IBT Essay Answer Outlines
Spring 2008

The following are outlines of model answers in essay 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 avoid violating Article 81 of the EC Treaty, the agreement should be drafted to fit within the TTBER. This is a mixed patent and know-how license, and although it also licenses trademark rights, that is not its primary object. Flatworld (F) and Anglow (A) would be competing parties because they sell products that consumers treat as interchangeable in the same geographic market—the United Kingdom. For an agreement between competing parties to fall within the TTBER, their combined market share must not exceed 20% in the relevant market. F and A's combined market share is currently 13%; if it exceeds 20% in the future, the TTBER would continue to apply for a grace period of two years.

Territorial exclusivity in the grant clause is permitted by the TTBER but it is not clear if the exclusivity applies only to other licensees or also to F. This should be clarified, particularly since the later interpretation would require F to give up its current 3% market share in the UK. To fit within the TTBER, the territorial restriction between competing parties must be redrafted to prohibit active and passive selling in territories exclusively reserved to F and only active selling in territories exclusively reserved to other licensees. The grantback would be an excluded restriction unless it is limited to non-severable improvements. The agreement may additionally require a non-exclusive license-back of severable improvements.

Because F's trademark will be affixed to the products, F may want to include a quality control provision to protect its reputation. Under the TTBER, all price fixing is prohibited between competing parties, so the clause prohibiting A from selling for more than F's suggested retail price must be dropped. The royalty clause should base the royalty on net sales rather than net profits, which are more manipulable, and might consider an initial and/or minimum royalty. It should also say what currency the royalty will be paid in. The no-challenge clause is another excluded restriction, and would likely not be enforceable. Instead, F may reserve the right to terminate the agreement if A challenges the validity of its intellectual property rights.

Because arbitrators can only award damages, F may want to preserve the right to go to court for injunctive relief. The agreement should also have a choice of law clause, preferable a law with which F is familiar like Illinois law. (Note that the CISG would not apply because IP rights are not goods.) Finally, to protect its know-how the agreements should contain a confidentiality clause that should continue after termination.

To prevent parallel imports, F may rely on U.S. trademark law, which allows the trademark owner to prevent the importation of goods made abroad, by an independent licensee, that bear a valid U.S. trademark. A is independent of F because it is not subject to common ownership or control. F may also rely on U.S. patent law. The first sale of a patented item exhausts U.S. patent rights only if it occurs in the United States. Assuming that A is prohibited from selling to the U.S. by the territorial restriction, any sales it makes would necessarily not occur in the United States.

Question II.B
(45 points)

To bring suit against Trinago in U.S. court, Green Gas (GG) would have to establish jurisdiction under the Foreign Sovereign Immunities Act. With respect to the $200,000, buying gas is a commercial activity (one a private party could engage in), but unless the contract called for payment in the U.S. there would be no direct effect in the United States and so no jurisdiction. With respect to Green Gas Trinago Ltd. (GGTL), the FSIA contains an exception for expropriation, but only where the property or proceeds are present in the United States, which would not be true here. Even if the court had jurisdiction under the FSIA, Trinago would raise the act of state doctrine as a defense. With respect to GGTL, the exception created by the Hickenlooper Amendment applies only if the property or proceeds are present in the United States. With respect to the $200,000, the Supreme Court is divided on whether there is a commercial activities exception to the act of state doctrine.

Alternatively, GG could bring an arbitral claim under the bilateral investment treaty (BIT). GG would have the choice of ICSID or the UNCITRAL rules, but would have to waive its right to challenge the same measures in domestic court. For the expropriation of GGTL, GG could recover its fair market value—probably $30 million, which is what a willing buyer was prepared to pay. The commercial claims for $200,000 would not be considered an "investment" under the BIT, which means that GG could not recover for them even though it seems to have been denied national treatment and/or most-favored-nation treatment. (The BIT—like NAFTA Chapter 11—does not have an umbrella clause.)

The law vesting title to GGTL in Trinago will be an expropriation under GG's OPIC policy because it is an outright taking of property, is not accompanied by prompt adequate, and effective compensation, and will continue for six months. But after six months have passed, GG will only be able to recover 90% of GGTL's book value ($10 million less depreciation).

As a Delaware corporation, GG would be a domestic concern subject to the Foreign Corrupt Practices Act (FCPA). GG would be giving something of value to foreign officials to influence them in their official capacities to obtain more favorable treatment for a business. However, there is an exception for payments to expedite the performance of a routine governmental action (one that does not involve the exercise of discretion) like clearing customs. Thus, the payments do not violate the FCPA.