

IBT Answer Outlines Fall 2004

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 One (70 points)

To avoid violating Article 81 of the EC Treaty, the agreement should be drafted to fit within the Technology Transfer Block Exemption Regulation (TTBER). This is a mixed patent and know-how license, and although it also licenses a trademark, that is not its primary object. Livestrong (L) and Equipe Jaune (EJ) are probably non-competing parties because they do not license competing technologies or sell into the same geographic market. If they are not competing parties, the TTBER would apply since neither's share of the French market exceeds 30%.

The territorial exclusivity in the grant clause is ambiguous because it is not clear if the license is exclusive only of other licensees or also of the licensor. In order to fit within the TTBER, the territorial restriction needs to be redrafted to prohibit active selling outside the territory, passive selling into territories exclusively reserved to L, and passive selling into territories exclusively reserved to other licensees for the first two years of those other licensees' agreements. The grant-back would be an excluded restriction under the TTBER unless the assignment is limited to non-severable improvements. L may additionally require a non-exclusive license-back of severable improvements.

Because L's trademark will appear on the product, L may want to include a quality control provision to protect the reputation of its trademark. Under the TTBER, the provision requiring EJ to sell the product at L's suggested retail price would be prohibited as price-fixing. If L and EJ are not competing parties, L could recommend a price or fix a maximum price. The non-compete clause is permitted under the TTBER, but should be extended beyond the term of the agreement. It would be better to base the royalty on net sales rather than profits, which can be manipulated by increasing expenses. L might specify the currency for payment and provide for record-keeping and auditing. L might also consider the possibility of an initial royalty and/or a minimum royalty. The no-challenge clause is another excluded restriction under the TTBER, but L may instead reserve the right to terminate the agreement if EJ contests the validity of its intellectual property rights.

Because arbitrators can only award damages, L may want to preserve the right to go to court for injunctive relief, in which case it should also choose a judicial forum. The agreement also lacks a choice-of-law clause, which every international agreement should have. For familiarity, L should choose the law of one of the U.S. states. (Note that the CISG would *not* apply since this is not a transaction in goods.) Finally, to protect its know-how and to provide extra protection for its patents, the agreement should contain a confidentiality clause, which should continue after termination of the agreement.

Question Two (50 points)

Estrella's (E) plan would increase its ownership of Lunavision (L) to 30%. This would violate § 310(b)(3) of the Communications Act, which limits foreign companies to owning no more than 20% of U.S. broadcasters and has no exceptions. E might consider forming a U.S. subsidiary to hold L's shares, but under § 310(b)(4) E could own no more than 25% of this U.S. subsidiary. This limitation may be

waived by the FCC, but it has only done so once, and E cannot show the same reliance that motivated the decision in Fox.

E would also have to file premerger notification under Hart-Scott-Rodino with the FTC and DOJ because after the transaction it will own more than \$200 million of L's stock. None of the exceptions for foreign transactions apply because L is a U.S. company. DOJ or the FTC will investigate the acquisition to see if it would violate the Clayton Act by substantially lessening competition or tending to create a monopoly. If the investigating agency finds that it would, the agency may bring suit to enjoin the transaction.

Finally, E might consider giving notice to CFIUS under the Exon-Florio Amendment, which gives the President authority to block foreign acquisitions of U.S. companies that threaten national security. Lunavision.com is an internet service provider (ISP) and one of the two transactions to have reached the President's desk under Exon-Florio also involved an ISP. That transaction was not blocked, and Lunavision.com (unlike Verio) is not government owned, so the chance that the President would block this transaction is slim. Although notice under Exon-Florio is voluntary, it is a good idea in sensitive transactions like this one because it is the only way to run out the clock on the President's authority to order divestiture.

Question Three (30 points)

The Supreme Court's approach to extraterritoriality is currently unsettled. Aramco says that U.S. courts should presume that statutes are meant to apply only within the territory of the United States, unless Congress clearly states otherwise. However, Hartford did not apply this presumption against extraterritoriality to U.S. antitrust law. One may read Hartford as creating an exception to the presumption based on precedent or as creating an exception whenever there are effects in the United States. The extraterritorial application of U.S. law may also be constrained by the Charming Betsey presumption that Congress does not intend to violate international law, because customary international law requires a basis for jurisdiction to prescribe (*e.g.* territory, effects, or nationality).

The Statutory Interpretation Act (SIA) would abolish the presumption against extraterritoriality. One of the purposes of the presumption is to avoid conflict with the laws of other nations, and the SIA would probably result in more situations in which companies were subject to the laws of more than one jurisdiction. It can also be difficult to ascertain the intent of Congress when a statute is silent. The presumption has the benefit of forcing Congress to be clear.

On the other hand, the presumption can work to frustrate the intent of Congress, as in Aramco where there were clear indications of Congress's intent to have Title VII apply extraterritorially, though not a clear statement. The SIA would not require that every statute be applied extraterritorially; a court might conclude that Congress's intent would not be furthered by applying a particular statute extraterritorially. Finally, the SIA would not alter the Charming Betsey presumption, so that a court might avoid applying a statute extraterritorially if doing so would violate customary international law.