

## APRIL 2008 e-BULLETIN

### MEMBER NEWS

- ▶ CAREY Y CIA Announce Appointment of Two Partners
- ▶ LUCE FORWARD Expands Intellectual Property Litigation Group
- ▶ MORGAN LEWIS & BOCKIUS Head of Transactional Group at PDL BioPharma Joins Firm

### COUNTRY ROUNDUPS

- ▶ AUSTRALIA Clayton Utz - Direct Offshore Foreign Insurers Exemptions Finalized by Australian Treasury
- ▶ BRAZIL— TozziniFreire—Important Decision on Recognition of Foreign Arbitration Awards
- ▶ CHINA King & Wood - P2P Operator Liable for Contributory Infringement
- ▶ FRANCE - Gide Loyrette Nouel - France Supplement Tax Lease
- ▶ NETHERLANDS - Dutch Court Rounds-Up the Case, Ready® For the EJC; the Scope of Protection of DNA Patents
- ▶ TAIWAN Lee & Li - Supreme Court Guidance on Bonds for Litigation Costs
- ▶ THAILAND - Tilleke & Gibbins International Ltd - Intellectual Property Update - Developments in Compulsory Licensing
- ▶ UNITED STATES Hogan & Hartson - International Arbitration & Litigation Update - Supreme Court Rejects Judicial Review of Arbitration Awards, Even By Express Agreement
- ▶ UNITED STATES Luce Forward - Proposed RESPA Reform and Increase Conforming Loan Limit Considerations - Proposed RESPA Rule Targets Building (Dis)Incentives

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### MEMBER DEALS MAKING NEWS

- ▶ Clayton Utz advises on Morgan Stanley Joint Venture with ABC Learning Centres
- ▶ Gide Loyrette Nouel Counsel for Air France in Ryanair action — Paris Court of Appeal Ruling Partially Upholds Judgement in Unlawful Comparative Advertising Action
- ▶ Hogan & Hartson Closes Deal on Ford \$2bn Sale of Jaguar and Land Rover Subsidiaries to Tata Motors
- ▶ Lovells Advises World Class Consortium Otkritie Financial Corporation and Deutsche Bank AG Real Estate on Future Sale Four Class A Office Buildings to KanAm Grund Kapitalanlagegesellschaft mbH
- ▶ NautaDutilh Assists British Drinks Company Diageo in Joint Venture for KETEL ONE Vodka and KETEL 1 genever
- ▶ Wilmer Hale - New York's "Bill of Rights" Law Overturned in Federal Appeals Court - important and high-profile victory for the Air Transport Association of America



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## CAREY Y CIA ANNOUNCES APPOINTMENT OF TWO PARTNERS



Jessica Power, Partner

Ms. Power is a Member of our Tax Group since joining the firm in 2002. Since then she has been advising domestic and foreign clients in personal and corporate tax planning, local and international tax consulting, mergers and acquisitions, and foreign investment transactions. She is a member of the Chilean Bar Association since 1999 and of the Chilean Tax Law Institute. Ms. Power is a graduate of the Universidad de Chile Law School and is Master in Tax Law (c) from the same university.



Alex Fischer, Partner

Mr. Fischer joined the firm's Tax Group in 2004. Previously he worked for several years in New York, first at Ernst & Young's tax department and later in Sullivan & Cromwell. His principal practice focus is tax planning and tax consulting in foreign investments, project financing and mergers & acquisitions. Mr. Fischer graduated from the Universidad de Chile School of Law. He completed Harvard University Law School's International Tax Program after which he earned a Master's Degree in Corporate Law at New York University's Law School, and received the Advanced Professional Certificate in Law and Business at NYU's Stern Business School.

For additional information visit [www.carey.cl](http://www.carey.cl)

## LUCE FORWARD EXPANDS INTELLECTUAL PROPERTY LITIGATION GROUP

March 21, 2008



James C. Danaher

Attorney James C. Danaher recently joined Luce Forward as an associate in the downtown San Diego office.

As part of Luce Forward's Business / Complex Litigation practice group, Danaher will focus specifically on intellectual property issues. Danaher is a United States Registered Patent Attorney and will assist with both patent prosecution and litigation. In the past, he has focused primarily on handling legal matters related to insurance litigation, medical malpractice and professional liability.

"We are proud to welcome James to the firm and our growing intellectual property practice," said Robert J. Bell, Luce Forward's Managing Partner. "James worked for us as a summer associate a few years back, and we know him to be a talented attorney who will contribute to the strength of our firm and the success of our clients."

Prior to Luce Forward, Danaher was an associate at Slutes, Sakrison & Hill P.C. in Tucson, Ariz. He also possesses a technical background, having acquired almost 15 years of engineering experience in the semiconductor industry at IBM Corporation and Kyocera America.

Danaher earned his Juris Doctor from the University of Arizona, James E. Rogers College of Law and his bachelor's degree from Rutgers College of Engineering. Danaher is a member of the State Bars in both Arizona and California as well as a member of the young lawyers division in Pima County, Arizona.

For additional information visit [www.luce.com](http://www.luce.com)

**MORGAN LEWIS & BOCKIUS—HEAD OF TRANSACTION GROUP AT PDL BIOPHARMA JOINS FIRM**

**SAN FRANCISCO, March 20, 2008:** Morgan Lewis today announced the addition of Thomas E. Duley—formerly the head of the transactional legal group at PDL BioPharma, Inc.—as of counsel, resident in the firm's San Francisco office. Tom's arrival reflects Morgan Lewis's continued commitment to meeting the legal needs of clients in the life sciences industry.

With more than 200 lawyers, scientists, and other technical professionals who focus on the life sciences industry, the Life Sciences interdisciplinary practice at Morgan Lewis seamlessly covers all the scientific, business, and regulatory issues that arise during the complete product lifecycle. This cycle extends to transactions and litigation, to regulatory approvals and compliance, and protection of intellectual property, as well as key supporting capabilities, including FDA/healthcare, patents and patent litigation, labor and employment law, workplace training, immigration, and antitrust.

Tom has more than 10 years of experience in life sciences transactions and intellectual property litigation matters. While at PDL BioPharma, Tom led the legal group responsible for the contracts on behalf of the publicly traded biopharmaceutical company that researched, developed, manufactured, and sold pharmaceutical products. He has handled collaboration, licensing, supply and asset acquisition matters, overseen real estate and construction contracts, and guided and implemented formal contracting policy in compliance with Sarbanes-Oxley regulations.

Tom joins a Business and Finance team that already spans the United States, Europe, and Asia, with more than 300 transactional lawyers who focus on a wide variety of areas, including mergers and acquisitions, private equity, finance, and capital markets.

He received his J.D. from the University of California, Davis School of Law in 1995, where he was senior articles editor for the *U.C. Davis Law Review*. He received his Master of Architecture degree in 1987 and his B.A. in English literature in 1983 from the University of California, Los Angeles.

**About Morgan, Lewis & Bockius LLP**

Morgan Lewis is an international law firm with more than 1,400 lawyers in 22 offices located in Beijing, Boston, Brussels, Chicago, Dallas, Frankfurt, Harrisburg, Houston, Irvine, London, Los Angeles, Miami, Minneapolis, New York, Palo Alto, Paris, Philadelphia, Pittsburgh, Princeton, San Francisco, Tokyo, and Washington, D.C.

For more information about Morgan Lewis, please visit [www.morganlewis.com](http://www.morganlewis.com)

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**CLAYTON UTZ**

ADVISES ON MORGAN STANLEY JOINT VENTURE WITH ABC LEARNING CENTRES

**Sydney, 14 March 2008**

Clayton Utz has been appointed to advise Morgan Stanley Private Equity on its recently announced joint venture with ABC Learning Centres.

The transaction, valued at US\$780 million, has to date seen ABC enter into a Memorandum of Understanding with Morgan Stanley Private Equity for the sale of a 60 percent interest in its US business.

In addition, Morgan Stanley will invest \$200 million in ABC via a convertible note which will entitle it to 10 percent of the share capital in ABC.

Clayton Utz Mergers and Acquisitions (M&A) partner Karen Evans-Cullen is leading the firm's team, which includes Corporate M&A partners Jonathan Algar and Stuart Byrne and lawyers drawn from other Clayton Utz practice groups assisting on due diligence.

Ms Evans-Cullen said the next step in the transaction was the completion of due diligence and negotiation of definitive documentation over the next two weeks.

For additional information visit [www.claytonutz.com](http://www.claytonutz.com)

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**Gide Loyrette Nouel**



**GIDE LOYRETTE NOUEL**

COUNSEL FOR AIR FRANCE IN RYANAIR ACTION - PARIS COURT OF APPEAL RULING PARTIALLY UPHOLDS JUDGEMENT IN UNLAWFUL COMPARATIVE ADVERTISING ACTION

On 23 November 2007, the Paris Court of Appeal partially upheld the judgement of the Paris Commercial Court of 12 May 2006 in a case between Air France and Ryanair. Air France had accused Ryanair of waging three communications campaigns involving unlawful comparative and disparaging advertising. The Court of Appeal held that the slogan "Ryanair.com – 391% less expensive than Air France" was a misleading but not disparaging comparison with Air France. However, the Court of Appeal upheld the lower court ruling that advertising calling for resistance to "high Air France prices" was denigrating to Air France and also ruled that Ryanair's imitation and distortion of the Air France slogan constituted unfairly competitive conduct.

The Paris Court of Appeal did reduce the damages payable by Ryanair to EUR 180,000 and reassessed the compensation (for irrecoverable legal costs) pursuant to Article 700 of the French New Code of Civil Procedure at EUR 32,687. The orders that the ruling be published in the national and international press, and on the home page of the Ryanair website for a period of one month, were also upheld.

Air France was represented by Charles-Edouard Renault and Stéphanie Berland of the Gide Loyrette Nouel IP-Tech Department.

**HOGAN & HARTSON**

CLOSES DEAL ON FORD \$2BN SALE OF JAGUAR AND LAND ROVER SUBSIDIARIES TO TATA MOTORS

Hogan & Hartson has completed its most significant City corporate mandate to date after advising automotive giant Ford on the \$2bn (£1bn) sale of its Jaguar and Land Rover subsidiaries to Tata Motors.

Ford relationship partner William Curtin led the deal team from Hogan's London office, with assistance from fellow City corporate partner Hywel Jones and New York-based corporate partner Claud Eley. Curtin commented:

"For us it's really exciting and rewarding that we're part of such a landmark transaction involving such iconic British brands as Jaguar. I think our appointment on the deal is reflective of the firm's strategy in Europe."

The sale, which closed 26 March, will see India-based Tata fully acquire both Jaguar and Land Rover from the US manufacturer. As part of the deal, Ford will contribute to the Jaguar and Land Rover pensions schemes while Tata continues to purchase Ford engines.

For additional information visit [www.hhlaw.com](http://www.hhlaw.com)

**LOVELLS**

ADVISES WORLD CLASS JOINT VENTURE CONSORTIUM OTKRITIE FINANCIAL CORPORATION OF DEUTSCHE BANK AG REAL ESTATE GROUP ON FUTURE SALE OF FOUR CLASS "A" OFFICE BUILDINGS TO KANAM GRUND KAPITALANLAGEGESELLSCHAFT MBH

The development, which will provide more than 100,000 square metres of office accommodation and a 170-room hotel in the Paveletskaya district of central Moscow, will be one of the largest schemes within Moscow.

Construction of the four buildings, which are being developed by Otkritie-Real Estate, started over a year ago and is scheduled to be completed between early and mid-2009. KanAm, which acted in favour of its open-ended real estate fund KanAm grundinvest Fonds, will take ownership of the buildings upon their successful completion. Under the terms of the agreement, the sale price will be calculated with reference to actual leases signed. The transaction may be valued at up to US\$900 million.

Otkritie has been the sponsor of the project from its inception and created an international investor syndicate with members including Deutsche Bank AG, Starr Investments Cayman Inc and two US-based funds (Old Lane and Artha Capital) to pioneer foreign investment into the Russian domestic real estate market. Construction finance is jointly provided by Deutsche Bank AG and Bank Austria Creditanstalt AG.

The cross-border Lovells team was led by London real estate funds partner James McDonald assisted by London corporate senior associate Jacky Scanlan-Dyas, with further assistance from Moscow corporate partner Suren Gortsunyan, senior associate and head of Lovells' Moscow real estate team, Taras Oksyuk, and real estate associate Natalia Zaichenko. Banking partners Olaf Grabowski (Frankfurt) and Andrew Welbourn (London) advised on the financing.

Vadim Belyaev, CEO of Otkritie, said:

"We are extremely pleased to have acquired the project, financed and syndicated it and now entered into this contract with KanAm Grund, all within 18 months. This speaks to the very high quality of the design, construction management of the buildings and all the participants involved, and we are delighted to work with KanAm Grund on their first major transaction in Russia."

James McDonald said:

"We are delighted to have advised the consortium on this landmark transaction. This deal highlights the strength in the Russian commercial real estate market."

Edward Schorr, Lovells' client relationship partner for Otkritie, said:

"This deal was completed thanks the co-ordinated advice of Lovells' Moscow, London and German offices working to a tight deadline across a number of different specialist areas. It is further evidence of the strength of Lovells' international Real Estate practice."

For additional information visit [www.lovells.com](http://www.lovells.com)

**NAUTADUTILH**

ASSISTS BRITISH DRINKS COMPANY DIAGEO IN JOINT VENTURE FOR KETEL ONE VODKA AND KETEL 1 GENEVER

NautaDutilh has assisted the British drinks company Diageo in setting up a joint venture with the Dutch Nolet family in Schiedam, the manufacturer of KETEL ONE vodka and KETEL 1 genever.

The joint venture enables Diageo – the producer of such drinks as Smirnoff, Moët & Chandon and Baileys – to market KETEL ONE vodka exclusively on a worldwide basis for which Diageo will pay Nolet a sum of 900 million dollars. The company also has the option of taking over Nolet's interest in the joint venture in 5 years' time for a further 900 million dollars.

The NautaDutilh team consisted of Gijs Gerretsen, Jeroen Holland, Linda Mantel, Zekiye Uyar, Charles Gielen, Fleur Folmer, Elize Roeterink, Frits Oldenburg, Paul van der Bijl and Lourens Jan Heijmans.

For additional information visit [www.nautadutilh.com](http://www.nautadutilh.com)

**WILMERHALE**

ADVISES TUI ON JOINT VENTURE WITH ROYAL CARIBBEAN

March 27 2008

WilmerHale recently secured an important and high-profile victory for the Air Transport Association of America, the principal trade group for US airlines. On March 25, a panel of the Second Circuit unanimously held that federal law preempts a New York statute, the "Bill of Rights", that required airlines experiencing extended pre-departure ground delays to provide passengers with specified amenities, such as "adequate" refreshments. The law was enacted in response to well-reported incidents in which planes with passengers on board remained on the ground for extended periods during bad weather.

Reversing the district court's grant of summary judgment for the state of New York, the panel agreed with WilmerHale's argument that the Airline Deregulation Act (ADA) of 1978, which proscribes state laws "relating to the . . . service of any air carrier," barred the New York statute. The language of the ADA's preemption provision plainly encompassed the New York law, the panel concluded, adding that any contrary rule would create a patchwork of divergent state-by-state schemes and undermine the deregulatory purposes of the ADA. The panel went on to note that, as we had further argued, to the extent the New York statute concerned the health and safety of passengers onboard airplanes, it would likely also be field-preempted because the federal government, through the Federal Aviation Act of 1958 and regulations enacted thereunder, has occupied the field of aviation health and safety, leaving no room for supplementation or variation by individual states.

Seth Waxman argued the appeal. Also on the legal team from WilmerHale were Bruce Rabinovitz, Jon Nuechterlein, Heather Zachary, Daniel Volchok, and Chad Golder.

For additional information visit [www.wilmerhale.com](http://www.wilmerhale.com)



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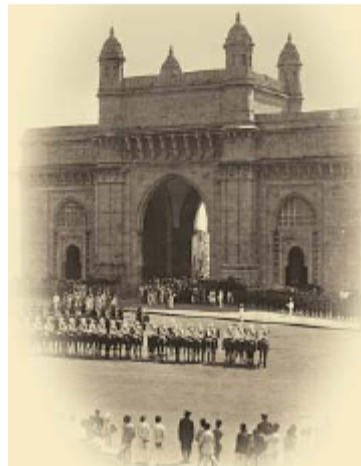
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alert

09 April 2008

## DOFIs exemptions finalised



Exemptions for direct offshore foreign insurers ("DOFIs") from the requirement to be authorised by APRA have been finalised by the Australian Treasury. Although the details have slightly changed, the general thrust of the exemptions is the same as that proposed in September last year.

In this Alert we'll highlight the main changes.

### Exemption 1: High value insureds

High value insureds must satisfy one of the following tests:

- the consolidated gross operating revenue for the financial year of the insured and the entities it controls (if any) is \$200 million or more; or
- the value of the consolidated gross assets at the end of the financial year of the insured and the entities it controls (if any) is 200 million or more; or
- the insured and the entities it controls (if any) have at least 500 employees (increased from 300 as proposed in September) at the end of the financial year.

The Treasury has not adopted the proposed alternative tests based on aggregate premium or the amount of insurance cover purchased.

### Exemption 2: Atypical risks

These are now settled as:

- nuclear
- war
- terrorism
- satellite or space
- biological risk
- medical clinical trials
- aviation liability
- shipowners' protection and indemnity other than for pleasure crafts.

The AFSL holding intermediary will be required to warn insureds using this exemption of the risks of using an insurer not authorised in Australia.

### Exemption 3: Customised exemption

This exemption would cover insureds who do not fall within the first two, and who have a unique risk that cannot be placed with an authorised insurer. The criteria have now been settled as:

- a lack of market capacity;
- a material difference in price;
- a difference in non-price terms and conditions bearing a material impact on the business or consumer; and
- material benefits accruing from continuity of an ongoing relationship between a given insurer and the business or consumer.

The AFSL holding intermediary will be required to warn insureds using this exemption of the risks of using an insurer not authorised in Australia.

#### **Exemption 4: A new exemption**

An arrangement with a DOFI that is required by the law of a foreign jurisdiction will be exempt.

#### **What's next?**

Draft regulations embodying these exemptions will be released for public comment this month.

The Financial Sector Legislation Amendment (Discretionary Mutual Fund and Direct Offshore Foreign Insurers) Act 2007 commences on 1 July 2008, but DOFIs who have applied for authorisation from APRA but have not received this authorisation by 1 July 2008 will still be able to operate under transitional arrangements.

#### **Disclaimer**

Clayton Utz News Alert is intended to provide commentary and general information. It should not be relied upon as legal advice. Formal legal advice should be sought in particular transactions or on matters of interest arising from this bulletin. Persons listed may not be admitted in all states.

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LATEST ISSUES

■ **Brazil: The Use of Federal Waters for Aquiculture Activities**

■ **Brazil: Conversion of Investments by Non-Residents Requires Simultaneous Foreign Exchange Agreements**

■ **Brazil: Investment Funds authorized to invest freely abroad**

■ **Brazil: Concession of Beltway Operation**

## Arbitration

### **BRAZIL: IMPORTANT DECISION ON RECOGNITION OF FOREIGN ARBITRATION AWARDS**

The Brazilian Superior Court of Justice ("STJ"), responsible for recognition of foreign arbitration awards in Brazil, recently rendered a relevant decision related to arbitration clauses executed before the enactment of the Brazilian Arbitration Law in 1996. The decision also dealt with the effects of arbitration clauses in the event of a merger transaction.

A French Company requested ratification of a foreign arbitration award originating from a proceeding administrated by the International Court of Arbitration of the International Chamber of Commerce ("ICC"). The case involved a dispute about an international consortium in the energy sector.

Challenging the request, a Brazilian company argued mainly that (i) recognition of the arbitration award in Brazil would require a previous ratification by a French Court, as provided by Brazilian law prior to the Arbitration Law of 1996 and (ii) the arbitration clause was executed by a company later merged into another company, in which case the latter company would not be affected by the arbitration provision.

The STJ ratified the foreign arbitration decision ruling that, regardless of the date of execution of an agreement containing an arbitration clause, the double homologation requirement, repealed by the Brazilian Arbitration Law of 1996, should not apply.

In addition, the STJ confirmed that the Brazilian company, as the surviving entity of a merger transaction, was bound by the contractual obligations undertaken by the company merged into it, including the relevant arbitration clause.

Foreign Award n. 831 – FR (2005/0031310-2), Superior Court of Justice (STJ).

Giovanni Ettore Nanni  
Partner - São Paulo  
gnanni@tozzinifreire.com.br

## P2P Operator Liable for "Contributory Infringement"

By Zhang Haitao\*

Peer to peer (P2P) technology, as a tool for shared networks, enables a large amount of users from all over the world to simultaneously download and upload files shared amongst one another. In the design of P2P technology, the more users utilizing a specific form of P2P, the faster the file transfer rates will be. As a result, the most optimal use of such technology is when there is a high amount of users, and large-scale file transfers.

With the technological development of P2P, there emerged various forms of P2P software, such as Bit Torrent ("BT"), eDonkey, POCO, eMule, and PP Link-Click ("PP"). However, in China, most internet users who use such technology duplicate and disseminate copyrighted files on these networks without any form of prior authorization. And China is yet to provide specific provisions regarding copyright infringement in relation to P2P technology. Thus, the P2P sector has cultivated a "paradise" for piracy software, music and movies, which has proven to be a major headache for those within the music and film industries.

In late November 2007, Beijing Haidian District People's Court and Shanghai No. 1 Intermediate People's Court had respectively made rulings confirming copyright infringement of the P2P software platform operators who deliberately aided network users to disseminate movies through the internet without any prior authorization. The courts ruled that P2P operators shall be liable for their activities, and the courts ordered the operators to stop any infringing activities and compensate the commercial losses of the plaintiffs. These two court decisions are the first two judiciary decisions regarding copyright infringement by P2P platform operators in China.

### ***I. Beijing Ciwen Movie & TV Production Co., Ltd. vs. Beijing Zhenglejia Technology Co., Ltd.***

In November 2007, Beijing Ciwen Movie & TV Production Co., Ltd. ("Ciwen"), copyright owner of the movie "Seven Swords", filed a lawsuit against Beijing Zhenglejia Technology Co., Ltd. ("Zhenglejia"), PP software developer and the website operator of PP365.com, at the Beijing Haidian District People's Court. In its suit, Ciwen alleged that Zhenglejia had infringed upon the copyright of its film, "Seven Swords". More specifically, Ciwen alleged that Zhenglejia had provided inducible services for the sharing, searching and downloading of Seven Swords movie via its PP software.

The Zhenglejia had set a column titled "Movie Download Popularity- Top 30" on pp365.com, where "Seven Swords" was on the top of its list, additionally, the internet users were free to download the movie in its entirety from its site. Ciwen claimed that the above activities had infringed upon its copyright including the information network dissemination right, and pleaded that Zhanglejia should

immediately stop the infringing activities, make a public apology to Ciwen, and compensate Ciwen's commercial loss of RMB230,000.

In responding to the above allegations, Zhanglejia argued that PP software only provided information searching and resource sharing services to internet users, but not the file content itself. They further argued that internet users actually download shared files from other online users' hard drives, which is only facilitated by PP software. Zhanglejia's network server had never actually duplicated relevant files, nor had it distributed the shared files online. Zhanglejia also argued that corresponding measures had been taken to remove the hyperlinks to "Seven Swords" as soon as receiving a Cease & Desist Letter from Ciwen. Therefore, Zhanglejia had not infringed Ciwen's copyright, and all of Ciwen's requests should be declined.

Beijing Haidian District People's Court ruled that Zhanglejia, as the P2P technology internet service provider ("ISP"), providing a platform for the dissemination of movie and television productions, should have been well aware that it is almost impossible for the internet users to obtain any prior authorization to disseminate "Seven Swords" on its platform. In addition, the Court ruled that Zhanglejia deliberately displayed the "Movie Download Popularity-Top 30" column, where PP software users could gain easy access to "Seven Swords" straight away, rather than conducting keyword searches for the words "Seven Swords" in order to find the links.

Accordingly, the court ruled that Zhanglejia, facilitating the PP users' illegal online dissemination of Seven Swords by providing a movie dissemination platform, had infringed upon the copyright of "Seven Swords" in Mainland China. Therefore, the court decided that acts of copyright infringement were established and Zhanglejia should stop the infringing activities, and compensate Ciwen in the amount of RMB120,000 for its commercial losses.

## ***II. Guangzhou Zoke Culture Development Co. Ltd. vs. Guangzhou Shulian Software Development Company***

In November 2007, Guangzhou Zoke Culture Development Co. Ltd. ("Zoke"), the authorized distributor of movie "Killing Wolf" in China, brought a lawsuit against Guangzhou Shulian Software Development Company ("Shulian") at Shanghai No.1 Intermediate People's Court. Zoke alleged that Shulian had infringed upon the copyright of "Killing Wolf" and requested that the Court ordered Shulian to stop the copyright infringement activities and compensate Zoke for its commercial losses.

Shanghai No. 1 Intermediate People's Court affirmed that Shulian was the ISP of POCOsite.cn and the developer for the P2P software POCO. Shulian had set up a platform through POCOsite.cn which enabled the internet users to share files via POCO software. However, in addition to the dissemination of movies, the POCOsite.cn and POCO software were also used for dissemination of

photographs and information on fine food as well as online communication. Therefore, Shulian's activities, such as developing the POCO software and allowing internet users to download the POCO software from POCOsite.cn itself, did not constitute copyright infringement.

However, Shulian had used a slogan, "if visiting movi.poco.cn right now, you can download massive audio-video resources for free", with a pop-up window which is accessible as soon as the users registered with Shulian's website. Through this means, Shulian was able to attract an increasing amount of POCO users. At the same time, Shulian had also designed a program on movi.poco.cn which enabled internet users to upload movie posters and plot descriptions and provide other users with the download links. The above information could be automatically provided in a generated list upon the users' specific requests. This list was actually the corresponding categorization of the movies supplied by internet users, which facilitated the unauthorized download of the movies.

Although Shulian had put copyright notices on its website, the aim of Shulian for setting up the "Movie Exchange Column" on the POCOsite.cn was to attract users by providing free download of movies and to increase the internet click rate, which would, in turn, increase the company's profits by selling advertisement spaces. Therefore, Shulian should have the responsibility to review the copyright status of the shared movies in the "Movie Exchange Column".

In conclusion, the Court ruled that the activities of Shulian were to abet and help users download movies in a fast and convenient way, and to induce other users to search for links to movies found to be in violation of the Copyright law. Additionally, unauthorized dissemination of "Killing Wolf" by internet users had infringed upon the information network dissemination right of Zoke. The Court further ruled that, although Shulian had not directly conducted the infringing activities, it should be held jointly responsible for the direct infringing parties through abetting and aiding the infringing activities. Under this consideration, the Court of the First-instance decided that Shulian shall cease the infringing activities, and ordered a discretionary compensation of RMB 50,000 for the Zoke's commercial losses.

### III. Case Analysis

Although China is yet to provide specific provisions regarding copyright infringement related to P2P technology, Article 130 of the General Principles of Civil Law provides that "[i]f two or more persons jointly infringe upon another person's rights and cause him damage, they shall bear joint liability." According to the Opinions of the Supreme People's Court on Several Issues Regarding the Implementation of the General Principles of the Civil Law of the People's Republic of China (For Trial Implementation), "joint infringers" refer to "parties abetting and aiding others to carry out infringing activities". These two provisions formed the basic legal grounds for the Courts' verdicts on the copyright infringement of the above P2P platform operators.

The core dispute of the above two cases is concerning the test for “contributory infringement”. Currently, China provides no judicial interpretation regarding “contributory infringement”, therefore, it is largely decided at the judges’ discretion. Taking into consideration of both rulings of the above court decisions, it seems that the Chinese courts usually consider the following facts when deciding upon contributory copyright infringement:

- (1) Contributory activities: Although P2P platform operators had not duplicated the shared files in their hard drives, they had compiled and categorized the files and induced users to download the files; and
- (2) Awareness of the infringing activities: In respect of the two movies mentioned in these cases, the P2P platform operators should be knowledgeable to the fact that in general the copyright holders would not permit the works to be disseminated to the public for free; and
- (3) Non-exempt from liability: Even if P2P platform operators had provided copyright notices and disclaimers on their websites, the notices should not exempt the operators from their legal liabilities of the operators.

In conclusion, as the cases are the first two court cases concerning the P2P platform operators’ contributory copyright infringement, they form the basic attitude of the Chinese courts currently holding towards contributory infringement by P2P platform operators. Therefore, these two cases have high impact for China’s future judicial practices regarding disputes of this kind.

(The article was written in Chinese, the English version is the translation.)

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# The Brief

March 2008

## Special Supplement

### Investments in the Central and Eastern European countries - the fiscal opportunities offered by the French tax lease

Some of the rules governing French tax leases have been significantly amended, with effect from 1 January 2007. We propose to review the success of these amendments a year after they came into force. The French tax lease system offers attractive tax opportunities for the financing of industrial investments in the Central and Eastern European countries (see paragraph 3).

#### 1. What is a French tax lease

**Principle:** a special purpose vehicle (SPV) (such as a pass-through entity or company in tax consolidation group) created by **investors** (banks/companies with **significant tax capacities** in France) purchases an asset requiring heavy investment (ship, train, factory...). The SPV then leases the asset to the end user under a French tax lease. Due to the weighting of accelerated depreciation and financial costs in the first years of the lease contract, the SPV is heavily tax loss-making during this period. The tax losses recorded by the SPV reduce the corporate income tax liability of the investors.



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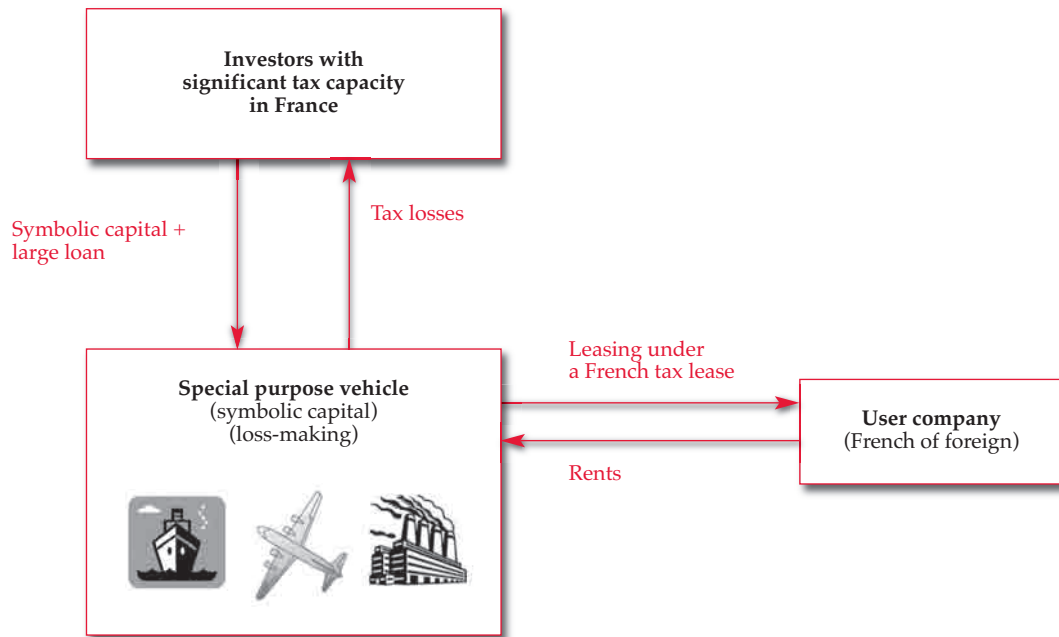
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**This financing scheme** is particularly attractive when the company using the asset does not have a sufficient taxable net income to take advantage of the asset depreciation.

Depending on the duration of the scheme (see paragraph 4), the system derives tax savings of between 6 and 25% of the value of the initial investment, according to the financial characteristics of the agreement.

The tax savings are shared between the partners or shareholders of the special purpose entity (often banks) and the company using the asset.

This system is also attractive where the lessee user company is based in a foreign country that allows it to depreciate the asset as if it were the owner (see paragraph 3).

## 2. Possible investment structures

This tax-leveraged method of financing may be based on two types of French tax provisions:

- the tax consolidation rules (in this case, the SPV is a company liable to corporate income tax, the tax consolidated subsidiary of a bank in the majority of cases);
- those requiring the involvement of a pass-through entity (Article 8 of the French Tax Code, e.g. a commercial partnership (*société en nom collectif*)) under the new provisions of Article 39 C of the French Tax Code.

It is the provisions relating to this second option that were significantly amended with effect from 1 January 2007.

The new rules defined in Article 39 C of the General Tax Code came into force on 1 January 2007, replacing a scheme (Article 39 CA of the General Tax Code) requiring prior tax authority approval.

The European Commission ruled that this previous approval mechanism constituted unlawful State aid and it therefore had to be amended. The previous scheme has now been substituted by that defined in the new Article 39 C and is now subject to objective conditions. Tax authority approval is no longer required.

However, the new scheme does involve certain restrictions:

- for the first 36 months of the agreement, tax deductible depreciation is limited to 3 times the amount of the annual rent payable under the French tax lease. That portion of depreciation that cannot be deducted in a given tax year may be deducted from net income in subsequent tax years, in addition to normal annual depreciation, up to a ceiling of the tax deduction allowed for the relevant tax year;
- for the first 12 months, the deductible loss must not exceed 25% of the earning capacity of the partners in the tax pass-through entity. That portion of the losses that cannot be deducted in a given tax year may be deducted from profits in subsequent tax years;
- the financed assets must be located in a European Union Member State, Norway or Iceland.

In practice, the first two restrictions have no real impact on the efficiency of the scheme.

In comparison, the scheme based on the tax consolidation rules does not provide for any restrictions.



### 3. "Double dip"

It may be possible to benefit from double depreciation ("double dip") where the lessor's home country and the lessee's home country have a different approach to how they classify French tax leases for tax purposes:

- France, the lessor's home country, applies a "legal ownership" approach to French tax leases. Accordingly, it is the legal owner of the asset, the pass-through partnership, that is entitled to depreciate it as described here above.
- where the lessee's home country applies an "economic ownership" approach, it will allow the lessee, the user and future owner of the asset, to depreciate it (adoption by the country of the lessee of Standard IAS 17 or an equivalent domestic rule of law).

The way the tax lease is analysed by the two countries concerned allows the asset to be depreciated by both, the lessor (SPV) and the lessee(user).

The following table provides an example of "double dip" depreciation in the Central and Eastern European countries.

This table only refers to movable asset tax leases.

#### KEY ASPECTS OF TAX LEASING IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

Investment structure used  Home country of the lessee and location of the assets	The SPV financing the asset is: – a French pass-through entity; or – a tax consolidation group member			The SPV financing the asset is a tax consolidation group member			
	Hungary	Poland	Romania	Russia	Serbia	Turkey	Ukraine
"Financial Lease" classification in the lessee's home country (application of Standard IAS 17 or an equivalent domestic rule of law)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deduction by the lessee of: – interest on the rent – rent	Yes No	Yes No	Yes No	Yes <sup>1</sup>	Yes No	Yes No	Yes No
Depreciation of the asset by the lessee	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ability to benefit from "double dip" depreciation if the lessor's home country is France	Yes	Yes	Yes	Yes	Yes	Yes	Yes

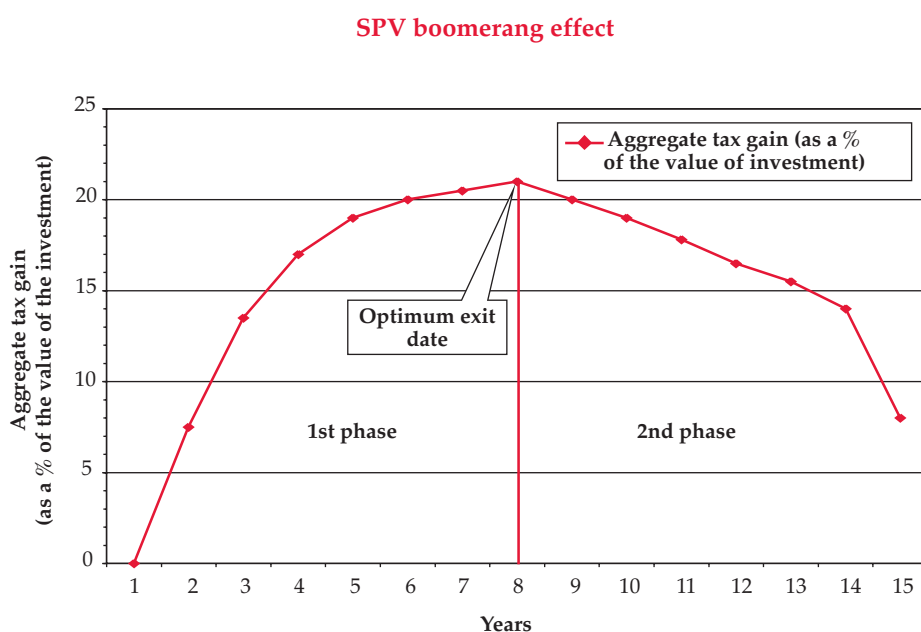
<sup>1</sup> Only the portion of the rent in excess of the depreciation of the asset

#### 4. Exiting from French tax leases

French tax leases have two phases:

- a first loss-making phase, during which tax savings are made by the investors (partners or shareholders of the SPV);
- a second profit-making phase where profits are made from the rents received under the lease once the asset is fully depreciated.

The losses generated during phase 1 are gradually counterbalanced by the profits made in phase 2. The tax efficiency of the scheme will therefore depend on the exit date, as illustrated in the graph set out below.



##### 4.1 Sale of the asset

The sale of the asset financed through such a scheme will produce a massive taxable profit which will cancel out all of the losses previously recovered by the partners or shareholders of the SPV.

This option must therefore be ruled out.

##### 4.2 Sale of the shares in the special purpose entity

The boomerang effect can be avoided if shares in the SPV are sold instead of the asset itself. The partners or shareholders of the SPV selling their shares will benefit from a capital gains tax exemption allowed on disposals of "equity interests" owned for at least two years (other than 5% of that gain which will still be taxable).

Where the special purpose entity is a pass-through entity, the purchaser of the shares (which can be the company using the asset or a third party) will have tax optimisation options which are not available in the case where the SPV were member of a tax consolidation group.

As a result of these various opportunities, we have observed, over the last year, that French movable asset tax leases have attracted a justly deserved growth in interest.

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# INTERNATIONAL LITIGATION AND ARBITRATION UPDATE

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## Supreme Court Rejects Judicial Review of Arbitration Awards, Even By Express Agreement

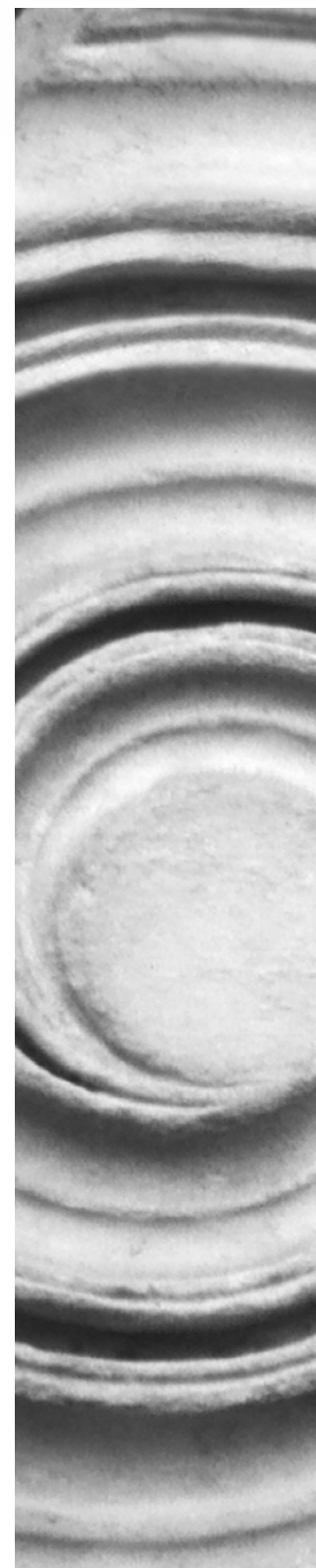
In a decision of potentially wide-ranging significance for any disputes subject to arbitration, the United States Supreme Court on March 25, issued a decision strictly limiting the scope of review of an arbitration decision and the grounds for vacating an arbitration award under the Federal Arbitration Act (FAA). The decision, in *Hall Street Associates, LLC v. Mattel, Inc.*, --U.S. -- (Mar. 25, 2008), finds that arbitration awards that are subject to the FAA “must” be confirmed “unless” the award is vacated under one or more of the narrow and specific grounds stated in sections 10 and 11 of the FAA.<sup>1</sup>

Specifically, the decision is significant for two reasons: First, it expressly holds that, where the FAA applies, parties are precluded from obtaining enforcement of agreements that expand the scope of judicial review of arbitration awards. In the specific case, the parties had agreed that the court should “vacate, modify or correct” the award if “the arbitrator’s conclusions of law are erroneous.” The court found this an impermissible expansion of the limited judicial review expressly provided for in the FAA.

Second, the court interpreted its prior decision in *Wilko v. Swan*, 346 U.S. 427 (1953), as not intending, by its reference to “manifest disregard” of law, to permit review of arbitration decisions, either under the FAA or private agreement, for legal error, regardless of how egregious or basic, but rather to merely be referring to the limited statutory grounds in sections 10 and 11 of the FAA. A significant number of United States Courts of Appeals had previously viewed “manifest disregard” or related grounds as a separate and distinct – albeit narrow and sparingly to be applied – grounds for reviewing and potentially vacating arbitration awards. See *Porzig v. Dresdner, Kleinwort, Benson, North America, LLC*, 497 F.3d 133,139 (2d Cir. 2007) (collecting cases from five other circuit courts).

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<sup>1</sup> Those grounds are: where the award was procured by corruption fraud or undue means; evident partiality or corruption of the arbitrators; misconduct of the arbitrators in refusing to postpone the hearing upon showing of cause or refusing to hear material evidence; or where the arbitrators exceed their powers. 9 U.S.C. § 10(a). A court may modify or correct an award for miscalculation or evident error; to the extent the award ruled on a matter not submitted; or is defective as to its form. 9 U.S.C. § 11.



In an apparent attempt to limit the effect of the decision, Justice Souter pointed out that the decision was interpreting the FAA only, and that other avenues for review might be available under state statutory or common law. However, in the United States, the FAA preempts state law (both statutory and common law) where it applies, and it has been broadly interpreted to apply to all arbitration proceedings where the underlying dispute involves maritime or arises from activity in interstate or international commerce. Also, in some states, New York for example (NY CPLR § 7511), the state statute tracks the grounds for vacating or modifying awards specified in the FAA. Decisions in at least some of those states had previously strictly construed the statutory grounds in state law for overturning or modifying arbitration awards, and had rejected “manifest disregard” as a catchall basis for overturning awards that misconstrue or disregard the “plain meaning” of a relevant contractual provision or misapply applicable substantive rules of law. In that regard, *Hall Street* conforms to other decisions in requiring a very limited scope of review of arbitration awards.

But the *Hall Street* decision goes one step further, and finds that when the FAA applies, an express agreement to expand the scope of judicial review of arbitration awards will not be given effect, presumably, even when the agreement to arbitrate in the first place was conditioned by one party or the other on an agreement to an expanded scope of review. The *Hall Street* case itself is unusual in that the arbitration agreement was made in the course of an ongoing litigation, after the court had tried and determined some aspects of the case. Knowing they had an existing live dispute, the parties agreed to arbitrate the remainder, rather than litigate further before the Court. But, they made that agreement subject to the expanded legal review, that the Supreme Court found to be unenforceable. In the trial court, the review provided for had actually resulted in the first instance in a determination to refuse enforcement of the award and a remand to the arbitrator.

The inability to obtain judicial review beyond the grounds enumerated by the FAA of fundamental errors of misconstruction of contractual provisions or clear errors in application of law, even by express contractual agreement, creates a risk of emboldening some arbitrators to rewrite otherwise plain contract provisions or disregard applicable law in pursuit of their vision of justice or equity.

Whether and to what extent the *Hall Street* decision will deter parties from agreeing to arbitrate contractual disputes (as the parties and some *amici* argued) remains to be seen. In labor relations and international contexts, arbitration is likely to remain a preferred dispute resolution choice, given the lack of more appealing available alternatives. In domestic commercial disputes, or international transactions where the parties can identify a potentially acceptable judicial forum alternative, the increased risk of arbitrator nullification of law or contract may encourage adopting judicial rather than arbitral resolution procedures. Whether and how this decision affects the calculus will depend on the facts and circumstances in each case. But, contracting parties agreeing to arbitrate disputes need to be fully counseled as to the potential benefits and risks entailed.

For more information about the matters discussed in this *International Litigation and Arbitration Update*, please contact the Hogan & Hartson LLP attorney with whom you work, or any of the attorneys below who contributed to this update.



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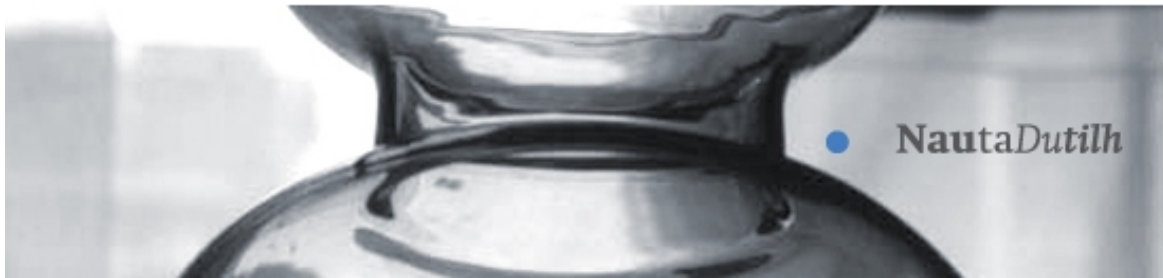
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# Newsflash

## Intellectual Property



**Dutch Court Rounds-up the case, Ready® for the ECJ: the scope of protection of DNA patents**

**7 April 2008**

*This newsletter is sent from our Amsterdam office*

NautaDutilh represents several soy meal importers in the Dutch chapter of the pan-European litigation brought by Monsanto in an effort to stop imports of soy meal from Argentina. In its 19 March 2008 decision, the District Court of The Hague refers several questions to the European Court of Justice. At stake is whether the Biotech Directive determines the scope of DNA patents, or whether there is room for a more absolute protection conferred by national patent laws.

### **Background**

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Monsanto is the proprietor of European patent EP 0 546 090 relating to glyphosate-tolerant 5-enolpyruvylshikimate-3 phosphate synthesis, an invention causing glyphosate (a herbicide) tolerance in soy plants. Argentina is one of the few places in the world where no IP protection for this invention exists, and farmers in Argentina have adopted this technology. Argentina is one of the largest exporters of soy products.

Monsanto's invention results in genetically modified plants and produces benefits at the crop growth stage of the production. A large part of the soy beans from these plants are used for the extraction of oil. After oil extraction, the residual parts of the soy beans are then further processed into soy meal, which is used as cattle feed. Monsanto argues that intact DNA molecules are residually present in soy meal imported into Europe and that its patent is therefore infringed under national patent laws in Europe.

The soy meal importers, on the other hand, argue *inter alia* on the basis of Article 9 of the Biotech Directive that the scope of protection of Monsanto's patent does not extend to situations where the DNA molecules, if present at all, are residually present and are incapable of performing any function whatever, least of all the function for which the patent was granted: creating glyphosate tolerance.

### **The Dutch case**

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In the third decision in this pan-European litigation (in which Monsanto has so far been unsuccessful in the UK and in Spain), this debate has prompted the District Court of the Hague to refer several draft questions, subject to the parties' comments, to the ECJ.

The District Court decided that it cannot clearly ascertain whether "classic", absolute product protection would apply for DNA molecules on the basis of national patent laws and that their scope of protection is unrelated to any function or expression of characteristics within the meaning of the Biotech Directive. It will effectively ask the ECJ whether, under the present circumstances of the case, the scope of protection of DNA patents is governed exclusively by the Biotech Directive.

NautaDutilh will refrain from commenting on this decision as it is involved in this litigation, but will keep you informed of the progress in this case. It will be the first time that the ECJ reviews the important issue of the scope of protection in the context of DNA patents.

### **Contact**

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# TAIWAN – Lee and LI

## SUPREME COURT GUIDANCE ON BONDS FOR LITIGATION COSTS

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The Code of Civil Procedure provides that the cost of litigation should be borne by the losing party. Where each of the parties wins part of the case, the court should decide how the costs are to be apportioned after considering the circumstances. If the plaintiff has no residence, office, or place of business in Taiwan, the court should, if so petitioned by the defendant, order the plaintiff to deposit a bond to cover the litigation costs. There are also provisions empowering the court to demand further bond amounts if during litigation the situation arises that a bond is insufficient or of uncertain value. But the above provisions do not apply if the plaintiff has sufficient assets in Taiwan to defray the litigation costs.

In current practice, if a plaintiff is a foreigner without any presence or sufficient assets in Taiwan, the court, if so petitioned by the defendant, usually orders the plaintiff to pay into court a bond for the litigation costs at the time of filing the litigation. Because at the time of filing the plaintiff has already paid the court costs for first-instance proceedings, the amount of the bond is usually calculated as the court costs for second- and third-instance proceedings, plus a reasonable amount in lawyers' remuneration for third-instance proceedings. Thus providing a bond to cover litigation costs generally places a burden on foreign plaintiffs.

In a 2007 ruling, the Supreme Court gave a new interpretation in this regard. The district court in the case ordered the foreign plaintiff to provide a bond to cover the litigation costs. The plaintiff appealed against this ruling to the high court on the grounds that it had assets in Taiwan in the form of 50 patents and 372 trademark registrations (granted and pending). But the Taiwan High Court held that these intangible assets were not suitable to be used as a bond for litigation costs, on the grounds that their value was difficult to assess; that their value would be affected by the period of time for which they were granted and would diminish year by year; that it was difficult to calculate the sale value of such rights; and that sales revenue arising from the commercialization of a patent was not the value of the patent itself.

However, the Supreme Court held that assets for purposes of determining whether a foreign plaintiff should be ordered to post a bond were not restricted to tangible assets. Patent and trademark rights lawfully acquired in Taiwan were capable of being utilized by means of assignment, licensing to others for practice, or pledge. If the plaintiff did indeed hold many patent rights and trademark rights, the fact that the value of such rights was difficult to assess did not mean that they were valueless. If their value were sufficient to cover the defendant's litigation costs, then the court should not order the plaintiff to provide a bond to cover such litigation costs. By dismissing the plaintiff's appeal without having properly considered and clarified these issues, the Taiwan High Court had failed to apply the law correctly. Accordingly, the Supreme Court reversed the ruling, and remanded the matter back to the Taiwan High Court for re-consideration.

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# Thailand: IP Developments

A Publication of Tilleke & Gibbins' Intellectual Property Department

March 2008

## DEVELOPMENTS IN COMPULSORY LICENSING

by Siraprapha Rungpry and Edward J. Kelly

A little more than a year ago Thailand's Ministry of Public Health, acting on behalf of a post-coup military-appointed administration, decided to issue the first set of compulsory licenses on three patented drugs. The three drugs were Merck's antiretroviral efavirenz (Stocrin®), Abbott Laboratories' antiretroviral lopinavir/ritonavir (Kaletra®) and sanofi-aventis' heart disease drug clopidogrel (Plavix®). The legitimacy of these compulsory licenses was questioned by the drug originators who own the patents, international legal experts, as well as experts in the pharmaceutical field and other stakeholders. More importantly, it was widely debated whether the actions of the Ministry would benefit Thai patients and help to improve the healthcare system and access to medicines in the long run. While each of the three companies took a somewhat different approach to deal with this issue, all of them commenced dialogue and negotiations with the Ministry of Public Health directly in attempting to resolve the issue amicably.

In spite of the various efforts taken by the patent owners to negotiate and work with the Health Ministry to improve Thai patients' access to medicines, the Ministry insisted upon implementation of its claim of right under the compulsory licenses to import generic products into Thailand through the Government Pharmaceutical Organization (GPO). Earlier this year Dr. Mongkol na Songkla, the Public Health Minister between September 2006 and February 2008, signed a further announcement of compulsory licenses on three cancer drugs before the end of his term as the Health Minister. The new set of compulsory licenses include the breast cancer drug *letrozole* produced by Novartis, the breast and

lung cancer drug *docetaxel* made by sanofi-aventis, and the lung cancer drug *erlotinib* produced by Roche. The Health Ministry originally intended to announce a compulsory license on Novartis's leukemia drug *imatinib* as well, but reversed that decision because Novartis agreed to provide the drug for free to patients under the universal healthcare scheme.

The various compulsory licenses pursued by the Ministry of Public Health were based on Section 51 of the Patent Act, which addresses public non-commercial government use compulsory licenses. Section 51 permits government ministries and departments to seek compulsory license for the following purposes: (1) to carry out any service for the public consumption or defense of the country; (2) for the preservation or acquisition of natural resources and environment; (3) to prevent or alleviate a severe shortage of food or medicine or other consumer goods or foodstuffs; and (4) for the sake of other public interests. Provided that the purposes for which a government department decides to seek a compulsory license fall under one of the foregoing circumstances, a number of preconditions must be satisfied before a government department could actually obtain the compulsory license.

In order to understand the process for issuing compulsory licenses, a careful reading of Sections 50 and 51 of the Patent Act is crucial. It is also important to keep in mind that since Thailand is a member of the WTO, any interpretation of the Patent Act provisions must be consistent with the obligations under the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPs) although the TRIPs Agreement itself is not part of Thai law. Generally speaking, the dispute regarding the legitimacy or validity of the compulsory licenses pursued by



Left: Siraprapha Rungpry, Legal Consultant  
Right: Edward J. Kelly, Partner  
Intellectual Property Department

the Ministry of Public Health stems from the first paragraph of Section 51 which appears to authorize government ministries and departments to exploit a patented invention by way of compulsory license, but the government department is required to pay a royalty after a period of negotiation with the patent owner. The Ministry of Public Health and supporters of compulsory licenses have interpreted this to confer the authority on the Ministry to unilaterally issue the compulsory licenses without prior consultation with the patent owners or the Department of Intellectual Property. Thus, under this interpretation the patent owners would not have any opportunity to appeal the government's decision to issue the compulsory licenses or negotiate the terms and conditions thereof. This interpretation seems to bend Section 51 beyond credible limits.

Section 51 states in the second paragraph that "*the ministry or bureau or department shall submit its offer setting forth the amount of royalty and conditions for the exploitation to the Director-General. The royalty rate shall be as agreed upon by the ministry or bureau or department and the patentee or his exclusive licensee, and the provisions of Section 50 shall apply mutatis mutandis.*" Section 50 sets out the process for negotiations of the parties and the procedures which must be followed before a compulsory license could be issued by the Director-General of the Department of Intellectual Property to the applicant. Section 50 specifically states that "*when the royalty, conditions for exploitation, and restrictions have been prescribed by the Director-General, he shall*

Continued on page 2

# NEW PRODUCT LIABILITY LAW: 3 THINGS IP OWNERS SHOULD KNOW

by Siraprapha Rungpry and Michael Ramirez



Left: Siraprapha Rungpry, Legal Consultant  
Intellectual Property Department

Right: Michael Ramirez, Consultant  
Dispute Resolution Department

Thailand has recently adopted new legislation on product liability. The new law is designed to protect consumers who incur damage from defective products by imposing strict liability on those involved in the production and sale of products. The new Product Liability Act ("Act") was approved by the National Legislative Assembly in December 2007. The Act was published in the Government Gazette on February 20, 2008 and will come into effect on February 20, 2009. Significantly, the Act will not apply retroactively; hence, there can be no liability under the Act for damage or injury caused by products sold prior to the effective date of the Act.

From the perspective of an IP owner who may be manufacturing, selling, importing, or licensing technologies or trademarks to others to produce, import, or sell a product which may potentially cause harm to consumers, there are essentially three key points that must be kept in mind about this new legislation.

First and foremost is whether the IP owner (or its licensee) may be a potential defendant under this new law. Generally speaking, the Act imposes *strict liability* on a business operator involved in the manufacture and sale of a defective product which causes harm to a user. The operator is held liable if the product is defective, regardless of whether the operator was negligent in making the product defective. In other words, the defendant-operator will be liable for the harm resulting from the defective product even if reasonable care has been exercised in making and selling the product.

A potentially liable "operator" includes any producer, outsourcer, or

importer of the defective product, a seller who cannot identify the manufacturer, outsourcer, or importer of the product, and a person using the trade name, trademark, logo, wording, or showing by any means in a manner to cause people to understand that he or she is a producer, an outsourcer, or an importer. Thus, an IP owner involved in the manufacture, distribution, sales, import, or granting of licenses for others to do so, could potentially face liability should the product sold contain a defect which causes damage to users.

The new law refers to three types of product defects: manufacturing defects, design defects, and warning defects (failure to warn). Manufacturing defects occur where a product deviates from its intended design or specifications, while design defects occur when the product design itself renders the product dangerous or unsafe for its intended use. Warning defects refer to situations where directions for use or storage, warnings, or information about the product are not provided or are provided but not reasonably, properly, or clearly, taking into consideration the nature of the product, as well as the ordinary usage and storage that may be expected of the product.

Under strict liability rule, it is sufficient for an injured user to prove that he or she was injured or suffered damage from the operator's defective product while using the product in the way it was intended. In other words, the injured party does not have to establish that the damage is the result of an act of any particular operator involved.

Moreover, product liability cannot be waived or limited by way of contract,

or by any waiver or limitation of liability statement given by the operator.

This raises the second significant point for operators to consider: if an action is filed against an operator, what defenses are available against the product liability claim? The new law provides several defenses for a defendant-operator. The Act expressly states that an operator will not be held liable if the operator can prove that the product is not defective, that the injured party was already aware that it was defective but used it anyway, or that the damage was due to improper use or storage, which was not in accordance with the directions on usage, warnings, or information about the product that the operator correctly, clearly, and reasonably provided. Furthermore, the Act provides defenses for producers of custom-made products and component producers, who generally will not be liable for the damage to consumers if they can prove that the defect is due to the specifications or design of the final product provided to them by the outsourcer or producer, i.e. that there was no manufacturing defect on their part and that they did not expect or should not have expected that the product would be defective. In addition to the foregoing, a defendant-operator may invoke other defenses available under other laws which are applicable in a particular case.

The final point that an operator should keep in mind is that the scope of damages available to an injured party in a

Continued on page 3

**COMPULSORY LICENSING** (from page 1)  
*issue a licensing certificate to the applicant.* Thus, a careful reading of Section 51 and its reference to the procedures for issuance of compulsory licenses under Section 50 would seem to suggest that the Ministry of Public Health has not taken the appropriate

steps required by law in seeking to impose compulsory licenses on various patented drugs. In addition, it should be noted that Section 50 also provides for an appeals procedure, which would allow the patent owners an opportunity to subject the decision regarding compulsory licenses to judicial review.

It has yet to be determined whether the new government will maintain the existing compulsory license policy, or whether the policy will be reconsidered and perhaps replaced by a less drastic measure. ♦

# MUSIC PIRACY: PERSISTENT CHALLENGES, POTENTIAL SOLUTIONS

by Carlos Natera



Carlos Natera, Consultant  
Intellectual Property Department

On January 1, 2008, EMI Thailand, the local subsidiary of one of the four largest music labels along with SONY-BMG, Warner, and Universal, closed its CD and DVD manufacturing operation in Thailand. This is not good news for the music entertainment industry in Thailand, as not only does it reflect a drastic change of lifestyle of music consumers, but it also demonstrates that copyright piracy remains a major problem. EMI reported dramatic sales reductions because it could not compete with the low prices of pirated CDs and DVDs.

The International Intellectual Property Alliance (IIPA) says that around 20 local Thai independent labels were forced out of business in 2006. Is Thailand going to witness more closures in the music industry and become known as another major hub for music piracy?

The IIPA estimates that in Thailand, 50% of music sold in 2007 was pirated, with an estimated loss of US\$21.7 million. The group is calling for Thailand to remain on the Priority Watch List for continuing to inadequately protect copyright and other intellectual property rights.

Sophisticated crime networks are now behind today's music piracy. The syndicates hire young salespersons, 19- or 20-year-olds, or even children and

disabled persons, who might not be prosecuted to the full extent of the law or on whom the public will take pity and buy their goods. In addition, the syndicates hire "spotters" whose job is to look out for police coming to conduct inspections or raids. The spotters even have photographs of people involved in the copyright industry.

A serious consequence of this problem could be that investment in developing artists would be eroded and the Thai music industry would suffer. Piracy is not a victimless crime. The singer or musician whose work is stolen is a victim; the Thai software engineer whose work is copied without recompense loses his livelihood. What rightfully belongs to the singer/musician and the engineer goes into the pockets of organized crime. Other employees of music companies also suffer if their company goes out of business, as a number already have. Thai customers need to know that the major cost of IP theft is not to the big international brand owners but to the country's economy, its employment, its reputation, and its future.

Effectively responding to these challenges is not easy, but it is most certainly essential. The 2008 Special 301 Report for Thailand by the IIPA commends the Thai government for the

increasingly active role played by enforcement authorities in the past year. In 2007, millions of pirated CDs and DVDs were seized, but millions more continue to plague the local market. The IIPA therefore encourages the government to continue its efforts in this regard. Stringent enforcement of copyright by the government, in coordination with IP owners, represents the single most important long-term solution to music piracy.

Thailand must also finalize the approval of an important proposed amendment to the copyright law. The draft bill creates a new regulatory regime to deal with the collection of royalties on copyrighted work in the domestic music industry, an area which is prone to confusion and exploitation under the existing legislation.

Thailand also needs to modernize its copyright laws with modern enforcement provisions and join the World Intellectual Property Organization (WIPO), the World Copyright Treaty (WCT), and the World Performance and Phonograms Treaty (WPPT) and abide by their rules. ♦

## PRODUCT LIABILITY (from page 2)

product liability case is broader than those available in traditional tort or contract claims. Claimable damages under the Act consist of two components, namely, (1) damages for wrongful act as provided in the Civil and Commercial Code, and (2) two additional categories of damages available under the Act. The Act specifically provides that in addition to compensation for a wrongful act pursuant to the Civil and Commercial Code, the court adjudicating product liability actions may also award compensation for mental damages (e.g., anguish, agony, anxiety, fright, grief, humiliation) as a result of damage to body, health, or sanitation of the injured party. In addition, the court

may award punitive damages on top of the actual damages granted. The court has the authority to award punitive damages if it can be shown that the defendant produced, imported, or sold the product despite being aware that it was defective or was unaware that the product was defective due to gross negligence, or became aware of its defect after production, importation, or sale, but failed to take proper action to prevent such damage, such as by failing to act in recalling a defective product. In such case, the court may award punitive damages in an amount the court may deem appropriate, but no greater than twice the amount of the actual damages.

Considering the new law's scope of application and the enhanced damages

provision, it is strongly recommended that IP owners and licensees take necessary precautions to prepare for implementation of the Act, as well as to protect themselves against potential claims of liability. For example, measures should be taken now to review and reevaluate quality control processes and product design. In addition, IP owners should ensure that warning information is clear and comprehensive and includes notice of all risks involved in the use of the product in order to provide consumers with reasonable notice. Finally, and of additional importance, it is recommended that operators consider and evaluate the need for product liability insurance with their insurance providers. ♦



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### PROPOSED RESPA REFORM AND INCREASED CONFORMING LOAN LIMIT CONSIDERATIONS Proposed RESPA Rule Targets Builder (Dis)incentives

The Department of Housing and Urban Development ("HUD") has proposed a new RESPA rule that, if adopted, may affect buyer incentive programs offered by builders who have affiliated settlement service providers.

On March 14, 2008, HUD published its Proposed Rule to Simplify and Improve the Process of Obtaining Mortgages and Reduce Consumer Settlement Costs ("Proposed Rule"). The Proposed Rule would clarify what constitutes "required use" under the affiliated business arrangement exception to the Real Estate Settlement Procedure Act's ("RESPA") general prohibition against kickbacks. HUD cited numerous complaints from consumers regarding builder incentive and disincentive programs that were conditioned on required use of a settlement service provider that was affiliated with the seller.

Specific examples cited by HUD include:

- A buyer was offered a \$22,000 discount on the price of a home for using the builder's affiliated lender, but the interest rate offered by the lender was ½ point higher than the market rate, and the origination fee charged by the affiliated lender was higher;
- A buyer was required to make a higher earnest money deposit and would lose a \$2,000 closing incentive if the buyer did not use the builder's affiliated lender; and
- A builder promised a \$3,000 incentive on the purchase price and \$6,000 toward closing costs if the buyer used the builder's affiliated lender which charged an interest rate that was 1 percent higher than the market rate and additional fees.

In response to these complaints, HUD's Proposed Rule changes the definition of "required use" to clarify that a referral to an affiliate would constitute "required use" if the referral includes economic disincentives that can be avoided or incentives that can be obtained only by utilizing the affiliate. That is, the availability of an incentive program could not be conditioned upon use of an affiliated settlement service provider. One permitted exception, however, is the offering of an optional bundle of settlement services to a borrower at a lower total price than the sum of prices of the individual settlement services.

The Proposed Rule also contains several provisions affecting lenders and is sure to be the subject of debate during the months to come. In the meantime, Builders may want to begin considering what impact this Proposed Rule would have on any incentive programs currently being offered.

#### **Increased Fannie Mae and FHA Loan Limits: Can Your Buyers Use Them?**

Can potential buyers in your communities take advantage of the recent increases in Fannie Mae or FHA-insured loans? Much attention has been given to the fact that the Economic Stimulus Act of 2008 temporarily increases Federal Housing Administration ("FHA") and Federal National Mortgage Association ("Fannie Mae") loan limits, which now range from \$271,050 to \$729,750 depending on the median sales price for the county in which the home is located. The increased loan limits will expire in January, 2009 unless extended by additional legislation.

In general, to be in a position to benefit by these increased limits, the buyer/borrower, the property and condominium project documents must comply with certain requirements. For projects where sales are ongoing, amendments to condominium documents or revisions to sales documents may be necessary because the availability of Fannie Mae or FHA-insured loans was not originally contemplated. For projects just being started, builders should consider having their legal documents structured so that sales can take advantage of the new loan limits.

**LUCE FORWARD COMMON INTEREST SUBDIVISION GROUP E-UPDATE**  
**“Proposed RESPA Reform and Increased Conforming Loan Limit Considerations:**  
**Proposed RESPA Rule Targets Builder (Dis)incentives”**

By Katie A. Jacobsen, Raelyn M. Bleharski and Anna T. Dorros

Page 2

*Please contact a member of Luce Forward's Common Interest Subdivision Group with any questions about the Proposed Rule or if you are interested in exploring whether your project documentation might allow you and your buyers to take advantage of the opportunities offered by the temporary loan limit increase.*

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