assignment of rights not just an exclusive license. For severable improvements, a grantback must take the form of a non-exclusive license. Otherwise it is an excluded restriction and unenforceable.

Paragraph 3's confidentiality provision should be redrafted to survive termination of the agreement. Because TR's trademark will be affixed to the products under Paragraph 4, the agreement should include a quality control provision to protect TR's reputation. Paragraph 5 contains a provision for maximum price-fixing, but this is permitted under the TTBER between non-competing parties.

Paragraph 6's royalty provisions should be based on net sales not net profits because the latter can be manipulated. TR might also consider an initial royalty or a minimum royalty. The agreement might specify the currency in which royalties will be paid and include a provision for auditing M's books.

Paragraph 8's no-challenge clause is an excluded restriction that is not enforceable under the TTBER. Instead, TR could reserve the right to terminate the agreement if M challenges the validity of its intellectual property rights.

Paragraph 10's arbitration clause should specify the seat of arbitration, preferably in California for convenience. TR may also wish to reserve the right to go to court for injunctive relief in the United States and Spain, since arbitrators can only award damages. The agreement must also include a choice-of-law clause, preferably a law with which TR is familiar like California law. It would not be necessary to opt out of the CISG because intellectual property rights are not goods.

TR could prevent the parallel importation of TR tablets made abroad under both US trademark law and US patent law. Under trademark law, the tablets may be excluded as grey market goods if they are made outside the United States by an independent licensee. M is independent because it is not affiliated with TR. Under patent law, the first sale of TR tablets in Spain would not exhaust the US patent rights, so the importation of such tablets to the United States would constitute patent infringement.

Question II.B  
(45 points)

Gryosystems Ltd. (G) could argue in defense that there is no contract between it and COMAC (C). To determine if a contract was formed, the Canadian court would apply the CISG because Gyronavs are goods, the parties have their places of business in different countries—Canada and China—both of which have joined the CISG. Under the CISG, C's purchase order would be an offer, but G's acknowledgment would be a counteroffer because it materially changes the terms (changes relating to the settlement of disputes are considered material). While it is possible for a counteroffer to be accepted by conduct, C has not opened the letter of credit or taken any other action that manifests acceptance. Thus, no contract has been formed and G is not bound.

Alternatively, G could argue that the new US export controls are force majeure excusing performance of any contract. The export controls clearly apply to G as an entity "owned or controlled by" a US corporation. Moreover the intent of the regulations to apply extraterritorially is clear from the phrase "wherever organized or doing business." If the Canadian court followed the Dutch court in *Sensor*, however, it would recognize the regulations as force majeure only to the extent they are consistent with customary international law limits on jurisdiction to prescribe. The conduct regulated by the United States does not occur in its territory and the claimed effects—enabling Chinese missiles to reach the United States—may be deemed too indirect, as they were in *Sensor*. G is not a US national because it is incorporated and has its place of business in Canada; the nationality of a parent company is not attributed to its subsidiaries. And the protective principle has traditionally been limited to counterfeiting and espionage. Thus, it is not at all clear that a Canadian court would excuse performance on the basis of the US regulations.