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MEMBER CONFERENCES & EVENTS

47th International PRAC Conference - Mexico City
Hosted by Santamarina y Steta - April 17 - 20, 2010
Registration Deadline 01 March
PRAC Members Gathering @ INTA Boston
Sunday, May 23, 2010

48th International PRAC Conference - Kuala Lumpur
Hosted by Skrine - October 16 - 19, 2010

For more information visit www.prac.org/events.php

MEMBER DEALS MAKINGS NEWS

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► FRASER MILNER CASGRAIN Cascades Successfully Completes Multiple Note Offerings And Tender Offer For Outstanding Notes
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PRAC TOOLS TO USE

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- PRAC Member Directory
- International Expert System (sample forms)
- Conferences & Events

Visit us online at www.prac.org
New Partner Brings Broad Experience in Oil and Gas, M&A and Private Equity Transactions to Firm

MOSCOW, January 19, 2010 -- John F. Sheedy, who has built an extensive legal practice in oil and gas, natural resources, mergers and acquisitions and private equity transactions, has joined the Moscow office of Baker Botts L.L.P. as a partner in the firm’s Global Projects department.

Sheedy has more than 20 years of experience in representing both Russian and foreign clients in transactions involving Russia. His legal practice has focused on cross-border corporate, M&A and finance matters in a diverse range of industries, including energy, consumer and food products, manufacturing and the financial sector.

“John’s deep experience in transactions involving the Russian Federation makes an excellent fit with our growing Moscow office and with our commitment to provide exceptional service to our clients in strategic markets around the world,” said Baker Botts Managing Partner Walt Smith.

During his two decades of work in Russia, Sheedy has represented a number of energy companies in a variety of projects, including oil and gas ventures, well workover projects, pipeline projects and, most prominently, production sharing agreements (PSA). When the Russian economy diversified in the late 1990s and early 2000s, his client base expanded to include cross border mergers and acquisitions in the country, including private equity deals.

“John will provide additional senior oil and gas expertise for us in Moscow, which has been a part of the strategic plan for our Global Projects department for a number of years,” said Steven Wardlaw, Partner in Charge of the firm’s Moscow office. “John will help us continue to build our in-country client base, which has been instrumental in the growth of our office during the past few years, and will stand us in good stead for our continued growth here.”

Sheedy earned his undergraduate degree in Russian and linguistics from Georgetown University in Washington, D.C. and his law degree from the University of Michigan. Prior to joining Baker Botts, he was a partner with Orrick (CIS) LLC, an affiliate of Orrick, Herrington & Sutcliffe LLP, and formerly had practiced with Coudert Brothers.

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About Baker Botts L.L.P.

Baker Botts L.L.P., dating from 1840, is a leading international law firm with offices in Abu Dhabi, Austin, Beijing, Dallas, Dubai, Hong Kong, Houston, London, Moscow, New York, Palo Alto (California), Riyadh and Washington. Baker Botts provides a full range of legal services to international, national and regional clients.

For more information, please visit www.bakerbotts.com
CLAYTON UTZ TRADEMARK SPECIALIST JOINS FIRM

Sydney, 5 February 2010: Clayton Utz is pleased to announce the appointment of trade mark specialist Brett Doyle as a Special Counsel.

Brett is both a lawyer and a qualified Trade Mark Attorney with many years' experience, having worked in both private practice at large national firms and with Patent and Trade Mark Attorney firms.

Brett said he was pleased to be joining Clayton Utz' Intellectual Property group, one of the largest and most experienced in Australia.

"Clayton Utz has an excellent reputation in both contentious and non-contentious intellectual property work. It was a natural fit for my skills and experience in trade mark protection and enforcement," Brett said.

Stuart Clark, the head of Clayton Utz' national Litigation and Dispute Resolution practice, said: "Clayton Utz is delighted to welcome Brett to the firm. Brett's background and experience, particularly in the area of trade marks, will further enhance Clayton Utz' ability to offer a comprehensive service to clients to help them protect, commercialise and enforce their intellectual property rights."

For additional information visit www.claytonutz.com

LUCE FORWARD ANNOUNCES LEADERSHIP CHANGES FOR 2010

Prominent California firm selects new practice group leaders and Executive Committee member

Luce Forward today announced Partner Charles Maher has joined the firm’s Executive Committee. In addition, the firm announced changes to the leadership of a few of its practice groups.

Maher, a partner in the Luce Forward’s San Francisco office, will be the newest member of the firm’s Executive Committee. He is well prepared for his three-year-term, having previously served as partner-in-charge of the San Francisco office. Further management changes include adding Dennis Doucette to serve as co-chair of Luce Forward’s Business / Corporate practice group with Rick Frimmer, selecting Marie Burke Kenny to lead the Labor & Employment practice group, and appointing Kenneth Stipanov to manage the firm’s Real Estate Transactional practice group. Doucette, Frimmer, Burke Kenny and Stipanov practice in the San Diego area.

“We are pleased these individuals have accepted the responsibilities of these leadership positions and know they will be invaluable members of our management team," said Kurt L. Kicklighter, Luce Forward’s Managing Partner. “Their intuition, understanding and natural leadership abilities will assist both our clients and the firm as we continue to grow strategically throughout California.

For additional information visit www.luce.com
WASHINGTON, D.C., February 9, 2010 – Hogan & Hartson LLP announced today the formation of its Congressional Investigations Group. The group will capitalize on the firm’s decades of experience in handling government investigations at all levels, including dozens of congressional investigations.

Warren Gorrell, the firm’s Chairman, stated, "Hogan & Hartson is uniquely positioned to handle high-stakes congressional investigations because of its highly accomplished white collar practice, its first-rate legislative group, and its broad base of regulatory attorneys who have the industry insight necessary to navigate these sensitive investigations."

The Congressional Investigations Group will be composed of a skilled team of Hogan & Hartson lawyers, and will be led by Washington, D.C. partners Robert S. Bennett, Ty Cobb, and Peter Spivack, and of counsel Reid Stuntz. Members of the group have a wealth of experience, having served as leading staffers in Congress and on congressional committees and in U.S. Attorney's Offices and the Department of Justice.

The group will draw on Hogan & Hartson’s deep regulatory and substantive experience in areas including tax, health care, Foreign Corrupt Practices Act, banking, food and drug law, antitrust, litigation, corporate, insurance, energy and environment, campaign finance, and government contracts, among others.

Ty Cobb, the group’s Co-chair, said, “We look forward to continuing to steer our clients through these important investigations in a manner that ensures that their interests are carefully protected.”

Bob Bennett, the group’s other Co-chair, stated, “We have a robust base of experience and resources to handle these matters, and we will continue to do so with the utmost regard for the interests of our clients, the Congress, and the public.”

Hogan & Hartson has represented domestic and foreign corporations, as well as high ranking government and corporate officials, in previous congressional investigations. A few of the matters handled by our attorneys include representing:

- a sitting President in disputes involving complex constitutional questions;
- a journalist in a national security leak investigation;
- cabinet secretaries in high-stakes litigation;
- a major medical device company in a congressional investigation into its business practices;
- a major food company before a congressional committee examining safety; and
- a multinational insurance company in a congressional request for information.

Collectively, members of the Congressional Investigations Group have represented clients before every major investigative congressional committee and subcommittee. The group also will draw on Hogan & Hartson’s experience representing clients in investigations conducted by related agencies such as the Government Accountability Office.

About Hogan & Hartson

Hogan & Hartson is an international law firm founded in Washington, D.C., with more than 1,100 lawyers worldwide.

Effective May 1, 2010, Hogan & Hartson LLP and Lovells LLP will combine to form Hogan Lovells. The combination is subject to the firms obtaining the necessary regulatory clearances.

For more information about Hogan & Hartson, visit www.hhlaw.com.
**PRAC MEMBER NEWS**

**ABNR PARTNER ANNOUNCEMENTS**

(Jakarta, January 15, 2010) ABNR continues its expansion by promoting its Senior Associate, Sahat A.M. Siahaan, to Partner level with effect from 1 January 2010. Mr. Siahaan joined ABNR as an Associate in July 1996, soon after he earned his Graduate Diploma in Legal Studies from the University of Canberra, Australia. Sahat, a law graduate of the University of Indonesia with a major in Law on Economic Activities, also holds an LLM degree that he earned in 2002 from the University of Western Australia in Perth, Australia. His practice areas have been corporate, investment, capital market, transportation and shipping laws and he has taken a major role in prominent cases in these areas as well as in a number of shipping collision cases in the Indonesian waters and in ship financing projects.

At the same time, Mr. Achmad S. Kartohadiprodjo, ABNR’s Senior Partner, has retired as Partner effective as from 1 January 2010, but will continue to have an office in the firm as Of Counsel. Mr. Kartohadiprodjo joined ABNR as Partner in 1985. His practice areas have been aviation law, family law and litigation.

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

**CAREY Y CIA PARTNER & DIRECTOR ANNOUNCEMENTS**

Three associates of Carey y Cia. were promoted as new partners of Chile’s largest law firm as of January 2010. Lawyers Guillermo Acuña, Lorena Pavic and María Fernanda Carvajal joined as new partners, while Consuelo Raby and Fernando García were named directors or of-counsel, a position that gives them certain responsibilities in their practice areas. Carey y Cia. has now 23 partners and four directors, under the leadership of Senior Partner, Jorge Carey.

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

**SKRINE PARTNER ADMISSIONS & PROMOTIONS**

The Firm is pleased to announce that as of 1 January 2010, Trevor Jason Mark Padasian, Kwan Kin Sum, Teh Hong Koon and Ezane Chong have been admitted as Partners. Too Ji Voon and Marie Julie Wan Ullok have also been promoted to Senior Legal Assistants.

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

**SIMPSON GRIERSON SENIOR ASSOCIATE APPOINTMENTS**

Simpson Grierson is delighted to announce four promotions to senior associate.

**Rob Anema**  Simpson Grierson’s commercial group welcomed Rob in 2007. He is a specialist in sales and marketing (with a particular focus on the sale and marketing of food, dietary supplements and complementary medicines), insolvency, and compliance. Prior to joining the firm, Rob administered liquidations with a Hamilton insolvency practice and ran his own successful business in Australia.

**Man Sum Chiu**  Man Sum advises on all areas of commercial property including commercial leasing, retail leasing, acquisitions and disposals, property aspects of finance transactions and due diligence investigations. She joined Simpson Grierson in 2007 after working at two other Auckland law firms in the commercial and commercial property areas of law.

**Jonathan Lees**  A commercial litigator at Simpson Grierson since 2008, Jonathon advises on all forms of dispute resolution including general commercial and contract, property, insurance, trade practices, fraud and tracing claims, cross-border issues, coroner’s inquests, and judicial review. He regularly appears in the High Court and has appeared in the District Court and Court of Appeal.

**Sarah Manning**  Sarah joined Simpson Grierson’s commercial property group in 2009 after four years in the UK, where she was a senior real estate solicitor in a large City of London firm. Sarah advises on a range of property matters including commercial leasing, due diligence, acquisitions and disposals, development work, asset management and trusts.

For additional information visit [www.simpsongrierson.com](http://www.simpsongrierson.com)
Rodyk acted for Extream Ventures Pte Ltd (the "Fund Manager") in the establishment of its S$20 million Venture Capital fund, Extream Ventures Fund I Pte Ltd (the "Fund"). The Fund is intended to support emerging technologies in Singapore by investing and assisting in the growth of innovative early-stage companies. The firm also advised and assisted the Fund Manager in the relevant agreements with the foreign entities - Georgieff Capital (Germany) and ART Texas Capital (US) - in connection with these entities' investment in the Fund.

Corporate partner S. Sivanesan led this transaction and was assisted by senior associate Sunil Rai.

For additional information visit www.rodyk.com

ABNR

ACTS FOR GOVERNMENT ISSUANCE OF US$2BILLION FIXED RATE NOTES

Jakarta, February 8, 2010  Ali Budiardjo, Nugroho, Reksodiputro (ABNR) represented the Government of the Republic of Indonesia in respect of the issuance of US$2,000,000,000 5.875% Fixed Rate Notes due 2020 under its US$9,000,000,000 Global Medium Term Note Program of the Republic of Indonesia. Partners Ferry P. Madian and Chandrawati Dewi were the Team Co-Leaders in this transaction.

For more information, please visit www.abnrlaw.com

King & Wood

TIANJIN SINOPEC - SABIC JV OBTAINS USD 2.8BILLION FINANCING

January 18, 2010  The joint venture between Sinopec and Saudi Basic Industries Corp has successfully raised US$2.8 billion financing for their petrochemical complex in Tianjin from Chinese financial institutions. Financing was provided by China Development Bank, Industrial and Commercial Bank of China, China Construction Bank, Bank of China, Agricultural Bank of China and Sinopec Finance Co.

Corporate Group partner Carolyn Dong and Finance Group partner Cai Yongmei advised the joint venture on all aspects of the financing.

For additional information visit www.kingandwood.com
GIDE LOYRETTE NOUEL
 ADVISES MORGAN STANLEY REAL ESTATE FUND ON
 COMBINATION OF ICADe AND COMPAGNIE LA LUCETTE

Gide Loyrette Nouel has advised Morgan Stanley Real Estate Fund V (MSREF) on the acquisition by Icade of MSREF’s 94.5% stake in Compagnie la Lucette, a French property company listed on Euronext Paris (Segment B) and which benefits from the SIIC regime.

The first step of this transaction was the sale by MSREF to Icade of 35% of the share capital of Compagnie la Lucette in consideration for a price of EUR 9.61 per share, which took place on 24 December 2009, to be followed by a contribution of MSREF’s remaining stake (59.5%) on the basis of the same valuation of the Compagnie la Lucette shares, in exchange for Icade shares and a reinvestment by MSREF by way of a reserved share capital increase, both of which will occur no later than 15 March 2010.

Upon the completion of this transaction, MSREF will hold approximately 4.5% of Icade’s share capital, making it the second-largest shareholder of Icade after Caisse des Dépôts et Consignations.

Legal counsel to MSREF:
Gide Loyrette Nouel A.A.R.P.I. (partner Didier G. Martin and Edgar Nguyen for corporate aspects; partner Arnaud de Pesquidoux for real estate and financing aspects; partner Joëlle Salzmann and François Doridou for antitrust aspects).

For additional information visit www.gide.com

NAUTADUTILH
VODAFONE WINS SUMMARY PROCEEDINGS AGAINST DUTCH CONSUMER ASSOCIATION REGARDING TEXT MESSAGING SERVICES

On 2 February 2010, the district court in The Hague ruled that Vodafone does not need to modify its third-party debt collection policy for text messaging services. NautaDutilh assisted Vodafone in this case.

The district court made its ruling on summary proceedings instituted by the Dutch Consumer Association (‘Consumentenbond’). The Consumer Association demanded that Vodafone should end its reverse billing system, claiming that Vodafone was extracting money from its end-users “gratuitously” for unsolicited text messages.

The court decided in Vodafone’s favour on all counts and acceded to Vodafone’s demand that the Consumer Association should issue a full public apology.

Vodafone was assisted by Piet Sippens Groenewegen and Danielle Sampermans.

For additional information visit www.nautadutilh.com

PRAC Mexico City - April 17-20, 2010
Registration and Conference Materials online at www.prac.org
Registration Deadline 01 March, 2010
Cascades Inc. ("Cascades") (CAS on the Toronto Stock Exchange), a leader in recovery and in green packaging and tissue paper products, announced on December 3, 2009 the completion of its private placement offering of US$500 million aggregate principal amount of 7¾% Senior Notes due 2017 (the "US$ Notes") and CDN$200 million aggregate principal amount of 7¾% Senior Notes due 2016 (the "CAN$ Notes"). The syndicate of initial purchasers for the US$ Notes was led by Banc of America Securities, LLC, and included Wells Fargo Securities, LLC, Scotia Capital (USA) Inc., Goldman, Sachs & Co., CIBC World Markets Corp, NBF Securities (USA) Corp., BNP Paribas Securities Corp., TD Securities (USA) LLC, BMO Capital Markets Corp., Comerica Securities, Inc., RBC Capital Markets Corporation and SG Americas Securities LLC (the "US Initial Purchasers").

The syndicate of initial purchasers for the CAN$ Notes was led by Scotia Capital Inc., National Bank Financial Inc., Merrill Lynch Canada Inc., CIBC World Markets Inc., Desjardins Securities Inc., BNP Paribas (Canada) Securities Inc., BMO Nesbitt Burns Inc., RBC Dominion Securities Inc. and Société Générales Valeurs Mobilières Inc. (the "CAN Initial Purchasers", and collectively with the US Initial Purchasers, the "Initial Purchasers"). Cascades used the net proceeds of the offering to purchase, through its wholly owned subsidiary Cascades Tenderco Inc., up to $700 million of Cascades' outstanding 7¾% and 6¾% Senior Notes due 2013.

On December 23, 2009, Cascades announced the completion of its follow-on offering of US$250 million aggregate principal amount of 7¾% Senior Notes due 2020. Cascades was represented by Robert F. Hall (Vice-President, Legal Affairs and Corporate Secretary) and Louise Paul (Assistant Corporate Secretary), with the assistance of Fraser Milner Casgrain LLP, as Canadian counsel, with a team that included Charles Spector, Guy Paul Allard, Scott Rozansky and Geneviève Lefort (corporate finance).

For additional information visit www.fmc-law.com

HOGAN & HARTSON
ASSERTS CHAMPAGNE LOUIS ROEDERER RIGHTS TO ITS "CRISTAL" TRADEMARK IN RUSSIA

Moscow, January 13, 2010 – Hogan & Hartson successfully asserted the rights of the French elite champagne house Champagne Louis Roederer to its trademark "Cristal" in the appellate instance. The decision was adopted by the Ninth Moscow Arbitrazh Court on January 11, 2010. The court dismissed the appeal of the Russian federal state-owned enterprise Soyuzplodoimport, an owner of the disputed vodka trademark KRISTAL, against the decision of the court of first instance.

Cristal Louis Roederer Champagne originally was produced specially for Russian Emperor Alexander II in 1876. In 1949 the trademark was internationally registered and in 1995 it obtained legal protection in Russia. However, on April 6, 2009, the Russian Chamber for Patent Disputes ceased the legal protection of the "Cristal" trademark in Russia. Soyuzplodoimport, being the rights-holder of the Russian trademark "Kristal" vodka (registered in Russia in 1973), stated that the "Cristal" and "Kristal" trademarks were confusingly similar and ordered the French company to pay royalties for the imported champagne.

On July 6, 2009, the Louis Roederer Company challenged the chamber's decision in the Moscow Arbitration Court. At the opening sitting, the Rospatent (Russian Agency for Patent and Trademarks) acknowledged that the French company was right and the decision of the chamber was erroneous. On October 26, 2009, the court affirmed the legal protection of the "Cristal" trademark and reversed the decision of the Russian Chamber for Patent Disputes.

Soyuzplodoimport filed an appeal against the decision of the Moscow Arbitrazh Court. Champagne Louis Roederer, Rospatent, and the Russian Chamber for Patent Disputes opposed the appeal and asked the court to dismiss it. The appellate court affirmed the validity of the grant of legal protection for the "Cristal" trademark in Russia.

The matter was led by Hogan & Hartson Moscow counsel Julianna Tabastajewa.

For additional information visit www.hhlaw.com
OSX Estaleiros S.A., a subsidiary of OSX Brasil S.A., signed a technical cooperation agreement ("TCA") with Hyundai Heavy Industries ("HHI"). The TCA regulates the supplying, by HHI, of technical information and assistance, among other types of support, for the construction and operation of the shipyard in the area of Biguaçu, State of Santa Catarina.

The Biguaçu shipyard is primarily oriented and designed to help satisfy the demand of the Brazilian oil and gas for offshore vessels and units.

Also, HHI and OSX Brasil executed an Investment Agreement whereby HHI will became owner of 10% of the voting and total stock of OSX Estaleiros S.A., conditional upon the registration of the Investment Agreement with the INPI.

The deal, which value is confidential, marks the premiere of the largest international naval construction group in the Brazilian market, which has been drawing attention from foreign groups due to the large investments made by Petrobras.

Hyundai Heavy Industries is currently the biggest global naval construction group, with 10% of market share. Since 1972, it has delivered over 1600 ships and 170 oil production projects, according to OSX’S release. The company also operates in such diverse lines of business, such as wind energy, water transportation, hotels and automotive

TozziniFreire team acting for Hyundai Heavy Industries included Fabiano Gallo – partner; Eduardo Carreirão da Silva – partner; Shin Jae Kim - partner; Andréia Andrade Gomes - partner.

For additional information visit www.tozzinifreire.com.br
PRAC e-Bulletin is published monthly. Member Firms are encouraged to contribute articles for future consideration. Send to editor@prac.org. Deadline is 10th of each month.
Argentina Courts Rule in Landmark Case on AntiTrust Private Enforcement;

For the first time, a Court granted compensation for the damages caused by the infringement of the Antitrust Law. Until this ruling, antitrust in Argentina had only been enforced by the Antitrust Authorities, since individual and corporate antitrust actions were systematically dismissed by the courts, except for some injunctions in the framework of merger control cases.

In the recently decided case Autogas, a commercial judge ordered YPF -the major local producer and distributor of liquefied petroleum gas (“LPG”) -to pay Autogas -a LPG distributor- a compensation of roughly USD 3.5 million plus interests for the damages caused by the abuse of YPF’s dominant position.

YPF was sanctioned by the National Antitrust Commission (“CNDC”) in 1999 for abuse of its dominant position in the LPG market, in which it had a 53% market share. The fine was later confirmed by the Supreme Court in 2002. YPF was fined with about USD 109 million (which as the result of the devaluation was reduced at the time of payment to approximately USD 35 million). According to the CNDC, YPF sold LPG in the local market at a higher price than it did in foreign markets, and banned its foreign LPG purchasers’ from re-exporting the product into Argentina. YPF’s behavior raised the local price of LPG through the supply shortage of the local market. At the same time, since YPF was active both at the production and distribution levels, it increased its market share in the latter from 10% to 40%, by driving many distributors -such as Autogas- out of business.

Prior to filing an action in the Court, Autogas filed a complaint in the CNDC, which was dismissed in 2000 on the grounds that the rise in LPG prices was passed on by distributors to end consumers, which were the only ones harmed by YPF’s behavior. Subsequently, based on the 1999 precedent and on the facts proved in the case by the CNDC, Autogas sued YPF seeking compensation for the damages caused by its anti-competitive conduct and grounded its claim on civil law principles. The judge understood that prices were partially passed on to end consumers, and awarded damages to the plaintiff based on the overcharge that had not been passed on to consumers.

The judge exempted Autogas from paying the legal costs of the judicial procedure (3% of the amount claimed), which is considered to be one of the main obstacles for private litigation in Argentina, together with the difficulty for Courts to prove anti-competitive practices due to their limited resources and the lack of expertise in this field.

This ruling should have a positive effect on antitrust enforcement in Argentina because it opened a new path for companies to seek compensation at the courts for the damages caused by infringements to the Antitrust Law and should have a deterrent effect on firms engaged in anti-competitive practices.

For additional information visit www.allendebrea.com.ar
Users, not ISPs, liable for copyright infringement after iiNet decision

Today's landmark copyright decision in Roadshow Films Pty Ltd v iiNet Ltd (No. 3) [2010] FCA 24 is a welcome one for internet service providers (ISPs). It means that an ISP will not be liable for copyright infringement merely for providing access to the internet, even when it has knowledge of copyright infringement by its customers and does not take steps to stop it occurring.

iiNet, an Australian ISP, had been served with notices by the Australian Federation Against Copyright Theft (AFACT), alleging that iiNet's customers were infringing the copyright of the major film studios - specifically by sharing and downloading films and TV shows via the BitTorrent peer-to-peer protocol.

The copyright owners and their exclusive licensees then launched legal action against iiNet, alleging that it had authorised its users' copyright infringement.

Did iiNet authorise the infringement?

Copyright owners do not have to sue the actual infringer of their copyright - and often, it's simply not worth doing it financially. The Copyright Act allows them to sue intermediaries who have authorised the infringement, but this turns on:

- the extent (if any) of the intermediary's power to prevent the infringement;
- the nature of any relationship existing between the intermediary and the infringer; and
- whether the intermediary took any other reasonable steps to prevent or avoid the infringement, including whether the person complied with any relevant industry codes of practice.

The case had significant implications for ISPs who are routinely sent infringement notices by copyright owners. If the copyright owners were successful, ISPs could have been forced to take responsibility for the infringing acts of their customers.

Justice Cowdroy held that there was no authorisation because:

- iiNet only provided the means of accessing the internet, but not the means by which infringement occurred, namely, BitTorrent - it had no control over BitTorrent;
- iiNet's scheme for notification, suspension and termination of customer accounts was not a power to prevent copyright infringement; and
- iiNet did nothing that sanctioned, approved or countenanced the infringement - it did not, for example, structure software to make infringement easier or encourage customers to infringe.

Was there a safe harbour for iiNet?

The Copyright Act establishes a safe harbour for carriage service providers, which includes ISPs, similar to that in the USA's Digital Millennium Copyright Act.

Because iiNet had not authorised the infringement, Justice Cowdroy did not strictly need to decide how the section affected iiNet. However, he held that, if it had authorised the infringements, iiNet would have been protected.
In order to qualify for the safe harbour, an ISP must adopt and reasonably implement a policy that provides for termination, in appropriate circumstances, of the accounts of repeat infringers. The Court found that the requirements of the repeat infringer policy itself are minimal, with significant latitude granted to ISPs to determine the policy. Although iiNet did not implement the policy sought by AFACT, notices on its website and the terms of its customer agreements were sufficient to meet the safe harbour requirements.

**What power did iiNet have anyway?**

Under section 276 of the Telecommunications Act, carriers or providers cannot disclose or use any information or document that relates to the contents or substance of a communication that it carried, and learnt of because it carried it.

iiNet's position was that this applied to its position: it couldn't have the power to prevent infringement if it couldn't use the knowledge of infringement it gained by virtue of being the ISP.

Again, although it was unnecessary for Justice Cowdroy to decide this issue, he didn't agree - this doesn't bar an ISP from acting.

**How many infringements?**

One other interesting issue in the case was the number of primary infringements by iiNet subscribers. Justice Cowdroy held that the act of infringement occurs when the pirated file is made available through the BitTorrent system - which happens once. The subsequent "transmissions" of the files are not further infringements. This is a crucial issue for any future infringement case as the number affects the damages (and indeed, any characterisation of a person as a "repeat" infringer).

**What should you do now?**

Whichever way the decision went, it was always likely that an appeal would be made, and so Justice Cowdroy's judgment is unlikely to be the final word on this important issue.

For now, however, ISPs can breath a little easier. Their routine business of providing access to the internet will not, by itself, mean that they authorise their customers' acts of copyright infringement. Nor are they obliged to contact customers or terminate their accounts in response to notices from copyright owners.

For copyright owners, this decision shuts off a potentially powerful way of reining in online copyright infringement and has global implications in terms of how this difficult issue should be addressed.

*John Fairbairn and Timothy Webb acted for the Internet Industry Association in relation to the proceedings.*

For further information, please contact John Collins, Robert Cutler, John Fairbairn, Jim FitzSimons, Mary Still, Kate Marshall, Chris McLeod, Ian Bloemendal, Jeremy Charlston, Simon Newcomb, Scott Crabb, Paul Fitzpatrick, Margaret Michaels or Alexandra Wedutenko.

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LIFE SCIENCES – RECENT NEWS

Legislation:

• **Technical Surveillance Guidelines for Medical Devices:** the National Agency for Sanitary Surveillance (ANVISA) published on December 21, 2009, its Resolution RDC No. 67, which sets forth the guidelines that shall be observed by the holders of medical device registrations. These companies shall have a technical surveillance system in place in order to detect and analyze technical complaints, adverse events, deaths, severe hazards to the public health and counterfeits in connection with medical devices. The resolution also establishes the deadlines for the submission of the relevant reports to ANVISA. The companies shall adjust to these guidelines within 360 days after the publication date.

• **Guidelines for Drug Package Inserts:** ANVISA published on December 23, 2009, its Resolution RDC No. 71, which approved the guidelines for drug package inserts. The rule provides for general and specific guidelines for the labeling and packaging of medicines, such as the mandatory content and how to place the information in the secondary package. The rule also establishes as mandatory the insertion of the name of the medicine or the generic name of each active ingredient in the secondary package following the Braille system. The companies shall report to ANVISA their compliance with these new rules within 540 days as of the publication of the resolution.

• **Declaration of Medical Services to the Internal Revenue:** the Brazilian Internal Revenue Office (RFB) published on December 22, 2009, its Ruling No. 985, which created the Declaration of Medical Services (DMED), to be annually presented by legal entities that render healthcare services or operate private healthcare plans. The DMED shall inform and identify the amounts received by individuals as well as the amounts reimbursed by virtue of healthcare plans. The first DMED shall be filed in February 2011, relating to transactions occurred in 2010.

• **Protection of Genomic Cultivar DNA:** on December 2, 2009, the Ministry of Agriculture and Supply published its Normative Ruling No. 58, establishing the procedures for delivery and receipt of samples of Genomic Cultivar DNA that are protected by or are object of protection applications before the National Services of Cultivar Protection (SNPC). It will be possible to request samples through the SNPC to the applicant of cultivar protection in case of pending requests, or to the holder of the protection rights in case of protected cultivars, at any time, and they shall only be used for tests related to the protection of cultivar.

• **The Brazilian Patent and Trademark Office (INPI) Launches the Final version of the Software SisBioList for the Filing of Biological Sequences:** a final version of the software SisBioList for the digital filing of biological sequences is already available on the website of the Brazilian Patent and Trademark Office (INPI). Applications using the new software will be possible after February 8, 2010.

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RELATED PARTY TRANSACTIONS: LESSONS LEARNED FROM THE OSC’S DECISION IN MI DEVELOPMENTS INC.
By Steven Cutler and Jenny Chu Steinberg

A recent decision of the Ontario Securities Commission contains important guidance for issuers that enter into transactions with related parties. In a carefully crafted decision released in December 2009, the OSC held in MI Developments Inc. that an issuer is permitted to structure its transactions so as to qualify for, and benefit from, the exemptions in Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”).

Certain minority shareholders of MI Developments Inc. (“MID”) brought applications before the OSC seeking a determination that certain transactions entered into by MID with Magna Entertainment Corp. (“MEC”), a company controlled by MID, violated MI 61-101, and resulted in substantial destruction of MID shareholder value through MID’s continued support for MEC at a time when it was experiencing financial difficulties. At issue were certain transactions entered into just prior to the announcement of certain related party transactions that the applicants argued were artificial, a sham and lacking in bona fides. Although the minority shareholders of MID were not successful, the decision reinforces the need for an issuer to seek experienced counsel when contemplating a related party transaction, to ensure that the legal effect of any pre-transaction structuring allows the issuer to fit within the language of an exemption and to be able to show that the structuring has successfully aligned the interests of the issuer with those of its minority shareholders.

Related Party Transactions

Reporting issuers in Ontario and Québec are subject to MI 61-101. MI 61-101 recognizes that certain types of transactions, such as related party transactions and non-arm’s length business combinations, can be abusive or unfair to the interests of minority security holders. While MI 61-101 does not prohibit these transactions, it regulates them by requiring, in certain circumstances, that formal valuations be prepared for, and that minority security holders approve of, the transactions.

Conceptually, a related party transaction is a transaction between an issuer and a related party in which “value” could be shifted, directly or indirectly, between the issuer and the related party. More specifically, a related party transaction includes the sale of an asset, a lease of property, the lending or borrowing of money, or a material amendment to pre-existing debt, between the issuer and a related party. Examples of a related party of an entity include a control person of the entity, an entity of which the entity is a control person, a person who owns or controls 10% or more of the voting rights attached to securities of the entity, and a director or senior officer of the entity.

Background

The minority shareholders of MID alleged that MID had entered into several related party transactions and contravened the valuation and minority approval requirements of MI 61-101. MID is a public company whose shares are traded on the TSX and the NYSE. MID is controlled by a group of related persons (the “Stronach Group”) including Frank Stronach and Fair Enterprises Limited (“Fair”). MEC is a public company engaged in the horse racing business. MEC began experiencing financial difficulties in the fall of 2008 and ultimately filed for bankruptcy on March 5, 2009. The Stronach Group controlled MEC through its interest in MID; however, Fair also held a direct interest in MEC. These relationships are depicted in Diagram A.
Although the decision dealt with several transactions, only two will be considered here. In late November 2008, MID provided a new loan of US$125 million to MEC (the “Loan”) and extended the maturity date of an existing US$312 million loan to MEC (the “Extension”). The Loan was a related party transaction, as the issuer, MID, was loaning money to MEC, an entity that it controlled. Likewise, the Extension could constitute a related party transaction if, as provided by MI 61-101, the extension constituted a material amendment to the terms of the debt owing by MEC to MID.

The day immediately preceding the announcement of the Loan and Extension, the Stronach Group arranged its affairs so as to permit MID to qualify for the downstream transaction exemption under MI 61-101 (discussed below).

To do so, Fair sold its shares in MEC (the “Sale”) to a newly formed trust, the 2008 Azalea Trust (the “Trust”). In exchange for its MEC shares, Fair received a non-interest bearing promissory note from the Trust. By its deed, the Trust was required to dispose of the MEC shares and repay the note. But, recourse against the Trust under the note was limited to the amount for which the Trust could sell the MEC shares. If the MEC shares were sold for an amount greater than the face value of the note, then the excess would be donated to charity. If the MEC shares were sold for less, then, Fair, and not the Trust, would suffer the loss. MID’s minority shareholders argued that Fair had merely “parked” its MEC shares with the Trust, and nevertheless continued to hold an economic interest in the MEC shares, thus disqualifying MID from the downstream transaction exemption. They attacked the Sale as artificial, a sham and lacking in bona fides. The relationships of the relevant parties subsequent to the Sale are depicted in Diagram B.

Prior to entering into any of the foregoing transactions, the transactions were reviewed and recommended by a special committee of disinterested directors of MID and approved by the board of directors of MID. According to the OSC, rigorous board and special committee process is a relevant consideration in deciding whether to exercise its public interest jurisdiction. Had MID not followed such exacting governance processes, the outcome of the decision may have been different.

**Downstream Transaction Exemption**

As the OSC explained, the downstream transaction exemption “is based on the assumption that when an issuer enters into a transaction with a related party that it controls, the issuer will act in its own best interests, thus also benefiting minority shareholders” and eliminating the need for a valuation and minority approval. However, this assumption may be jeopardized where a related party of the issuer (i.e., the Stronach Group) holds a direct interest in the related party to the transaction (i.e., MEC). In such case, the Stronach Group could theoretically cause MID to enter into a transaction beneficial to MEC (and ultimately the Stronach Group), but detrimental to MID, and its minority shareholders.

An issuer must meet two requirements in order to qualify for the downstream transaction exemption. First, the issuer must be a control person of the related party to the transaction. Second, to the knowledge of the issuer after reasonable inquiry, no related party of the issuer may beneficially own or exercise control or direction over more than 5% of the voting or equity securities of a class of the related party to the transaction (other than through its interest in the issuer).
MID argued that it met this second requirement after Fair completed the Sale to the Trust. In conceptual terms, the purpose of the Sale was to align the Stronach Group’s interests in MID with the interests of MID’s minority shareholders. The OSC stated that “there is nothing inappropriate in a person organizing its affairs or completing a bona fide transaction in order to qualify for” the exemption.

The OSC reasoned that a two-pronged analysis of the Sale, Loan and Extension was required to determine whether or not MID qualified for the downstream transaction exemption. First, the OSC considered these transactions from a strict textual interpretation of MI 61-101. Second, the OSC considered the economic substance of the transactions to determine whether they complied with the spirit and intent of MI 61-101.

While the OSC stated that it was a “close call”, on balance, the OSC was prepared to recognize the legal effect of the Sale in accordance with its terms and that the Trust had acquired voting or dispositive power over the MEC shares. Thus, from a strict textual interpretation of MI 61-101, MID qualified for the downstream transaction exemption, with one exception.

The downstream transaction exemption must be met at the time transactions were agreed to. MID’s minority shareholders asserted that because MID had agreed to the Loan and Extension, prior to Fair executing the Sale, the exemption was not available at that time. The OSC found such an interpretation too technical and that MI 61-101 does not establish a completely inflexible rule. Rather, it stated that “if after a transaction has been agreed to and before it is completed, steps are taken to ensure that an exemption is available under MI 61-101 for that transaction, there does not seem to us to be a reasonable basis to challenge the availability of that exemption, absent some abuse in relying on the exemption in the circumstances.”

As an interesting aside, MID’s minority shareholders argued that MID could not rely on the exemption because it failed to make “reasonable inquiry” into the ownership of MEC shares by the Stronach Group. MID relied on brief email exchanges between counsel, a draft news release (that failed to make full disclosure of the terms of the Sale) and public filings in determining that the Stronach Group’s only interest in MEC was through MID. The OSC was not satisfied that MID had made “reasonable inquiry” and indicated that MID should have made more inquiries with respect to the specific terms of the Sale. Nevertheless, it concluded that the “failure to make reasonable inquiry does not disqualify a person from relying on the [exemption] if it is otherwise available on the facts”. Further, the OSC noted that “if reasonable inquiry is made and a person has no knowledge to the contrary, that person is entitled to rely on the responses to the inquiry in determining the availability of the [exemption] regardless of what the actual facts and circumstances” may be. Although MID failed to make reasonable inquiry, it was still entitled to qualify for the exemption because on the facts, after the Sale, the Stronach Group no longer held any direct interest in MEC.

Having reached this conclusion, the OSC went on to the second prong of the analysis to consider the economic substance of the Sale. It noted that in spite of the Sale, Fair maintained an economic interest in the MEC shares (albeit, without an “upside”). This economic interest could lead to the type of conflict that the valuation and minority approval are meant to remedy. Rather than reach a conclusion on the matter, the OSC short-circuited its analysis: it assumed that a substantive conflict existed that could disqualify MID from relying on the exemption, but found that MID could rely on the 25% market capitalization exemption in respect of the Loan and Extension.

25% Market Capitalization Exemption

The 25% market capitalization exemption permits an issuer to dispense with the valuation and minority approval requirements where neither the “fair market value of the subject matter of the related party transaction, nor the consideration for the transaction, exceeds 25% of the issuer’s market capitalization”. The purpose of this exemption is different from the downstream transaction exemption. In this case, MI 61-101 is balancing the costs, in both money and time, of preparing a valuation and obtaining minority approval, with the protection that each provides to minority shareholders.

MID’s minority shareholders took the position that the amount of the Loan and the amount of existing debt, the maturity of which was extended by the Extension, should have been aggregated. Since the aggregate amount was greater than 25% of MID’s market capitalization, the exemption, they argued, was not available to MID. The OSC disagreed and found that the exemption was available for two reasons. First, in order for the Extension to be classified as a related party transaction, the extension of the maturity date of the debt would have to constitute a material amendment from MID’s perspective. Given the dire financial position of MEC, the Extension was not a material amendment to the debt from MID’s perspective, because MID “likely could not have been repaid by MEC in any event”. Second, the OSC held that, even if the Extension was a material amendment, because the Extension was not a new loan,
the amount of the Loan was not to be included for the purposes of determining whether the 25% market capitalization threshold had been exceeded.

**Conclusion and Commentary**

The OSC concluded that MID was able to rely on the 25% market capitalization exemption and thus did not need to prepare a valuation or receive minority approval in respect of the Loan and Extension. And, although the OSC did not decide, as a matter of substance, whether the downstream transaction exemption applied to the Loan or Extension, it did provide some useful insight into the interpretation of the exemption.

Based on the foregoing, it seems reasonable to conclude the following:

- an issuer may arrange its affairs so as to qualify for exemptions under NI 61-101; and

- when engaging in pre-transaction structuring so as to qualify for, and benefit from, the exemptions in NI 61-101:
  - the terms of the pre-transaction structuring must be carefully considered so that the pre-transaction structuring (i) is given legal effect thereby allowing the issuer to satisfy the textual requirements of the exemption, and (ii) achieves the spirit and intent of the exemption, which in many cases is the removal of a potential conflict of interest such that when the issuer enters into a related party transaction, its interests are aligned with those of its minority shareholders; and
  - as always, the process followed by boards of directors in approving any pre-transaction structuring is of utmost importance.

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China Weaves a Tax Net over Offshore SPVs

By Tony Dong* and Alice Zhang **
China Bulletin January 2010

It is common for multinational companies to deploy offshore holding structures or set up special purpose vehicles (“SPVs”) in tax havens to make investment, enter into cross border transactions or go IPO. There are various reasons for companies to utilize offshore SPVs. Tax optimization is clearly one of the top considerations. For example, a company may take advantage of preferential tax treaty provisions or align profits to a low-tax jurisdiction or tax haven. However, in recent years, governments around the world have been tightening their tax administration of cross-border tax avoidance arrangements. The recent TPG’s tax dispute in Australia is the latest example. Chinese government has been actively involved in the game, and the State Administration of Taxation (“SAT”) has issued a series of regulations in 2009 to strengthen tax scrutiny of non-residents.

We outline below relevant regulations recently issued by the SAT, with a view to present a clear picture of the evolvement of Chinese tax environment for non-residents, assist the companies in evaluating tax implications of existing company holding structures and take actions to mitigate adverse tax impacts.

On January 8, 2009, the SAT issued the Interim Implementing Rules for Special Tax Adjustments (the “Rules”), which is a major milestone of China’s crackdown on tax avoidance. The Rules introduce the general anti-tax avoidance provision which empowers tax authorities to launch anti-tax avoidance investigations and make tax adjustments on transactions without reasonable business purposes, including treaty shopping, abusive use of tax havens or abusive use of tax treaty benefits. When determining whether a tax arrangement is made to avoid taxes, Chinese tax authorities tend to focus on the substance of the arrangement, no matter what form the arrangement takes. Before making such a decision, the tax authorities will perform a comprehensive examination on a number of factors, including the form and substantive impact of the transactions, the execution date and duration of implementation of the transactions, the transactional methods, the connections between each step of the transactions, and tax consequences.

On April 22, 2009, the SAT released the Guidance on Establishment of Tax Residence Status for Chinese-controlled Offshore Companies under Effective Management Rules, which had a significant impact on “red-chip” companies and round-trip SPVs. Pursuant to the Guidance, if a Chinese-controlled offshore company is regarded as effectively managed in China, then it would be considered as a Chinese tax resident company and taxed on its worldwide income at the rate of 25%. Accordingly, a red-chip company incorporated in a low-tax region, such as Hong Kong, may be subject to Chinese enterprise income tax on its worldwide income. However, the dividend distribution between a Chinese controlled offshore company and other Chinese resident companies will be entitled to tax exemption treatment.

The PRC tax authorities have also tightened the control of offshore companies over their ability to enjoy tax treaty preferential treatments, as witnessed by the strings of regulations issued by the SAT. These regulations cover not only substantive rules such as interpretations of various treaty provisions, but also procedural rules as to how to apply for tax treaty benefits. They impose stringent requirements on the entitlement of treaty benefits for offshore entities. For example,
under the Circular on Application of Dividends Provision of Tax Treaties issued by the SAT on February 20, 2009, applicants qualified for preferential treaty treatment on dividends are subject to certain requirements. In particular, if a recipient of dividends intends to apply for the dividend provisions of tax treaties which require a threshold of equity holding (generally 25% or 10%), then such recipient must be a company and must meet the aforesaid threshold both in shares and in voting rights at any time during the 12 months preceding the receipt of dividends. In addition, the SAT’s Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties (“Circular No. 601”) directs local tax authorities to investigate whether an applicant satisfies the requirements to qualify as a beneficial owner, which is a pre-requisite to enjoy the benefit of a reduced withholding tax on dividends, interest, royalties or capital gains under a tax treaty. According to Circular No. 601, a beneficial owner refers to an individual or any organization that has ownership and control over the income or the assets or rights generating the income. An agent or a conduit company is not regarded as a beneficial owner. A conduit company is a company established in a tax-exempt or low tax rate jurisdiction for the purpose of avoidance or reduction of taxes or the transfer or accumulation of profits, and where the company does not engage in substantive business activities like manufacturing, distribution or management. The competent local tax authority examines whether a person or an organization is a beneficial owner case by case by reviewing the information provided by the taxpayer or through exchange of information protocols, if necessary. The Circular further lists seven types of unfavorable factors. Where any of these factors exist, an individual or an organization may not be recognized as a beneficial owner. Pursuant to these factors, many single-level offshore SPVs will be unlikely to satisfy the requirements for beneficial owners due to lack of substantive operating activities or unjustifiable business purposes.

In terms of procedural rules on applications for treaty benefits, the SAT issued the Administrative Rules for the Provision of Treaty Benefits to Non-residents (Trial) on August 24, 2009. The Rules introduce two different procedures - filing procedures and approval procedures, depending on the types of applications. Approval procedures apply to applications for treaty benefits of dividends, interest, royalties and capital gains. In other words, nonresidents shall make substantial disclosures, submit adequate supporting documents, and obtain the approvals of tax authorities in order to enjoy treaty benefits. Applications for other treaty treatment, such as business profits of permanent establishments or independent / dependent individual service providers, should be subject to filing procedures, under which the applicant or the party subject to withholding tax is required to submit relevant documents (including tax residency certificate). For the said reasons, it is critical for the applicants to proactively prepare such application documents to properly and sufficiently address the offshore company’s economic substance and business purposes.

Moreover, in December 2009 the SAT issued the Circular on Strengthening the Tax Administration of Equity Transfers by Non-resident Enterprises (“Circular No. 698”), which, for the first time, explicitly requires disclosure to the tax authorities of offshore indirect transfers of equity in PRC companies. According to Circular No. 698, if foreign investors (de facto controlling parties) indirectly transfer their equity in a resident enterprise, and the transferred offshore holding company is located in a country (or territory) with effective tax rate less than 12.5% or no income taxation on residents’ foreign sourced income, then they should, within 30 days upon the conclusion of equity transfer contract, submit relevant documents to the in-charge tax bureau where Chinese resident enterprise is located. These documents include 1) the equity transfer contract, 2) a report addressing any reasonable business purpose for establishing the offshore holding company, 3) information on the operating activities, personnel, finance and properties of the offshore holding company, and 4) the foreign investors’ relationships with resident enterprises. The competent local tax bureau may report the indirect equity transfer to the SAT for further assessment, if it thinks the transaction has no reasonable business purpose or abusively uses treaties or investment vehicles. Where the SAT affirms the local tax bureau’s judgment, the competent local tax authority may redefine the nature of the equity transfer based on the
economic substance of the transaction or even deny the existence of offshore holding company in the transaction.

In practice, Chinese tax authorities published their decisions on two real cases – the Xinjiang case and the Chongqing case. These decisions are clear signals for the tightened scrutiny on offshore SPVs and offshore transactions. In the Xinjiang case, a Barbados SPV acquired shares in a Xinjiang joint venture and subsequently sold the shares for a gain, and tried to avoid withholding tax on capital gains by applying China-Barbados tax treaty provisions. However, Xinjiang state tax authority rejected the Barbados SPV’s eligibility to enjoy the treaty benefits on the ground that the Barbados SPV is not viewed as a tax resident of Barbados and the transaction through Barbados SPV was for tax avoidance purpose. In the Chongqing case, a Singapore investor was contemplated to dispose of its shares in a Chinese subsidiary and thus established an intermediate Singapore company to hold the equity shares, and later sold the equity shares of the intermediate Singapore company to a Chinese buyer to avoid paying capital gain tax in China. Chinese tax authorities disregarded the existence of intermediate holding company in Singapore and imposed withholding tax over the capital gains realized from the transfer of equity shares or the Singapore holding company.

The above is a brief overview of recent regulatory development on tax administration of non-resident companies, especially for the applicability of treaty benefits. Companies are advised to watch closely the changes in tax regulatory climate, review their holding structures and offshore transactions, particularly the positioning of offshore SPVs, to mitigate adverse PRC tax exposures and ensure the soundness of both tax compliance and tax efficiency.

(The article was originally written in Chinese, the English version of it is a translation.)

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1 As reported by Wall Street Journal on November 25, 2009, the Australian Taxation Office is pursuing more than USD520 million in taxes and penalties from TPG, relating to TPG’s IPO of Myer, on the ground that TPG planned a tax-avoidance plot by setting up multiple levels of companies in the Netherlands, Luxembourg and the Cayman Islands to funnel its Myer profits out of Australia without paying taxes in Australia.

2 The regulations include the Notice on Application of Dividends Provision of Tax Treaties (issued by SAT on February 20, 2009), the Notice on Execution of Royalties Provision under Tax Treaties (issued by SAT on September 14, 2009), the Administrative Rules for the Provision of Treaty Benefits to Non-residents (Trial) (issued by SAT on August 24, 2009) and the Notice on Interpretation and Determination of Beneficial Owner under Tax Treaties (issued by SAT on October 27, 2009).

3 These unfavorable factors include:

1. The applicant has the obligation to pay or distribute all or a substantial proportion (e.g. over 60%) of its income to a resident in the third country (region) within a given time limit (e.g. within 12 months upon receiving the income);
2. The applicant engages in no or little operational activities in addition to its possession of the assets or rights generating its income;
3. Where the applicant is a company or other types of entities, the value of assets, capacity and number of employees of the applicant does not match its income;
4. The applicant has no or little right to control or dispose of its income, or the assets or rights generating the income, and the applicant bears no or little risks over the income, assets or rights;

5. The other contracting country or region to the tax treaty applies tax exemption or a very low tax rate on the income;

6. The applicant’s creditor and a third party have entered into additional loan or deposit agreements similar to the loan agreement which generates interests or under which interests should be paid, in terms of the amount of loan or deposit, interest rate and execution date; and

7. The applicant has entered into an agreement on transfer of copyright, patent, or technology license or ownership with a third party in addition to the agreement under which royalties are generated or paid on transfer of copyright, patent, technology license or ownership.

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4 See the Circular on the Strengthening the Tax Administration of Equity Transfers by Non-resident Enterprises, Guoshuihan [2009] No. 698, issued by the SAT on December 10, 2009, effective retroactively starting from January 1, 2008.

5 Please refer to the “Notice on the Correct Handling of Abusive Use of Tax Treaty Cases by Xinjiang State Tax Bureau” issued by the SAT on December 30, 2008.
Three-dimensional trade marks still alive? 28 January 2010

Court of Appeal of Den Bosch 12 January 2010

On 12 January 2010, the Court of Appeal of ‘s-Hertogenbosch (Den Bosch) rendered a noteworthy decision on the requirements for the validity of Benelux three-dimensional figurative trade marks (“shape marks”). The court ruled that Revillon's Benelux shape mark – consisting of a chocolate stick in the shape of a vine twig – is valid because:

- it has distinctive character because of its original shape;
- it is therefore capable of fulfilling the function of indicating origin; and
- the shape cannot be regarded as providing substantial value to the product, since the substantial value of chocolate is in the taste and substance, not in its shape.

In light of the recent Bounty decision of the General Court (Case T-28/08) – in which a Community trade mark application for the shape of the Bounty chocolate bar was denied for (in brief) lack of distinctive character – this decision by the Court of Appeal of Den Bosch represents a useful precedent for owners of, and applicants for, Benelux shape mark registrations.

Charles Gielen and Anne Marie Verschuur of NautaDutilh’s Amsterdam office handled the case for Revillon.

The facts of the case

The case revolves around the Benelux shape mark, pictured below, of French chocolate maker Revillon (a slender, twisted chocolate stick with tiny chocolate protrusions, resembling a vine twig), which was registered in 2003:

Since 1998, Revillon has sold and marketed chocolate sticks based on the above shape mark, most recently under the name Sarments du Médoc. Trianon, Revillon's adversary in this case, started selling and marketing a similar twisted chocolate stick with tiny chocolate protrusions under the name Les Rameaux in 2004.

In 2006, Trianon initiated proceedings on the merits against Revillon before the District Court of Den Bosch, requesting (among other things) the cancellation of the abovementioned shape mark.

Proceedings before the District Court

In the proceedings at first instance, the District Court awarded Trianon's claims and denied Revillon's trade mark infringement counterclaim. The court regarded the shape of Revillon's chocolate stick as being devoid of any distinctive character, on the grounds that it was
insufficiently uncommon or different from other stick-shaped chocolate products available on the market to be able to serve as an indication of origin for the average consumer.

**The Court of Appeal**
The Court of Appeal of Den Bosch completely reversed the decision of the lower court, thereby dismissing Trianon's claims and granting Revillon's demand for an injunction, on the following main grounds.

**Distinctive character**
Unlike the District Court, the Court of Appeal ruled that Revillon's shape mark, in its resemblance to a vine twig, significantly differs from the shape of the other stick-shaped chocolate products referred to by Trianon (in this regard the court noted that most of those other chocolate sticks are considerably thicker than the Revillon stick, and that none are slender and twisted with chocolate protrusions). Through its original appearance, Revillon's shape mark adds a certain value to the product, causing the mark to have distinctive character and thereby rendering it capable of fulfilling the function of indicating origin.

With regard to a market survey presented by Trianon – which suggested that only 5% of the respondents were able to link the shape of the chocolate stick to Revillon – the Court of Appeal stated that it is irrelevant whether the consumer knows who the product's manufacturer is. Rather, what is essential for the validity of the shape mark is whether the shape of the Revillon stick can serve to distinguish the product from products of other manufacturers – which, according to the Court of Appeal, it indeed can.

**Substantial value of chocolate is in its taste and substance, not its shape**
The Court of Appeal also rejected Trianon's claim that Revillon's shape mark is invalid because the shape of the mark determines the substantial value of the relevant goods (an absolute ground for refusal of registration of a Benelux shape mark). The court stated that, generally speaking, the potentially attractive shape of a chocolate product does not have any actual effect on the product's intrinsic value, and that the substantial value of a chocolate product is in the taste and substance, not in its shape. This also applies to Revillon's chocolate sticks, the court held.

The Court of Appeal proceeded to award Revillon's trademark infringement counterclaim and ancillary claims.

**Revillon decision notable in light of the General Court's Bounty decision**
In its recent decision in the **Bounty** case (8 July 2009, Case T-28/08, Mars, Inc. vs. OHIM and Ludwig Schokolade GmbH & Co. KG), the European General Court (then still called the Court of First Instance) ruled that the relevant Community shape mark applied for – the shape of the widely sold Bounty chocolate bar – taken as a whole, was not sufficiently distinguishable from other shapes commonly used for chocolate bars, and therefore did not permit the average consumer to distinguish immediately and with certainty the Bounty chocolate bar from those manufactured by other producers. Accordingly, the shape mark applied for was considered as being devoid of any distinctive character in relation to the goods concerned, and the application was denied.

The Revillon decision of the Dutch appellate court is notable in light of the aforementioned Bounty decision since it concerns an example of a Benelux shape mark (coincidentally also used for a stick-shaped chocolate product) which, in the view of the Dutch court, qualifies as being sufficiently different from the shapes customary in the relevant sector as to be capable of indicating the commercial origin of the product for which it is used. In this respect, the Revillon decision presents a useful precedent with regard to the requirements for registration of Benelux shape marks.

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Luxury Brands Attempt To Hit Back At Online Marketplaces

More and more people around the world are shopping online. While online shopping creates greater choice and opportunities for consumers, online commerce has also spurred a flood of counterfeit products. The sale of counterfeit products results in lost revenue to brand holders, retailers and distributors of legitimate goods and can also dilute the hard earned reputation and goodwill of brands.

The response of luxury brand owners in the United States, France and the United Kingdom has been to take action, not just against individual sellers of counterfeit products, but against the hosts of online websites which offer for sale counterfeit products. This article looks at L'Oreal's attempt in the United Kingdom High Court to find eBay Europe jointly liable for the infringing activities of individual sellers and explores how a New Zealand Court may address the issue.

eBay's online marketplace

eBay is an online marketplace. Sellers can list items for sale by way of auction, where the seller chooses to accept bids, or by fixed price listings, where buyers can purchase goods at a fixed price. L'Oreal's investigations found that a number of individuals were listing counterfeit L'Oreal products, "tester" products, unboxed products, and products not intended for the sale in the European Economic Area (EEA) on eBay Europe's website. The individuals who sold these classes of products were held to be infringing L'Oreal's trade marks because they made unauthorised use of L'Oreal's various trade marks.

The claim against eBay

However, L'Oreal also claimed that eBay should be held jointly liable for the individual seller's infringements. L'Oreal argued that eBay had participated in a common design with the individual sellers to infringe its trade marks or otherwise procured the infringing sellers to infringe its trade marks. L'Oreal supported its claim by pointing out that eBay promoted the listing of items on the site, exercised some degree of legal and technical control over the sellers and their listings, and was intimately involved in the entire sale process. L'Oreal claimed that eBay was under a positive legal duty to take all "reasonable measures" to prevent trade mark infringement, but failed to do so. Therefore, L'Oreal argued that eBay should be found jointly liable for the trade mark infringements of the individual sellers.

eBay's response

eBay contended that it was under no positive legal duty to protect third party trade marks from infringements. eBay argued that it operated its site in a neutral and impartial manner, which did not distinguish between sellers selling legitimate and illegitimate goods. eBay maintains a rights protection scheme (known as VeRO) which provides a mechanism to investigate breaches and issue sanctions to repeat offenders. eBay pointed to its VeRO scheme as evidence of its efforts to minimise infringements and claimed that, at worst, they had facilitated the sale of counterfeit products – and mere facilitation failed to satisfy the level of participation required to constitute participation in a "common design" to infringe.
The Result

The High Court expressed sympathy for L'Oreal's position, observing that eBay's form of trade carried with it a greater risk of trade mark infringement, and eBay certainly profited from this increased risk. However, to be liable for joint infringement of L'Oreal's trade marks, eBay would have to procure the acts of infringement or share in the common design that they take place. To procure an act of infringement requires a defendant to induce or persuade a person to infringe. To participate in a common design requires a defendant to have some form of agreement or collaboration with an infringer. The Court found that there was nothing in eBay's particular business model that inherently led to infringement. The Court was not prepared to find eBay liable for joint trade mark infringement simply because they facilitated the illegitimate sale of goods featuring L'Oreal's trade marks. Therefore, eBay had not procured or shared in a common design to infringe L'Oreal's trade marks. The Court further observed that eBay had no legal obligation to prevent third party trade mark infringements, and it was therefore meaningless for L'Oreal to suggest eBay should have taken "reasonable measures" to do so.

Lessons and Implications for New Zealand

eBay has been the target of a number of trade mark infringement suits in several countries, with mixed results. In 2008, French courts found eBay liable to Louis Vuitton Moët Hennessy after the court ruled that the online auctioneers had not done enough to prevent the sale of counterfeits. However, a United States court held that eBay was not liable to Tiffany & Co. for the online sales of counterfeit jewellery. The court found that there could be no legal liability imposed upon eBay for its refusal to take pre-emptive action against sellers who might infringe. The law on joint infringement in New Zealand is likely to be interpreted in line with the L'Oreal case in the United Kingdom. This suggests that to be jointly liable for trade mark infringement, an online auction website must meet the threshold of procuring infringement or share in a "common design" in order to be held liable. Whether an auction website is sufficiently involved in the infringing activities of its users is a matter of fact. A New Zealand auction website should be able refute allegations they have the necessary level of involvement by showing they have systems in place to identify and minimise the illegitimate sale of goods. TradeMe for example, has a zero tolerance policy towards counterfeit goods, and regularly bans members who attempt to sell them online. That said, the owners of auction websites should still be cautious that none of their systems or policies contain an inherent tendency to sanction or promote infringement. If a New Zealand website is designed in such a way that it in some way promotes counterfeit products, a New Zealand court might consider the threshold for a common design met, and hold the website jointly liable for trade mark infringement.

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HIGH COURT'S DECISION OVERRULED: THE SUPREME COURT HELD THAT SPECIAL RESOLUTION IS NOT REQUIRED TO DISCHARGE ALL DIRECTORS

Stephen Wu

According to the Company Act, a resolution may be passed at a shareholders' meeting to hold an election to replace all the incumbent directors prior to the expiration of their tenure. Under such circumstances, the incumbent directors will be deemed discharged prior to the expiration of their tenure if the resolution does not indicate that the discharge is effective upon expiration of their tenure. According to the relevant rulings issued by the Ministry of Economic Affairs (MOEA), since such a resolution is to elect all directors but not aimed at discharging the directors, it is unnecessary to pass a special resolution at a shareholders' meeting. Consequently, the quorum of the shareholders' meeting for electing all directors prior to the expiration of the incumbent directors' tenure is the same as that for an election of the directors in a normal situation, where the presence of shareholders who represent half or more of the total number of the company's outstanding shares is necessary, and the new directors should be elected in accordance with the rules governing the directors' election.

Nevertheless, a judgment rendered by the High Court in 2009 diverged from the above rulings of the MOEA. The court opines that the passing of a special resolution at a shareholders' meeting is required for the election of directors before the expiration of the incumbent directors' tenure. This High Court judgment sparked discussions and disputes until the Supreme Court rendered a civil judgment in 2009. This Supreme Court judgment revoked the High Court judgment and confirmed that the passing of a special resolution at the shareholders' meeting is not required for the election of directors before the expiration of the incumbent directors' terms of office. The holdings of the Supreme Court are as followed:

- The legislative intent of the regulations governing the election of directors before the expiration of the incumbent directors' tenure is to clarify problems arising out of the incumbent and newly elected directors' tenure, but not to prescribe the procedure of electing or discharging directors. Also, the regulation does not suggest that the election of directors before the expiration of the incumbent directors' tenure requires a more rigorous procedure through the passing of a special resolution at a shareholders' meeting, nor does it require a resolution to discharge the directors passed at a shareholders' meeting prior to the election of the directors.

- The Company Act provides the expiration date for the incumbent directors when an election of directors is held before the completion of the incumbent directors' tenure.
In spite of the provision, the legislation does not require any adherence to the procedure for discharging directors, namely, through the passing of a special resolution in an election of new directors held prior to the end of the incumbent director's tenure.

• The relationship between the directors or supervisors and their company is that between an appointee and the appointer. Upon expiration of the directors' or supervisors' tenure, this relationship ceases to exist. Under the Company Act, directors can be discharged either by law or a resolution. The directors are deemed discharged prior to the expiration of the tenure through either way, and a resolution to discharge all the directors is not a requisite prior to the election of all directors. Given the nature of the discharge in question, it is a "discharge by law" but not "discharge by a resolution" as defined by the relevant law.

• The election and the discharge of directors and supervisors carry distinct implications. While discharging all the directors and supervisors by way of a special resolution at a shareholders' meeting prior to the election of directors and supervisors is not required by law, the general procedure for electing all the directors and supervisors should be observed, and the resolution to discharge the incumbent directors should be adopted by a majority of the shareholders who represent half or more of the total number of the company's outstanding shares. In the event that the shareholders unreasonably hold an election prior to the expiration of the incumbent directors' or supervisors' terms of office, the directors or supervisors who are deemed discharged may claim compensation according to the regulations under the Civil Code.
I. Introduction

"The simplest answer is usually the best answer." This loosely-phrased version of the maxim attributed to the 14th-century logician and theologian, William of Ockham, is itself a simplified version of its original incarnation, but in either form it can present a refreshing approach to problems in any discipline, including complex problems such as claim construction in patent litigation.

Since the Markman decision was issued in 1995, many courts and commentators have concluded that the current claim construction process simply doesn’t work: that it is far too unpredictable, that reversal rates at the Federal Circuit, due to the Federal Circuit’s de novo review standard, are too high and that the process is too cumbersome and too costly. As a result, the legal community has arguably continued to further complicate the process of claim construction, often times suggesting multi-tiered, multi-layered, complex approaches. Some have suggested other innovative new approaches, including a procedure for the use of administrative opinions on claim constructions. However, the results to date have been unsatisfying for many, and, as posited by Occam centuries ago, a simpler and more intuitive approach to the interpretation of patent claims may in fact present a better alternative.

II. The "Patent Contract"

A patent as a legal instrument, in its purest form, is nothing more than a contract between an inventor and the Federal Government whereby in exchange for the inventor’s contribution to the art and publication of that contribution to the world, the government grants to the inventor for a limited time the right to exclude others from practicing the invention.

The notion of treating a patent as a contract is not new. Indeed, in Markman v. Westview Instruments, Inc., the very Federal Circuit decision that was the genesis of the Markman hearing and our modern approach to claim construction, Judge Mayer noted that patents are analogous to contracts. Additionally, many of the interpretation rules used by courts in claim construction are basic tenets of interpretation borrowed from statutory and contract construction. Why, then, are judges forced to overcomplicate a problem that, at its root, is really not very different from the practice of contract interpretation that courts have faced throughout the history of our jurisprudence?

III. Application Of Contract Law Principles To Claim Construction

While our patent laws originate in federal and not state law, and while contract law is state-originated and thus may differ from one jurisdiction to the next, there are certainly overarching and generally accepted concepts in contract law that, when applied in the "patent contract" context, could yield increased efficiencies and improved results.

A. Penalize The Draftsman For Ambiguities

A general tenet of contract language interpretation is that any ambiguities in contract terms should be resolved against the interests of the draftsman. The rule makes a great deal of sense and places the burdens and incentives where they arguably belong. In the same way, the onus of ensuring clarity in patent claims should properly be on the drafter of those claims. Such a rule makes sense for some of the same practical, economic and equitable reasons.

First, basic principles of economics suggest that the burden should be placed where it can be most efficiently borne, in this case, upon the applicant. The staffing woes of the United States Patent and Trademark Office ("USPTO") and its shortage of resources have been widely publicized. Examiners are faced with overcrowded examination dockets and increasingly complex patent applications.
Applicants, on the other hand, typically hire patent prosecution attorneys whose dockets are not as crowded and who have far more in terms of time, resources and incentive (the billable hour), to diligently and thoroughly prosecute applications through to allowance.

Such a rule would also make sense in considering efficiencies and equities. The patentee, as the inventor, is best-situated to ensure clarity in the patent claims and was also, after all, responsible for drafting the claim language. The general public (including accused infringers in litigation and third parties operating businesses in the same sphere as the claimed subject matter) typically will have no opportunity for involvement in the claim drafting and allowance process, and thus should be entitled to the benefit of any ambiguities.

Moreover, such a rule would arguably incentivize clear and concise claim drafting. The end result might be clearer claims in patents generally,\textsuperscript{10} which would theoretically better equip the public to understand the scope of the claims (thereby better-serving the notice function of patent claims), provide additional certainty in business and licensing negotiations and perhaps curtail the exorbitant costs expended in patent litigations.

Finally, the Patent Act ostensibly already puts the onus on an applicant to draft claims that clearly and appropriately circumscribe the invention. 35 U.S.C. § 112 requires that “the specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.”\textsuperscript{11} (emphasis supplied).

B. Staying Inside The Lines: The Four Corners

Additionally, as in contract law, where the parol evidence rule generally restricts courts from looking beyond the four corners of an unambiguous contract itself to interpret the meaning of terms used therein, courts have long been instructed not to look beyond the intrinsic record to construe patent claims.\textsuperscript{12} When construing claims, if the claim term at issue is unambiguous and clear on its face, a court need not consider any other intrinsic evidence.\textsuperscript{13} When the meaning is unclear, the court should then refer to the rest of the intrinsic evidence – the specification and the file history – as context to assist in interpreting the ambiguous language.\textsuperscript{14} Only thereafter is a court to look at extrinsic evidence.

“The Federal Circuit has admonished that claims should preferably be interpreted without recourse to extrinsic evidence such as expert testimony, other than perhaps dictionaries or reference books, and that expert testimony should be received only for the purpose of educating the judge.”\textsuperscript{15}

In starting with and placing paramount importance upon the claims and specification – the four corners of the “patent contract” – modern claim construction law has generally remained true to the contract approach, with the exception made for the judge to become educated by an expert. However, the intrinsic record in patent claim construction consists of the claims, the specification and the prosecution history.\textsuperscript{16} Should a court, in this “patent contract” approach, even look beyond the patent document itself to the prosecution history?

Arguably not, or only in limited circumstances. Although courts and patent litigators have long held dear the custom of digging into the back-and-forth between the applicant and the USPTO Examiner, the exercise is a step off a cliff and into an abyss of complication and escalating costs. Plaintiffs and defendants often multiply the issues in patent litigation by delving deep into the prosecution history to grasp at straws, identifying what are often times arguably benign statements, in support of their respective interests.

These explorations into prosecution histories that can be hundreds or thousands of pages ultimately become cost-escalating exercises that are often brushed aside by district court judges in favor of the plain claim meaning anyway. The interests of cost, efficiency and simplicity (and the simple sophistication professed by Occam) might, some would argue, be better served by a rule discouraging district courts from resorting to the prosecution history. After all, applicants commonly amend both the claims and specification and have had ample opportunity to clarify their “patent contract” before grant if necessary. The notice function of the patent has then been served by its issuance, and the public ought to be enabled to rely on the issued patent as delineating the scope of the invention (i.e., the notice function of patents).\textsuperscript{17}

Although some models of contractual construction would suggest that the court should look beyond the contract to try to understand the subjective or objective intention of the parties, and also to look at outside factors, such a step is only viewed as appropriate when the language of the contract, on the face of the document itself, is ambiguous or unclear.\textsuperscript{18}

This same rule is observed in the patent claim construction context. According to
the Federal Circuit, "reliance on extrinsic evidence to interpret claims is proper only when the claim language remains genuinely ambiguous after consideration of the intrinsic evidence." The Federal Circuit in *Vitronics* was careful to note that while "there will be instances in which intrinsic evidence is insufficient to enable the court to determine the meaning" of claim terms, "[s]uch instances will rarely, if ever, occur." Recourse to extrinsic evidence in patent cases, just as in connection with contracts and the parol evidence rule, should arguably be reserved only for the limited situations in which reference to outside materials is required because of some ambiguity in the four corners of the patent itself.

An important caveat to this analogy is raised in connection with statements by the patent applicant during the prosecution through which the applicant disavows claim scope in order to distinguish the invention from the prior art. In instances in which a patentee clearly and unambiguously disavows subject matter, and that disavowal is not appropriately reflected in the issued claims, a court should look to the disclaimer to fairly limit the claims to what was granted by the patent office. However, as noted in the case law, such a disavowal is only recognized by courts when it is "clear and unambiguous," and that same "clear and unambiguous" standard could be applied in this context as well. In the case of disavowals in the prosecution, the applicant and Examiner have in essence bargained for additional limitations on the claim scope, which may not be fully reflected in the "patent contract."

The Examiner relies on the disavowals in allowing the claims. By analogy, the parol evidence rule, under these circumstances, would allow the court to consider such disavowals because the "patent contract" in such a circumstance might not be considered a fully integrated document without them. Ultimately, this approach would still prevent applicants from gaming the system by "amending through argument" without actually amending the claims but could serve to significantly simplify and streamline claim construction.

C. Limit The Doctrine Of Equivalents?

The Doctrine of Equivalents ("DOE") is a judicially created doctrine that "allows a patent owner to hold as an infringement a product or process that does not correspond to the literal terms of the patent’s claim but performs substantially the same function in substantially the same way to obtain the same result as the claimed subject matter." Under the pure "patent contract" approach, the DOE might arguably not be applied at all, or at most might only be applied in limited and extreme circumstances. The patentee bears the burden of clearly and precisely drafting the claims. Those claims should, the argument would go, be interpreted as they are written. Findings of infringement when the accused subject matter is outside of the literal claim terms may potentially undermine the notice function of patent claims. Moreover, DOE arguments often times complicate matters and require additional proofs, such as expert testimony, to answer the question of what really is an "equivalent" in each context (again further escalating litigation costs). Binding the patentee to that which was literally claimed — i.e., the agreed-to terms of the "patent contract" — might further simplify the construction and infringement issues while providing additional certainty to those members of the public working within the ambit of the claimed technology.

IV. Conclusion

Ultimately a patent is really no different from any other contract. Some might argue that, based on technological innovation, it is difficult for a patent applicant to foresee all the future implications of language chosen in the claims. However, drafters of any contract face the same challenges in providing for various contingencies in the agreement, foreseeable and even unforeseeable. Patents are no different. While the element of high technology may add a layer of complexity to the analysis, judges can be equipped through expert testimony and attorney argument to understand the technical issues. Ultimately, patents can probably be interpreted much in the same manner as contracts, and such a "less is more" approach could significantly reduce the costs of and simplify claim construction, while serving various other functions and interests of our patent laws.

1 Occam’s razor was originally phrased in the Latin *pluritas non est ponenda sine necessitate* ("plurality should not be posited without necessity."). See Charlesworth, M.J., *Aristotle’s Razor*, Phiosophical Studies (Ireland) 6:105-112 (1956).

2 The Federal Circuit reverses the majority of claim construction rulings it reviews, and commentators have griped about the *de novo* standard of review at the Federal Circuit and the inability of trial courts to consistently and predictably reach claim constructions. See, e.g., Gretchen Ann Bender, "Uncertainty and


7 Placing the burden of ensuring clarity on the applicant as opposed to the patent Examiner is Pareto efficient as reallocating the burden would benefit the applicant at the expense of the Examiner. See, e.g., Jules L. Coleman, Efficiency, Utility, And Wealth Maximization, 8 Hofstra L. Rev. 509, 512-513 (1979-1980).


10 Some have noted that Federal Circuit judges have become increasingly frustrated with the increasing incidence of inept or purposively vague claim drafting. Craig Allen Nard, A Theory of Claim Interpretation, Harvard Journal of Law & Technology, Vol. 14, No. 1, Fall 2000, at 12, n.47.


12 Vitronics Corp. v. Conceptronic, Inc., 90 F.3d 1576, 1583 (Fed. Cir. 1996).

13 See Smith Indus. Med. Sys., Inc. v. Vital Signs, Inc., 183 F.3d 1347, 1357 (Fed. Cir. 1999); MSM Investments Co., LLC v. Carolwood Corp., 259 F.3d 1335, 1339 (Fed. Cir. 2001) (“As always our claim construction begins and ends with the actual words of the claims.”)

14 See, e.g., Vital Signs, 183 F.3d at 1357; MSM Investments Co., LLC at 1338.


17 “Because th[e] issued patent contains clear structural limitations, the public has a right to rely on those limits in conducting its business activities.” Freedman Seating Co. v. American Seating Co., 420 F.3d 1350, 1359 (Fed. Cir. 2005) (quoting Sage Prods, Inc. v. Devon Indus., Inc. 126 F.3d 1420, 1425 (Fed. Cir. 1997)).

18 See U.C.C. § 2-208; 5 Margaret N. Kniffin, Corbin on Contracts, § 24.7 at 33 (Revised ed. 1998).


21 When “remarks made to distinguish claims from the prior art are broader than necessary to distinguish the prior art, the full breadth of the remark is not ‘a clear and unambiguous disavowal of claim scope as required to depart from the meaning of the term provided in the written description.’” 3M Innovative Props. Co. v. Avery Dennison Corp., 350 F.3d 1365, 1373 (Fed. Cir.2003) (quoting
"[T]he integration of an agreement makes inoperative to add to or to vary the agreement all contemporaneous oral agreements relating to the same subject-matter; and also, unless the integration is void, or voidable and avoided, all prior oral or written agreements relating thereto." Restatement (First) of Contracts § 237 (1932); "An integration by definition contains what the parties agreed upon as a complete statement of their promises." Restatement (First) of Contracts § 237 cmt. b (1932).

Additionally, excising the doctrine of equivalents from our patent laws would also dissolve the need for the doctrine of prosecution history estoppel (which can limit the range of equivalents based on claim amendments), which could serve to simplify matters even further. See, e.g., Festo Corp. v. Shoketsu Kinzoku Kabushiki Co., 535 U. S. 722 (2002). 

Donald S. Chisum, Chisum on Patents § 18.04 (2007).

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Rolling Stone's "Indie Rock Universe" Editorial Feature Gets First Amendment Protection

Broad protection applied as California Court of Appeal rejects "commercial speech" label

02.01.10

By Elizabeth A. McNamara, Thomas R. Burke and Rochelle L. Wilcox

The California Court of Appeal issued its highly anticipated decision in Stewart v. Rolling Stone on Jan. 28, 2010. In a decision that will be welcome news for all who sell advertising in their pages or on their programs, the court ruled in Rolling Stone’s favor, broadly affirming the First Amendment’s protection of the editorial at the heart of the lawsuit.

The plaintiffs, two indie rock bands, had sued Rolling Stone and R.J. Reynolds claiming false endorsement misappropriation based on a “butterfly gatefold” insert that included Rolling Stone’s editorial feature, “Indie Rock Universe,” along with a Camel advertisement. The names of the plaintiffs and roughly a hundred other indie rock bands were included in “Indie Rock Universe,” although none were named in the Camel ad.

The trial court denied Rolling Stone’s Special Motion to Strike under California’s anti-SLAPP statute, and Rolling Stone appealed. In a careful analysis, the Court of Appeal reversed the trial court, finding that the editorial was not converted into commercial speech due to its adjacency to the Camel ad, and that the editorial was entitled to the full protection of the First Amendment.

The Rolling Stone editorial and the adjacent Camel advertisement

In its Nov. 15, 2007, issue, Rolling Stone included three foldout inserts, known in the industry as butterfly gatefolds. Gatefolds are inserts consisting of four continuous pages, folded inward, so that the pages must be folded out in order to reveal the editorial content at the center. Gatefolds typically include advertising interspersed with the editorial pages.

The four continuous pages of content in the center are, for Rolling Stone, usually exclusively editorial content, although they may share space with the advertisement. The gatefold at issue in this litigation contained Rolling Stone’s editorial content titled “Indie Rock Universe” and a Camel advertisement promoting Camel’s The Farm Web site, which is “committed to supporting & promoting independent record labels.”

As was its normal practice, Rolling Stone advised R.J. Reynolds (RJR) what the topic of the editorial content in the gatefold would be—here, “indie rock.” However, it provided no additional information to RJR. The editorial content and the advertisement were produced separately, without any input by the other party, and came together only in the final production of the magazine.

Rolling Stone included the typical indicia that “Indie Rock Universe” was editorial, including listing it in the table of contents and adding standard elements such as a border and credits on the introductory page. The Camel ad had the required surgeon general warning and other elements of a typical cigarette advertisement (which were not included on any of the “Indie Rock Universe” pages).

The plaintiffs sued Rolling Stone and RJR alleging common law and statutory misappropriation and unfair business practices. Rolling Stone filed a Special Motion to Strike under California’s anti-SLAPP statute, Code of Civil Procedure Section 425.16. The trial court denied the anti-SLAPP motion, concluding that a jury could find that Rolling Stone’s layout decision had created “an allegedly integrated 9-page advertisement” for Camel cigarettes. Rolling Stone appealed.

Court of Appeal decision
The Court of Appeal unanimously reversed the trial court. Initially, it rejected the plaintiffs’ argument that the case was exempt from the anti-SLAPP statute under Code of Civil Procedure Section 425.17(c), which removes certain commercial speech from the anti-SLAPP statute's protection, finding that plaintiffs had not established each of that statute’s elements. The court also rejected all of the plaintiffs’ other attempts to avoid the anti-SLAPP statute, holding that the speech at issue fell comfortably within the statute’s broad protections.

The court next turned to the merits of the plaintiffs’ claims. It first agreed with numerous other courts that First Amendment requirements as enunciated in New York Times Co. v. Sullivan, 376 U.S. 254 (1964), apply to misappropriation claims. Explaining that entertainment receives the same protection as factual news reports, the court held that “a defendant publisher may assert that the actual malice standard applies to claims for commercial misappropriation, whether the claims are brought under the common law or under Civil Code section 3344.”

In the heart of the opinion, the court held that Rolling Stone’s editorial feature is “noncommercial speech as a matter of law.” It initially held that the trial court erred in deferring the issue to the trier of fact, because the parties did not disagree as to the facts of the case. The court then turned to the California Supreme Court’s decision in Kasky v. Nike, Inc., 27 Cal.4th 939 (2002), and the elements for identifying commercial speech—“the speaker, the intended audience, and the content of the message.” Addressing the first element, the Court of Appeal found that it favored Rolling Stone, explaining:

While defendants sell advertising that markets goods and services, they have no direct financial interest in the companies that purchase this advertising or in the products these advertisers sell. Rolling Stone magazine is merely the medium through which commercial messages are delivered by the actual commercial speakers, namely, the advertisers themselves. Rolling Stone magazine is primarily a periodical commentating on events of political and cultural interests of the day. Its articles critically assess these interests. While advertising naturally assists in the financing of the magazine, the publication’s editorial purpose is the presentation of written analysis of the contemporary American scene—noncommercial speech.

The court also held that the remaining elements favored Rolling Stone and supported the conclusion that “Indie Rock Universe” is “editorial, noncommercial speech.” It found strong support for its conclusion in 9th Circuit law, including the contrasting decisions in Hoffman v. Capital Cities/ABC, Inc., 255 F.3d 1180 (9th Cir. 2001) (where editorial speech was protected) and in Downing v. Abercrombie & Fitch, 265 F.3d 994 (9th Cir. 2001) (where speech that helped advertise the publisher’s own product was not protected).

Shifting its focus to the feature itself and the evidence in the record, the court found that no evidence supported the plaintiffs’ claim that the feature was commercial speech. Initially, the Court of Appeal rejected the trial court’s conclusion that the feature might be characterized as commercial speech based on “Indie Rock Universe’s” unique elements, including the absence of Rolling Stone’s standard typeface in the feature and the lack of a border on the interior pages:

The employment by Rolling Stone of whimsical expression in designing informational pages of its magazine should not necessarily be curbed. The union between artistic graphics and written commentary can be a welcomed change to the columnar presentation of many current publications.

Moreover, the undisputed evidence in the record supported the court’s conclusion, particularly Rolling Stone’s declarations discussing the “wall” between editorial and advertising that ensured that one group would not influence the other. The Court concluded:

Simply put, there is no legal precedent for converting noncommercial speech into commercial speech merely based on its proximity to the latter. There is also no precedent for converting a noncommercial speaker into a commercial speaker in the absence of any direct interest in the product or service being sold. We thus conclude that the Feature is noncommercial speech.
Having so concluded, the court next asked whether plaintiffs offered any evidence of actual malice to overcome Rolling Stone’s First Amendment protection. Because plaintiffs presented no evidence on this issue, Rolling Stone’s declarations were undisputed. They revealed that Rolling Stone advised RJR of the gatefold’s topic, indie rock, but “[b]eyond this limited shared knowledge, there was no evidence of any intentional collusion to misappropriate plaintiffs’ identities.”

At the most, Rolling Stone was negligent and perhaps it “could have done more ‘to ensure that [the Feature] and the Camel advertisement were sufficiently distinct.’” However, negligence cannot suffice to establish actual malice. “Accordingly, plaintiffs cannot surmount the defense raised by defendants and the misappropriation claims are subject to dismissal under section 425.16.”

Finally, the court turned to the “constitutional right guaranteeing freedom of the press,” which it found “also serves as a bar to plaintiffs’ causes of action.” The court reiterated the broad protection of editorial discretion, which “has been extended to the content and placement of advertisements.”

Discussing an 11th Circuit decision that rejected tort liability for the content of advertisements, the court reiterated that “if state tort law places too heavy a burden on publishers with respect to the advertisements they print, the fear of liability might impermissibly impose a form of self-censorship on publishers.” Magazines are replete with advertisements; as a result all editorial content “is, in a sense, ‘embedded’ with advertising. … But we see no principled legal distinction between a page of editorial content that is preceded and followed by full-page ads, and the gatefold format, in which the ads appear only on the reverse side of a feature’s pages.”

**Conclusion**

The court’s holding and its careful analysis are good news for publishers. Although the plaintiffs’ emotional appeal to “trust your eyes” held sway with the trial court, the Court of Appeal trusted, instead, settled law. It followed well-established California law defining commercial speech to find that editorial content cannot be converted into commercial speech by happenstance, as the plaintiffs claimed here.

It also embraced the line of California and 9th Circuit cases that require evidence of actual malice to hold a publisher liable for its noncommercial speech related to public figures, regardless of the claim alleged, and appropriately dismissed the case given the absence of any evidence that Rolling Stone intended the false endorsement alleged by plaintiffs.

As media companies become more innovative in the advertisements they publish in today’s competitive environment, they can take some solace from the California court’s faithful adherence to the First Amendment principles on which they have always relied.

Elizabeth A. McNamara, Thomas R. Burke and Rochelle L. Wilcox represented Wenner Media, publisher of Rolling Stone, in this case.

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SEC Advances Cooperation Initiatives

In recent weeks, the SEC has taken two important measures that appear to advance its goal of encouraging cooperation by individuals and business organizations. First, Enforcement Director Robert Khuzami announced new standards that the Commission will use to evaluate the question of cooperation for individuals (see Hogan & Hartson Litigation Alert dated January 20, 2010). Then, on January 20, the SEC announced a settlement with General Re Corporation that provides concrete examples of conduct that earned the company cooperation credit (press release available at http://sec.gov/news/press/2010/2010-10.htm). The General Re factors, described more fully below, provide valuable guidance to those considering a decision on self-reporting and cooperation.

The General Re settlement represents the conclusion of a case based on different financial fraud schemes involving American International Group and Prudential Financial, Inc. See SEC v. General Re Corporation, Case No. 10 CV 458 (S.D.N.Y. Filed Jan. 20, 2010).

In the AIG scheme, senior officials in a foreign subsidiary of General Re are alleged to have entered into two sham reinsurance transactions that improperly allowed AIG to reverse a declining reserve trend and falsely report additions to both loss reserves and premiums written. In the Prudential scheme, General Re is alleged to have entered into a series of sham reinsurance contracts with Prudential’s property and casualty division from 1997 to 2002, which improperly recognized more than $200 million in revenue from 2000 to 2002. General Re received fees totaling $8.1 million for its role in the Prudential transaction.

Without admitting or denying the allegations in the complaint, General Re consented to a judgment (subject to court approval) enjoining it from aiding and abetting violations of the books-and-records and internal controls provisions (Sections 13(b)(2)(A) and 13(b)(2)(B)) of the Securities Exchange Act of 1934 and directing it to pay $12.2 million in disgorgement and prejudgment interest but no civil penalty.

In determining to accept General Re’s settlement offer, the SEC took General Re’s remediation efforts and cooperation into account. The factors the SEC considered include General Re’s having:

- Conducted a comprehensive, independent review of its operations at the outset of the government investigations;
- Shared the results of the review with the government;
• Provided substantial assistance in the government’s civil and criminal actions against the individuals who were allegedly involved in illegal conduct; and

• Implemented a series of internal corporate reforms designed to strengthen oversight of its operations. The reforms, which were agreed to in a non-prosecution agreement with the Department of Justice, include dissolving the subsidiary involved in the AIG transactions, appointing an independent director to the board of directors, forming a committee consisting of senior managers to review and approve complex transactions, requiring legal review of proposed finite or loss mitigation contracts and fortifying its internal audit functions and underwriting rules.

In the past, the Commission has not often elaborated on the particular corporate actions that were considered in awarding cooperation credit. Its articulation of the actions taken by General Re is no doubt intended to foster additional cooperation with investigations being conducted by the Division of Enforcement and to give corporate counsel concrete examples of remedial actions that will assist them in resolving such investigations.

For more information about the topics discussed in this Litigation Alert, 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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ACQUISITION OF STOCK OF BANKS AND INSURANCE COMPANIES REQUIRES GOVERNMENT APPROVAL

The Ministry of Economy and Finance enacted on November 6th, 2009 two regulations that require that the purchase of stock of banking institutions and insurance companies in excess of 10% of a company’s stock through a Public Offer of Acquisition (OPA for its acronym in Spanish) or through a Public Offering of Controlling Stakes (OPTC for its acronym in Spanish) be notified in advance and approved by the Superintendence of Banking Institutions or by the Superintendence of Insurance Companies, respectively. Those shareholders who already own at least 10% of the company’s stock and wish to purchase at least an additional 5% of the company’s stock through an OPA or through an OPTC must also receive approval from the corresponding Superintendence.

To apply for approval of the stock purchase operation, buyers must submit the documentation set forth in the law or those requirements set by each Superintendence.

The Superintendence of Insurance Companies has a term of 30 work days to grant or deny the approval of the stock purchase. The Superintendence of Banks has a term of 20 work days to grant or deny this approval.

The authorization granted by the corresponding Superintendence will be required by the National Securities Commission (CNV for its Spanish acronym) to process an application for an OPA or an OPTC subject to these regulations.
The purpose of our Legal Report is to provide information to clients and other entities related to Hoet Pelaez Castillo & Duque, regarding the trading and investment legislation currently in force in Venezuela. This information might be interesting for all the companies operating within our country, or for those doing business with other local companies. All articles reflect their author's particular points of view and are not intended to provide legal advice. Readers are advised not to act based on the information contained therein, without prior specific legal advice. All articles of our Legal Report can be, either totally or partially, reproduced with the prior written consent of Hoet Pelaez Castillo & Duque, always highlighting the source and origin.

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South-East Asia

Special edition: Land and Real Estate in Vietnam

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Ly Thanh Hien gives an overview of the legal situation for foreigners wishing to own their own residence in Vietnam.
Editorial – Vietnam’s real estate sector moves on

This special issue of The Brief sets out recent developments in the legal environment in Vietnam relating to real estate projects, with an emphasis on mortgage/security and tax issues.

Vietnam’s real estate sector has presented a mixed, and often difficult, prospect for foreigner investors. It was altered considerably by the adoption of the 2003 Law on Land and has since benefited from significant and progressive changes that have taken place following the implementation of the 2005 Laws on Investment and Enterprises and Vietnam’s accession to the WTO.

The resulting changes to the commercial and corporate legal landscape have compelled the legislature to continuously adapt and develop the country’s legislation relating to the real estate sector. This has created a comprehensive set of regulations including the Law on Real Estate passed in 2006, which is aimed at addressing issues, raised by the liberalization of the real estate sector. Foreign investors have closely watched these legal developments, which include defining the scope and means by which they may participate in the Vietnamese real estate market.

During the late 1990’s, Vietnam’s real estate sector enjoyed a decade of unprecedented growth. This was an important contributing factor to Vietnam’s economic boom, but also resulted in a “property bubble”, which burst in 2008. In 2008, Government policies designed to reduce property speculation and economic overheating, coupled with the worldwide financial crisis, resulted in extremely challenging conditions for local and foreign real-estate companies in Vietnam.

Notwithstanding this situation, the real estate sector has shown resilience in the crisis and is currently the second most attractive sector for foreign investors, accounting for about 20 percent of all FDI, or more than USD 34 billion, in July 2009. There is cautious optimism as certain projects that were on hold in 2008 and early 2009 are proceeding once again and foreign real estate developers apply the lessons learned over the last decade to new real estate projects.

Franz Hepp de Sevelinges
ACQUIRING LAND USE RIGHTS

Overview

Vietnamese legislation related to land is based on the basic principle that land is the property of the people and subject to the exclusive administration of the State. As such land management is overseen by the Ministry of Natural Resources and Environment ("MNRE") and local Departments of Natural Resources and the Environment ("DNRE").

Under the supervision of MNRE, the provincial People’s Committee may grant land use rights ("LUR") in consideration for the payment of land use fees, authorizing individuals and legal entities to use a piece of land for a specific purpose, during a definite period of time. The land must be used in compliance with the conditions relating to the defined purpose and duration. Failure to do so will result in the revocation of the LUR and payment of fines.

LUR can be granted for (i) agricultural purposes or (ii) non-agricultural purposes, which includes, among other things, any commercial and industrial purposes. In terms of duration, LUR for commercial and industrial purposes are generally awarded for a period of 50 years, but may be awarded for seventy years where a project is located in a remote undeveloped area. LUR for “projects of public interest” may be given with unlimited duration.

Apart from obtaining a LUR from the provincial People’s Committee, LUR may also be acquired by individuals and organizations indirectly from current owners of LUR, subject to the conditions on which they were originally granted to the current owner.

The granting of LUR by the State may take two forms: (i) lease of LUR and (ii) allocation of LUR.

Leased and Allocated LUR

Foreign-invested enterprises ("FIEs") in Vietnam are only allowed to obtain leased LUR. Domestic or overseas Vietnamese individuals or organizations may apply for both leased and allocated LUR. Note well that foreign individuals and companies are not entitled to directly acquire and hold allocated LUR.

Lease of LUR

LUR may be leased by the State to individuals or organizations, including FIE.

When LUR are leased, the payment of land use fees may take two different forms: (i) payment of an annual rent, or (ii) payment of a lump sum fee corresponding to the total rent for the whole duration of the LUR.

The duration of the LUR varies from one project to another and depends on the nature of the project. While a 70 year lease is permitted by law, generally the term will not exceed a 50 year term.

Upon the expiry of the LUR, the LUR holder may apply for a renewal. However, approval of the renewal and the price of it remains uncertain.

Rights of land users leasing land

The rights of foreign investors leasing land vary depending on the payment arrangement of land rentals. Under a land lease with annual rental payment, land users are not allowed to transfer, sublease or mortgage their LUR.

In contrast, if the lease arrangements are structured as a one-off payment of rent for the entire lease term, land users are entitled to the following:

- Rights to transfer LUR and assets attached to the land (foreign investors with annual rental payment may only transfer assets attached to land);
- Rights to sublease land and assets attached to the land;
- Rights to contribute LUR and assets attached to the land as capital to joint ventures (foreign investors with annual rental payment may only contribute assets attached to land);
- Rights to secure or guarantee LUR and assets to credit institutions in Vietnam during the term of the lease (FIE with annual rental payment may only mortgage assets attached to land).

Allocation of LUR

LUR may be allocated, with or without payment of land use fees, to (i) Vietnamese individuals resident in Vietnam, (ii) Vietnamese organizations and (iii) Vietnamese individuals overseas. FIEs may not hold allocated LUR.

Land allocation is awarded in particular for projects of public interest, mainly through auction.

Note that when LUR are allocated without payment of land use fees, the LUR holders may not mortgage, assign, lease the allocated LUR or contribute them to a joint-venture.

Acquisition of LUR from a Vietnamese Party

There are two ways that a FIE may acquire LUR from a Vietnamese party:

- a tripartite agreement to acquire the LUR from the Vietnamese LUR holder involving the State authorities;
the formation of a joint venture with the LUR contributed as charter capital by the Vietnamese Party (which is most common).

In either case, the current holder of the LUR must, as a condition to sale or contribution, hold a certificate certifying that all allocation fees have been paid and that the site has been cleared and the previous residents compensated.

**Tripartite LUR Agreement**

In legal terms, this method of acquisition of LUR constitutes a return of the LUR from the LUR holder to the State on the understanding that the LUR will then be leased to the FIE on terms set out in the agreement. It is necessary that the tripartite LUR agreement first be approved in principle by the relevant DNRE to protect the interest of the FIE lessee and ensure that the leaseback occurs as expected.

The authorities have discretion, subject to negotiation with the new lessee, to apply a new 50 year lease term, or alternatively lease the LUR for the remaining duration of the current allocation (with potential additional adjusted fees levied).

**Land contribution as charter capital (equity)**

Upon the establishment of a joint venture the Vietnamese LUR holder contributes capital to the joint venture by using and transferring its LUR. The proportion of capital contributed by the LUR holder to the total charter capital of the joint venture is determined by the paid-up amount of land use fees for the entire area of the parcel of land plus expenses related to the contribution (such as site clearance and land compensation making the LUR contributable).

After the LUR contribution the joint venture will not be obliged to pay any land use fees for the duration of the investment project.

**Land Valuation**

Where land is leased from the State to a FIE, whether directly or through a tripartite arrangement with a prior owner (described above), land price is determined by the State, with an official price list issued annually. Local authorities have the ability to adjust the price of land when there is a large discrepancy with the given “market value” and the official value provided for the land.

In practice, the price of LUR acquired by FIEs has historically been more expensive than that acquired by entirely Vietnamese parties.

Decree 69 (effective as of October 1st 2009) set out a formula which is aimed at aligning the prices paid by all parties per LUR. It is, however, too early to judge the success of its implementation.

**LUR in Industrial Zones**

It should be noted that LUR in industrial zones fall under a different regime, whereby a FIE lessee may sub-lease LUR directly from the industrial zone and receive a LUR certificate issued by the industrial zone authority. The process is usually quicker and more efficient. However, it is limited to the industrial zone, and thus only to projects pertinent for an industrial zone, such as factories.

In conclusion, the most common form of LUR acquisition in Vietnam is through contribution to a joint venture FIE. The vast majority of real estate development projects in Vietnam are joint ventures where the LUR are acquired through contribution. This solves the problem of acquisition as discussed above but it also helps with incorporation as the authorities are more likely to approve a joint venture real estate development project than a 100% foreign owned project.

François d’Hautefeuille

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**INCORPORATING A FOREIGN INVESTED REAL ESTATE BUSINESS IN VIETNAM**

The Vietnamese law on real estate business entitles FIEs to conduct both "real estate business" and "real estate business services". Real estate business services comprise brokerage, valuation, trading floor services, consultancy, auctioning, advertising and management.

This short note focuses on "real estate business" which includes the activities of purchasing, leasing or developing real estate for sale, lease, sublease and hire purchase.

An offshore real estate company is permitted to establish a subsidiary in Vietnam. The subsidiary may take the form of a 100% foreign owned enterprise or a joint venture with a Vietnamese partner.

While establishment of a 100% foreign owned real estate enterprise is permitted by law, in practice it may be difficult as land and real estate are sensitive business sectors in Vietnam and local authorities are reluctant to license smaller 100% foreign projects.
Capital Requirements

A real estate business must have a minimum legal capital of VND 6 billion (roughly USD 375,000).

The amount of charter capital (equity) contributed in cash to the establishment of a real estate business must be deposited first in an escrow account at a bank authorized to operate in Vietnam at the time of application for an investment certificate. This amount must equal the charter capital of the company as set out in the charter. The escrow deposit will only be disbursed upon issuance of the new company’s business registration certificate.

Debt to Equity Ratio

Certain real estate projects, such as the development of new urban, residential and industrial zones, are limited by specific debt to equity requirements. Specifically, there is a 20% or more equity requirement for an investment in a new urban zone project or industrial zone project, or new residential projects over 20 hectares; and a 15% equity requirement for a new residential project under 20 hectares.

Licensing Process

Real estate is a "conditional sector" that is identified in various Vietnamese laws as "sensitive". As such licensing requires approval from central authorities following an evaluation process. During the process the central authority will, among other criteria, evaluate an applicant’s previous experience in the sector, feasibility of plans in Vietnam, as well as financial capacity. For real estate businesses the authorities involved are both the local municipal or provincial government and the Ministry of Construction.

Officially the time-limit for evaluation of the investment should not exceed 30 working days from the date of receipt of a complete and valid file. However, in practice due to various reasons, this time-limit may be extended to four (4) or five (5) months.

Permitted Scope of Business

Vietnamese law is restrictive toward FIEs involved in “real estate business” activities. The rights of these FIEs are limited to:

- investing in the construction of buildings for sale, lease and hire purchase;
- investing in land improvement and infrastructure systems on leased land with a view to subleasing the land; and
- investing in real estate services.

As a consequence, and in contrast to the rights of Vietnamese real estate developers, FIEs are not permitted to purchase housing or construction works for sale, lease or hire purchase; to benefit from the assignment of LUR for re-assignment; to lease housing/construction works for sale; to lease and hire purchase; or to lease undeveloped land for sublease.

Huynh Tuong Long and Jesse Lieberman

TAX REGIME APPLICABLE TO REAL ESTATE PROJECTS IN VIETNAM

Overview

The regime governing Vietnamese corporate income tax and value added tax has recently changed impacting both domestic and foreign investors. Understanding the tax implications for investing in Vietnam is a crucial part of the planning process when entering Vietnam. We present below a short overview of the main taxes applicable to real estate projects in Vietnam.

Pre-establishment Costs

Prior to the establishment of the real estate enterprise, all usual and normal costs of construction and development of the project may be capitalized for the purposes of subsequent depreciation and amortization.

LUR contribution to a real estate enterprise as charter capital is non-taxable.

Corporate Income Tax

Real estate companies in Vietnam are subject to a standard corporate income tax (“CIT”) rate of 25%. There are no preferential tax rates or tax holidays applicable unless the project is located in a poor or/and remote area.

Expenses arising from the operation of the real estate enterprise are only deductible if:

- Expenses actually arose from, and relate to, the activities of production and business of the enterprise (real estate business, in this case);
- Expenses are accompanied by complete invoices and source vouchers as required by law; and
- Expenses are not specifically identified as being non-deductible as provided by law.
The interest on loans within the approved loan capital, irrespective of whether it is from an offshore or onshore loan, is fully deductible. In such cases the loan capital must be included in the business registration certificate/investment certificate of an enterprise.

Value Added Tax

A real estate enterprise is subject to the standard value added tax ("VAT") rate of 10% on its rental income. Input VAT relative to the real estate business may be fully credited. Conditions of entitlement for credit of input VAT for a real estate enterprise are:

- holding VAT invoices for the goods and services purchased; and
- payment via a bank, except in cases where the value of the goods or services is less than VND 20 million (equivalent to USD 1,120);

Dividends

There is no withholding tax on dividends distributed by a real estate company in Vietnam to shareholders onshore or offshore.

Capital Gains Tax Double Taxation Agreement with Singapore

Generally capital gains on sale of shares of a real estate company is taxed at a standard rate of 25%.

Double Taxation Agreements ("DTAs"), such as the popular Singapore Vietnam DTA, may have more favorable terms than the general capital gains rate discussed above. For example, under the Singapore Vietnam DTA profit made from the sale of shares held by a Singapore resident will only be taxable in Singapore. Generally capital gains made outside of Singapore are not taxed in Singapore, subject to conditions.

Franz Hepp de Sevelinges and Ngo Kim Oanh

MORTGAGE OF LAND AND PROPERTY BY FOREIGN INVESTORS

The ability to receive valid security that is enforceable by a lender against the secured asset, with value, is clearly a key issue in relation to the financing of a real estate project.

While the processes of obtaining, registering and enforcing security in Vietnam still lag behind those carried out in developed countries, Vietnamese law grants specific rights allowing FIEs to mortgage their LUR and/or property attached to land. These security rights are however limited in a way that often raises concerns for foreign lenders to a FIE, although structures can be put in place to mitigate these concerns.

Securable Real Estate Assets

It is critical to note that there are certain legal limitations on the type of real estate assets that may be secured by a FIE undertaking a real estate project.

As a matter of principle, and as stated above, FIEs are only permitted to lease land in Vietnam for implementation of investment projects comprising the construction of buildings and/or the upgrading of land. Also, as discussed above, the term of a leased LUR in Vietnam is commonly 50 years or less, with an untried option to renew. This in itself limits the value of the secured asset.

In addition, prospective lenders should also carefully note that a FIE leasing land on the basis of an annual payment of rent does not have the right to mortgage its LUR. The security available in this case will be limited to the property attached to the land, which may be unattractive to a credit institution. Only a FIE which leases land with one-off payment of rent for the entire lease term has the right to mortgage both its LUR and the property attached to land.

Inability of Offshore Lenders to take Security

A key issue relating to the offshore financing of a project in Vietnam is the inability of foreign lenders to benefit from security rights over LUR and fixed assets attached to the land.

Only authorized credit institutions ("ACI") licensed in Vietnam are permitted to take security over LUR. ACI, include foreign invested credit institutions, such as the leading international banks operating in Vietnam

However, in practice, foreign lenders without a license in Vietnam achieve indirect security over LUR through guarantee arrangements involving an ACI in Vietnam, who in turn has direct mortgage security over the borrower’s LUR.

Creation of Security - Mortgage Contracts

Vietnamese mortgage contracts must be made in writing. The document creating the security, whether a separate mortgage document or the principal loan agreement containing security provisions, must be notarized. It is also often required to be filed with the State Bank of Vietnam. Costs of notarization vary depending on the value of the

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1 As FIEs may not benefit from allocated LUR under Vietnamese law, this note does not discuss the additional complications raised by the enforcement of allocated LUR (as opposed to leased LUR) by offshore lenders.
contract being notarized or the value of the properties involved and are generally not prohibitive.

**Priority of Security - Registration**

Either party to a mortgage contract may register it at the LUR registration office under the provincial DNRE where the relevant land is located. In practice the lender is the registering party.

The LUR registration office is responsible for registering the security in the cadastral file and on the LUR certificate. The updated LUR certificate is then returned. The registration process generally is completed within 15 days with nominal registration fees.

The mortgage creates priority against subsequent holders of security achieved through registration. As among lenders, the priority of the security is given on a “first to register” basis, i.e. the debt of the first lender to register security against the LUR and the property is the first to be paid from proceeds of the security.

**Enforcement of Security**

In the event of a payment default under the credit agreement, the lending credit institution may:

- assign or sell the mortgaged property for loan recovery purposes 60 days after the date of the payment obligation, subject to a compulsory negotiation between the parties;
- take possession of the secured property;
- In circumstances where the secured property may not be realized in accordance with the contractual agreement of the parties due to the lender’s inability to take possession of the secured property (i.e. where the lender does not have the requisite licences to operate the project using the LUR), auction by default the LUR and the attached properties are in order to recover the debt with the proceeds

In the event that the borrower fails to allow the security over the property to be enforced, the lending institution may, subject to certain legal restrictions, begin court proceedings for enforcement. This, and subsequent enforcement of the award, is typically a time-consuming, uncertain and onerous process. In practice, the filing of bankruptcy proceedings against the borrower is often undertaken as an alternative and more expeditious method of obtaining recovery.

**FOREIGN OWNERSHIP OF RESIDENTIAL PREMISES**

On June 3rd 2009, the Vietnamese Government issued Decree 51/2009/ND-CP guiding the implementation of a pilot scheme permitting foreigners, for the first time, to purchase and own residences in Vietnam. However, to date there has been no rush of sales of residences to foreigners in Vietnam. This situation might be the result of restrictive conditions set by new regulations.

**Eligible Persons**

Foreign enterprises operating in Vietnam may own an apartment which meets the needs of housing their employees. However, this right may not be enjoyed by FIEs conducting real estate business.

Individuals wishing to purchase a residence must hold a visa for over one year and fall into one of these categories:

- Foreign individuals investing directly in Vietnam in accordance with Vietnamese investments laws or holding a management position in Vietnam;
- Foreign individuals who have been cited by the Vietnamese government for their contributions to Vietnam (medals, honors, etc.);
- Foreign individuals holding special technical skills needed in Vietnam; and
- Foreign individuals married to Vietnamese nationals.

**Restrictive Rights of Ownership**

Furthermore, foreigners permitted to purchase a residence are restricted in the type of residence that may be acquired:

- Foreign ownership is limited to apartments in a commercial housing development project (as opposed to a free standing house);
- Foreign individuals may only own one apartment.
- Foreign ownership is limited to a duration of 50 years, which may be renewed once.
- Foreign apartment owners may only sell their apartment 12 months after an ownership certificate is issued; and
- Foreign apartment owners may not lease out their apartment.

Samantha Campbell

Ly Thanh Hien
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