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Customizing an International Arbitration Clause: Strategies for Success

There is no question that international commercial arbitration is becoming, more and more, a preferred method of resolving large scale international business disputes. In crafting clauses that could lead to such arbitrations, parties may opt either to follow the rules of one of the major international arbitration institutions or to create their own *ad hoc* rules. In either case, there is great flexibility—even if the parties choose to follow the rules of an institution, those rules remain broad by design and continue to give considerable leeway to arbitrators. Left unchecked, this flexibility can create uncertainty and risk.

Carefully drafted customized arbitration provisions can effectively eliminate some of this uncertainty and, in the process, reduce costs and improve a party's chances for a successful result. This article contains suggestions for terms to consider including in a customized international arbitration clause, from the basic—defining which disputes are covered—to the more complex, such as defining methods of calculating damages or how appeals can be pursued.

Defining Which Disputes Are Covered

Starting with the basics, it is worth considering whether to clarify which types of disputes are covered when drafting an international arbitration clause. Where there is ongoing litigation and the parties wish to arbitrate only discrete issues, those issues must be clearly identified. Similarly, where the parties believe certain types of disputes could arise that should not be arbitrated, these carve-outs should be made explicit to eliminate doubt. The parties might also want to specify time limits for filing an arbitration, and, to avoid undue delay in the arbitration itself, apply time limits for completion of the arbitration hearing that are tied directly to the jurisdiction of the arbitrators.

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DoJ Star Healthcare Fraud Prosecutor Joins Washington, D.C. Office

Sam S. Sheldon, formerly Deputy Chief of the Criminal Fraud Division and head of the Health Care Fraud Unit of the U.S. Department of Justice, has joined the firm as a partner in its Washington, D.C. office, where he heads the new Health Care Fraud Group. Mr. Sheldon, a long time federal prosecutor, has tried over 20 criminal cases, including a number in the health care fraud area. He supervised approximately 40 prosecutors overseeing health care fraud for the entire United States for the DoJ Criminal Division. Some of his more notable achievements include overseeing the largest one-day arrest in U.S. history of 107 people engaged in health care fraud totaling over $450 million and, in 2012, a record total of over $1.5 billion relating to health care fraud. Mr. Sheldon is the 2011 recipient of an Exceptional Service Award presented by the United States Assistant Attorney General and is the 2010 recipient of a Special Achievement Award presented by the United States Attorney General for Sustained Superior Performance of Duty. He holds a J.D. from the University of Houston Law Center. Q

Quinn Emanuel Wins Top Honors at the Inaugural U.S. *Benchmark* Annual Awards

Quinn Emanuel was named "Appellate Firm of the Year (Northeast)" and "General Commercial Firm of the Year (West)" at the Inaugural U.S. *Benchmark* Annual Awards. The ceremony also recognized Quinn Emanuel Name Partner, Kathleen Sullivan, as "Female Litigator of the Year (Northeast)." The *Benchmark* Annual Awards recognized firms across the U.S. for landmark accomplishments in legal matters throughout 2012. Q

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CHOOSING, DRAFTING & MANAGING INTERNATIONAL ARBITRATION

We are pleased to welcome in-house counsel to our upcoming seminar, "Choosing, Drafting and Managing International Arbitration." The seminar will focus on the advantages of international arbitration, its perceived problems and criticisms, the arbitration clause, the seat of the arbitration, choosing arbitration rules, third party funders, documents and "discovery," remedies and enforcement, and finally, the cast of players: counsel, arbitrators, witnesses and experts.

Our presenters are international arbitration specialists who are ranked among the top advocates in the world. Collectively, they have worked on hundreds of arbitrations. Stephen Jagusch is a partner in Quinn Emanuel's London office and the Global Chair of the firm's International Arbitration Practice. Before joining Quinn Emanuel, he held the same position at Allen & Overy. Anthony Sinclair, also a London-based partner, specializes in international commercial arbitration, investment treaty arbitration, and public international law. Philippe Pinsolle, who joined the firm from Shearman & Sterling (Paris), is the Managing Partner of Quinn Emanuel's new Paris office, which focuses primarily on international arbitration. An overview of our growing international arbitration practice and the introduction of the presenters will be made by Los Angeles partner, Fred Bennett, who also heads the firm's International and Domestic Arbitration practice.

WEDNESDAY, APRIL 10
12:00 PM – 3:00 PM
LUNCH WILL BE SERVED
MCLE CREDIT PROVIDED

FOUR SEASONS HOTEL,
BALLROOM A
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EAST PALO ALTO, CALIFORNIA 94303

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Defining the Relief Arbitrator(s) Can Provide

This is arguably the most important aspect of a customized arbitration clause. Questions and doubts concerning international arbitrations often center on the broad powers the arbitrators claim to have to award any relief, rationally related to the contract, that they consider fair—even if no party requested it. A customized arbitration clause can address these concerns in advance by defining and limiting the types of relief the arbitrators are empowered to grant. The parties may, for example, draft particular contract provisions that describe how damages are to be calculated when disputes arise, and define the scope of the arbitrators' powers by reference to those clauses. The parties also may construct a somewhat arbitrary damages formulation, such as a clause that requires the arbitrators to adopt one of the damages calculations submitted by the parties. The arbitrators may be given power to issue only certain types of injunctive relief (although such an award will have to be enforced by a court) or even be limited to issuing findings of fact for the parties to use to calculate present or future damages on their own. The parties thus can be creative in negotiating damage parameters, but must do so in the arbitration clause itself or run the risk that unforeseen awards will be issued at arbitration.

Formulating a Special Appeal Process

It is a common complaint that the narrow appeal standard for an international arbitration usually ensures that any award issued at arbitration will be confirmed—not vacated—by the appropriate court. As a result, parties sometimes attempt to fashion their own appeal standard in a customized arbitration clause. This has produced mixed results. In the United States, the Supreme Court rejected a clause that attempted to make an arbitration award subject to the much broader appellate standard of an ordinary legal action in United States courts on the grounds that the appellate standard for arbitrations is within the exclusive province of the legislature. *Hall Street Associates v. Mattel,* 552 U.S.

576 (2008). Similarly, there is a serious question as to whether the parties could, by agreement, modify the vacatur provisions of a treaty such as the 1958 New York Convention on the Enforcement of Foreign Arbitral Awards ("New York Convention") and still have the final result recognized by any signatory country.

In some circumstances, a customized arbitration clause may offer a viable solution to this problem by setting up an *internal* appeals procedure that runs its course before a final arbitration award is issued. There is precedent for this in the rules of the International Centre for Settlement of Investment Disputes ("ICSID"), which lay out such an internal appeals procedure. Still, caution must be taken. Although an internal appeals procedure avoids the potential problem of modifying established grounds for the vacatur of an award, such a procedure could run afoul of the rules of the administering institution. The rules of the International Chamber of Commerce ("ICC") and the London Court of International Arbitration ("LCIA") do not provide for any appeal of an arbitration award, and to the contrary expressly limit any review to the ICC or LCIA court's approval of the award as to form. There is no precedent as to whether either court would defer this process pending an internal appeal set up by a customized arbitration clause, or consent to its administration by the assigned case administrator. Novel questions, such as choosing other arbitrators to handle the appeal, and requiring further advances of costs not contemplated by the existing cost structure of the institution, would have to be resolved in advance.

Ad hoc arbitrations, such as international arbitrations conducted under the United Nations Commission on International Trade Law ("UNCITRAL") rules, are a different matter. Because these arbitrations are essentially self-administered, a customized appeals process in advance of the issuance of a final award does not present the same administrative complications as where the arbitration is administered by an institution.

Defining the Number of Arbitrators and Qualifications

Many international arbitrations deal with complex technical, financial or other issues as to which the arbitrators must have background knowledge in order to render a fair decision. But unless the arbitration clause sets forth the qualifications and experience that the arbitrators must have, there is no assurance that the chosen arbitrators will be so qualified. With a three-person tribunal in which each party appoints one arbitrator, the appointing party can assure that the arbitrator it appoints has the necessary qualifications—but setting forth the required qualifications and experience of arbitrators in a customized arbitration clause is the only way to assure that *all* the members of a tribunal will meet the desired standard. This is particularly important with regard to the appointment of the tribunal chair, or of a single arbitrator, by the chosen arbitral institution. Arbitrators for international arbitrations typically are chosen by case administrators, in accordance with the rules but with little input from the parties. If the arbitration clause itself identifies required qualifications, however, the institution will typically make a diligent effort to pick the right kind of arbitrators, and the parties may have a platform to communicate with the case administrator to assure that all arbitrator candidates meet the agreed standard. Of course, selecting the right kind of arbitrators often can be outcome determinative.

A customized clause also gives the parties the opportunity to choose the number of arbitrators. International arbitration rules typically provide for a default number of arbitrators, but this number may not be consistent with a party's wishes. For example, a tribunal may provide more assurance of a mainstream, conservative decision, while a single arbitrator will likely allow for more expeditious scheduling of the arbitration hearing and other dates.

Specifying Rules for Document Exchange and Production

Document exchange and production is almost always the only "discovery" allowed in an international arbitration, so a party has to make it count. The most effective procedure is generally considered to be that set forth in the International Bar Association ("IBA") Rules for the Taking of Evidence. Most arbitrators will suggest that the IBA Rules apply to the arbitration, but this does not always happen. It is not difficult to lay out effective guidelines for electronic document exchange and production in a customized arbitration clause, and it is prudent to memorialize the process. It is also important to clarify how relevant documents generated in other proceedings between the parties should be handled. For example, the parties may be involved in litigation that generated document production, but if there is a protective order for the litigation, the arbitrators may be reticent to allow such evidence absent the parties' agreement. Here as well, a customized agreement can address in advance such avoidable doubts and uncertainties.

Expert Witness Clauses

Arbitrators invariably set forth a procedure for preparation and exchange of expert witness reports, and for taking expert testimony at the hearing, and the

IBA Rules include detailed provisions regarding experts. Accordingly, it is not always essential to lay out these procedures in a customized arbitration clause. However, some details not covered by the rules, and possibly not within the contemplation of the arbitrators, deserve consideration: (i) a date in advance of the exchange of expert reports for experts to be identified and their CVs and a brief summary of the subject matter of their testimony provided; and (ii) a procedure to ensure the parties have input on any expert appointed by the tribunal.

Limits on the Ability to Craft Arbitration Clauses

There are relatively few limits on the customized arbitration provisions to which parties can agree. But there are some, and these must be considered when considering such clauses.

First, where the parties have chosen to conduct the arbitration under a particular set of arbitration rules, as opposed to an *ad hoc* arbitration proceeding, the rules themselves may contain certain procedures which, as a practical matter, are not subject to modification by a customized arbitration clause. Such rules may include, by way of example, the following:

1) Rules providing for supervision of the arbitration by an internal "court" or similar body. The ICC Rules (January 1, 2012) empower the ICC Court to oversee the arbitration in a number of ways, including (i) making a *prima facie* decision on jurisdiction (Article 6); (ii) making the final decision on any challenge of an arbitrator (Article 14); (iii) reviewing and approving the final form of the award (Article 33); (iv) determining the amount of advance deposits required of the parties to cover the arbitrator(s)' fees and other costs of the arbitration (Article 36); and (v) extending time limits where necessary to ensure that the arbitrators, and the Court, can fulfill their responsibilities under the Rules (Articles 39, 30). The LCIA Rules also include clauses giving specific powers to the LCIA court, including (i) the power to appoint all arbitrators, and to make the final determination on any challenge to an arbitrator (Article 7,10); (ii) the power to override the parties' agreed nominating process for the appointment of arbitrators; and (iii) the power to set and order the payment of advance deposits, to dismiss the arbitration if payments are not made by the parties as ordered, and to approve all costs assessed in the arbitration (Articles 15, 28). Where the parties had elected to have ICC or LCIA Rules govern their international dispute, it is questionable whether the ICC or LCIA courts would permit any material modification to their jurisdiction under the rules through a customized arbitration clause; and

2) Rules establishing the fundamental administrative structure to be applied to an arbitration. There are also other institutional rules so basic to the arbitration process that it is unlikely that an institution would accept any attempt by the parties to modify them. Such rules include, possibly among others: (i) the form and basic required content of a request for arbitration or answer thereto (*e.g.,* ICC Articles 4 and 5; LCIA Articles 1 and 2); (ii) the requirement that each arbitrator be impartial and independent, and undertake procedures (such as the signing of a "statement of fairness" and continuous updates of disclosures) to assure that this requirement is met throughout the course of the arbitration (*e.g.,* ICC Article 11; LCIA Article 5; ICSID Rule 6); (iii) the requirement that certain written procedures be followed (*e.g.,* ICC Article 23 (Terms of Reference); ICSID Rule (memorials, countermemorials, and replies); (iv) the basic powers of the arbitrator(s) to decide their own jurisdiction and assess costs (*e.g.,* ICC Articles 6, 14; LCIA Articles 23, 25, 28; ICSID Rule 41); (v) the format of the final award (*e.g.,* ICC Article 31; ICSID Rule 47); (vi) the time period and grounds for seeking correction or supplementation of the award from the arbitrator(s) (*e.g.,* ICC Article 35; LCIA Article 27; ICSID Rule 49); and (vii) the immunity of the arbitrator(s) or the arbitral court from liability (*e.g.,* ICC Article 40; LCIA Article 31).

A second source of limits on customized arbitration provisions lies in the arbitration statutes of the jurisdiction. Many countries have arbitration statutes that should be referenced by the parties if the laws of that country would apply. Most of the arbitration procedures set forth in these statutes are subject to change by the parties' agreement, but others, such as the standard for confirming or vacating an arbitration award, may not be. As noted, the United States Supreme Court has ruled that the parties cannot put into their arbitration clause a standard for vacating an award which is contrary to the narrow standard for vacatur set forth in the Federal Arbitration Act. *Hall Street Associates, supra*. Because the Federal Arbitration Act encompasses the vacatur standard of the New York Convention, this decision arguably prohibits vacatur provisions that differ from the New York Convention with respect to international arbitration awards as well. The laws of any jurisdiction that would apply to an international arbitration dispute should be checked closely for such judicially-imposed restraints on what the parties may include in a customized arbitration clause.

Finally, where a claim, and the relief for it, has been

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The First Amendment and Off-Label Promotion: *United States v. Caronia*

For years, the U.S. Department of Justice has aggressively pursued and brought charges over "off-label promotions"—the promotion of drugs for uses that have not received FDA approval—by pharmaceutical manufacturers and their representatives. Suing under 21 U.S.C. §§ 331(a) and 352(f), the "misbranding" provisions of the Food, Drug and Cosmetic Act ("FDCA"), 21 U.S.C. § 301 *et seq.*, the government has claimed that pharmaceutical manufacturers and their representatives may not engage in off-label marketing even though physicians are free to prescribe drugs for non-approved uses. The government has obtained massive settlements based on the threat of such charges, including an agreement last year by one company to pay a $500 million criminal fine and $198.5 million in forfeiture as part of a misdemeanor plea agreement for off-label marketing of the prescription drug Depakote. *See* Press Release, U.S. Department of Justice, Abbott Laboratories Sentenced for Misbranding Drug (Oct. 2, 2012) (available at http://www.justice.gov/opa/pr/2012/October/12-civ-1195.html).

A recent Second Circuit decision has the potential to change the landscape in such prosecutions. In *United States v. Caronia*, 703 F.3d 149 (2d Cir. December 3, 2012), a divided Second Circuit panel vacated the conviction of a pharmaceutical sales representative who had promoted off-label uses of Xyrem, a prescription drug manufactured by Orphan Medical, Inc. According to the *Caronia* majority, convicting the representative for off-label marketing that was not untruthful or misleading could impinge the representative's First Amendment rights, requiring a narrow construction of the relevant statutes and regulations.

The government argued that Caronia's alleged off-label promotional activities were unlawful based on Sections 331(a) and 352(f) of the FDCA and 21 C.F.R. §§ 201.5 and 201.128. The government argued that these sections, when read together, provide that a drug is misbranded if it is introduced into interstate commerce without adequate directions for use, that directions for use must be adequate for all intended uses of the drug, and that a drug's intended use can be shown by oral or written statements by pharmaceutical manufacturers or their representatives. These statutes and regulations mean, according to the government, that "[a]n approved drug that is marketed for an unapproved use (whether in labeling or not) is misbranded because the labeling of such drug does not include 'adequate directions for use.'" 703 F.3d at 155.

Caronia responded that the First Amendment prohibits a conviction based, as his was, solely on the truthful and non-misleading promotion of a drug, where the promoted use is not itself illegal and others, such as physicians, are permitted to engage in the same speech. *Id.* at 160. But according to the government, the First Amendment was of no concern because Caronia's speech was not actually the basis of its prosecution instead, Caronia's off-label promotional statements served merely the "evidentiary role" of providing evidence of the drug's "intended use" under 21 C.F.R. § 201.128. *See id.* at 160.

The majority rejected this "evidentiary role" distinction in ruling that the government's prosecution treated Caronia's off-label promotional statements—his speech—as the crime of misbranding itself. *Id.* at 161. The government's proscription of off-label promotion was presumptively invalid under *Sorrell v. IMS Health, Inc.*, 131 S. Ct. 2653 (2011), which holds that a restriction on commercial speech that is content- and speaker-based is presumptively invalid. Further, the government failed two of the four *Central Hudson* factors that traditionally have been used to assess commercial speech. *Id.* at 166-68 (discussing *Central Hudson Gas & Elec. Corp. v. Public Service Commission of New York*, 447 U.S. 557, 566 (1980)). First, banning off-label promotion did not directly advance the government's goal of reducing off-label drug use or the goal of preserving the FDA approval process because physicians are permitted to prescribe off-label. Second, the ban was not narrowly drawn as required under the fourth prong of *Central Hudson* because "[n]umerous, less speech-restrictive alternatives are available, as are non-criminal penalties." *Id.* at 167. While the opinion thus suggests that prosecuting truthful, non-misleading, off-label promotions of a drug by a pharmaceutical representative would violate the First Amendment, the court ultimately avoided this "serious constitutional question" by ruling that the FDCA's misbranding provisions cannot be interpreted to prohibit such promotions. *Id.* at 162.

Caronia appears to undermine the government's ability to bring criminal charges based on off-label promotional conduct, and this potential impact was highlighted in a vigorous dissent by Judge Livingston, who attacked the majority for potentially unraveling the entire FDA drug approval process.

The FDA has announced that it will not appeal this decision to the Supreme Court, stating that it "does not believe that the *Caronia* decision will significantly affect the agency's enforcement" of the FDCA's misbranding provisions. Thomas M. Burton, *FDA Won't Appeal Free-Speech Marketing Decision,* Wall St. J, Jan. 23, 2013. As of now *Caronia* is binding only in the Second Circuit, and it is difficult to predict whether other circuits will follow the majority's or the dissent's lead in future off-label promotion prosecutions. Q

Bankruptcy and Restructuring Update

Seventh Circuit Extends New Value Exception. In *In re Castleton Plaza, L.P.*, No. 12-2639 (7th Cir. Feb. 14, 2013), the Seventh Circuit became the first Court of Appeals to address whether the new value exception to the absolute priority rule articulated in *Bank of America Nat'l Trust & Savs. Ass'n v. 203 North LaSalle Street P'ship*, 526 U.S. 434 (1999), extends to insiders, holding that (i) the wife of an equity holder qualified as an insider under the Bankruptcy Code and (ii) "plans giving insiders preferential access to investment opportunities in the reorganized debtor should be subject to the same opportunity for competition as plans in which existing claim-holders put up the new money." *Castleton*, slip op. at *5.

In *Castleton*, George Broadbent ("George") held a 98% direct and a 2% indirect equity interest in the debtor, Castleton Plaza, L.P. ("Castleton"). *Id*. at *2. Castleton was managed by The Broadbent Company, Inc. ("Broadbent"). *Id*. at *3. George's wife, Mary Clare Broadbent ("Mary Clare") owned a 100% equity interest in Broadbent and George served as its CEO, for which he received an annual salary of $500,000. *Id*. Castleton, which owed approximately $10 million to its only secured lender, EL-SNPR Notes Holding ("EL-SNPR"), filed its chapter 11 petition after failing to pay the balance due to EL-SNPR. *Id*. at *2.

Castleton proposed a plan of reorganization in which (i) it would pay $300,000 of the approximately $10 million owed to EL-SNPR, (ii) the remainder of the $10 million balance would be written down to $8.2 million, with the difference treated as unsecured, and (iii) the terms of the $8.2 million secured loan would be modified by, among other things, extending the term of payment for 30 years, deferring most payments until 2021 and reducing the interest rate. *Id*. at *3. Castleton's proposed plan did not provide its creditors with any equity interest and, by excluding George from retaining any equity interest, appeared to accord with the absolute priority rule. *Id*. The plan did, however, provide that Mary Clare would receive 100% of the equity in the reorganized debtor in exchange for contributing $75,000. *Id*. EL-SNPR argued that the plan undervalued the debtor's assets and the equity interest in the debtor was worth more than $75,000, and offered to pay $600,000 for the equity and to pay all creditors 100%, rather than the 15 cent recovery proposed by the Castleton plan. *Id*. at *4. Castleton rejected this plan, electing instead to accept Mary Clare's offer, which had increased to $375,000. *Id*. The bankruptcy court rejected EL-SNPR's argument that the debtor's acceptance of Mary Clare's offer should be conditioned on Mary Clare making the highest bid in an open competition, which led to the appeal and the Seventh Circuit's certification of the case for direct appeal under 28 U.S.C. § 158(d)(2)(A). *Id*.

In its analysis, the Court noted that "[i]n *203 North LaSalle*, the [Supreme] Court remarked on the danger that diverting assets to insiders can pose to the absolute priority rule." *Id*. at *5. Applying the law to the facts before it, the Court reasoned that, though Mary Clare did not have a prior equity interest in the debtor, as a family member, she qualified as an insider under the definition in the Bankruptcy Code. *Id*. The Court noted that insiders are, in other contexts, such as in preference actions, equated with equity investors and that "there c[ould] be no doubt" that George would receive value, in the form of a continuation of his salary as CEO of the debtor's manager and an increase in the family's wealth, if Mary Clare were permitted to obtain equity in the debtor's plan. *Id*. at *5-6. The Court also stated that in a situation where George had discretionary control over a trust and directed benefits to his spouse, such benefits would be viewed as income to George. *Id*. at *6 (noting that "[s]ince the exercise of a power of appointment is treated as income in tax law, it should be treated as income for the purpose of § 1129(b)(2)(B)(ii) too").

The Court concluded that the absolute priority rule applied to Mary Clare, even though she did not hold a prior equity interest, because George had control over the plan on account of his equity holdings and would have received value as a result of those holdings under the proposed plan. *Id.* at *7. Competition, the Court concluded, could ensure that plans "offer creditors the best value" and is essential in situations like this to preventing the circumvention of the absolute priority rule and "the funneling of value from lenders to insiders." *Id*. at *7.

London Litigation Update

Piercing the Corporate Veil: VTB* Capital plc v. Nutritek International Corp and Others *[2013] UKSC 5. In a recent case, the United Kingdom Supreme Court unanimously refused to pierce the corporate veil in order to treat an alleged controller of a company as a party to a contract entered into by that company. Accordingly, the claimant bank was unable to rely on a jurisdiction clause in the contract giving non-exclusive jurisdiction to the English courts.

VTB, a UK affiliate of the major Russian Vneshtorgbank group, lent $225 million to a Russian company, Russagroprom LLC ("RAP"), under a facility agreement (the "Agreement"). The stated purpose of the loan was to fund the acquisition by RAP of Russian dairy businesses from the defendant Nutritek, a British

Virgin Islands ("BVI") company. The parties to the agreement were VTB as lender, RAP as borrower, and two guarantors respectively incorporated in Cyprus and the BVI. The agreement was governed by English law and was subject to the non-exclusive jurisdiction of the English courts.

RAP defaulted on the loan, and VTB recovered less than $40 million by enforcing the security. Accordingly, VTB brought proceedings in England in which it alleged that it was induced to enter into the Agreement by fraudulent misrepresentations made by: (i) Nutritek; (ii) Mr. Konstantin Malofeev, Nutritek's alleged controller; and (iii) two other BVI companies that were said to be jointly and severally liable for those misrepresentations. The key alleged misrepresentations concerned the nature of the transaction. In the Agreement, RAP and Nutritek were described as unrelated companies. The sale of the business was therefore represented to be an arm's length transaction. According to VTB, however, both companies were under Mr. Malofeev's control.

If established, the alleged misrepresentations would have enabled VTB to take jurisdiction in England under the jurisdiction clause in the Agreement, as opposed to being forced to rely on claims against the defendants in tort which, by virtue of prior decisions at first instance and on appeal, would have had to be brought in Russia.

The Supreme Court focused on whether the corporate veil could be pierced to make Mr. Malofeev a party to the contract. In answering that question, the Supreme Court noted that although there have been cases at first instance that have recognized the power to pierce the corporate veil in exceptional circumstances, the higher courts have not authoritatively ruled on whether and in what circumstances such a power can be exercised. To the extent that the courts can pierce the veil, however, the Court ruled that:

- VTB's claim was an extension of the cases where the veil has been pierced previously. To allow that extension would be contrary to authority and principle.
- It would be wrong to treat Mr. Malofeev as a party to the Agreement as, on an objective view, (i) none of the parties intended to contract with Mr. Malofeev; (ii) Mr. Malofeev did not contract with those parties; and (iii) Mr. Malofeev did not lead any party to believe that he was liable under the Agreement.
- To the extent that VTB had claims in tort against Mr. Malofeev personally, those claims could be brought in Russia, and there was no basis for the Supreme Court to interfere with the lower courts' decision that England was not the most appropriate forum for them.

The effect of this decision is to suggest that novel bases for the piercing of corporate veils will not be welcomed by the English Courts and that Claimants will be limited to the narrow grounds established in earlier lower Court cases.

Legal Advice Privilege: **R (on the Application of Prudential plc and Another) v. Special Commissioner of Income Tax and Another [2013] UKSC 1.** The Supreme Court has confirmed that legal advice privilege cannot be claimed in respect of confidential communications between accountants and their clients for the purpose of requesting or providing legal advice and that it can only be claimed where such communications are between solicitors, barristers or foreign lawyers (including in-house lawyers) and their client.

The case related to information notices issued by HMRC under the Taxes Management Act 1970 to Prudential, seeking documents relating to a marketed tax avoidance scheme, details of which had been disclosed to HMRC under the Tax Avoidance Schemes (Information) Regulations 2004. Prudential brought proceedings for judicial review, seeking to quash or limit the notices and arguing that the notices unlawfully required Prudential to disclose documents that were subject to legal advice privilege.

Prudential argued in the Supreme Court that legal advice privilege should be available for advice on tax law given by accountants because accountants provide the same services as qualified lawyers in the context of giving tax advice. In that context, Prudential suggested that the determining factor for the application of legal advice privilege should be the advisor's function rather than the advisor's status, and that it was not relevant whether or not they were a qualified lawyer.

The Supreme Court dismissed the appeal (by a majority of five to two) and followed the decision of both the High Court and the Court of Appeal, confirming the existing position of the law in relation to privilege. The Supreme Court concluded that legal advice privilege should not be extended beyond its current scope at common law and that any such extension was a matter for Parliament. Thus, it is now very clear that the court will not permit a party to claim legal advice privilege over communications unless they are with a qualified lawyer. What remains to be seen is whether bodies of professionals such as accountants will therefore seek to bring about a change in the law via the legislative process.

Good Faith in Contracts: **Yam Seng Pte Ltd v. International Trade Corp [2013] EQHC 111 (QB).** A recent High Court judgment has made a clear shift towards recognizing an implied duty of good faith and

fair dealing in commercial contracts. This is a marked departure from the traditional hostility that English courts have shown towards such claims. Mr. Justice Leggatt noted that it was unlikely that "English law has reached the stage … where it is ready to recognize a requirement of good faith as a duty implied by law … into all commercial contracts." Nevertheless, he had no difficulty in implying a duty of good faith and fair dealing in this case based on the presumed intention of the parties, following the established methodology of English law.

The Judge started from the approach of the Privy Council in *Attorney General for Belize v. Belize Telecom Ltd* [2009] 1 WLR 1988, in which the Privy Council held that the orthodox tests for an implied term should be analyzed as part of the exercise of contractual construction—what would the contract, read as a whole against the relevant background, reasonably be understood to mean? The judge held that the relevant background included not only the facts known to the parties but also shared values and norms of behavior. Many such norms were thought to be taken into account by contracting parties without being spelled out expressly, for example an implied obligation to act honestly. The judge thought it hard to envisage any contract that would not reasonably be understood as requiring honesty in its performance and held that there is "nothing novel or foreign to English law in recognizing an implied duty of good faith in the performance of contracts" and that, in refusing to recognize such an obligation of good faith, as English courts typically have done, England was "swimming against the tide."

Whilst the case turns on its own facts, it is noteworthy for its positive attitude towards recognizing an implied duty of good faith and fair dealing in commercial contracts. As Leggatt J noted, "the traditional English hostility towards a doctrine of good faith in the performance of contracts, to the extent that it still persists, is misplaced." This is good news for claimants, particularly in the financial services area, who may have found the English courts a difficult place to find a remedy in recent years.

Trademark Litigation Update

OSCAR Wins European Trademark Proceeding. On October 11, 2012, the Academy of Motion Picture Arts and Sciences won cancellation of an "Oscar Della Lirica" design mark from the Cancellation Division of the Office for Harmonization in the Internal Market ("OHIM"). The win is significant in that in Italy, where the offending mark was registered, the term "Oscar" can be used to refer to the Academy's famous statuette or to any award of high distinction. Indeed, Italian dictionaries frequently provide both definitions for "Oscar."

OHIM held that the defendant was both taking unfair advantage of, and engaging in activities detrimental to, the distinctive character of the Academy's famous mark. OHIM rejected the defendant's argument that its mark, consisting of the image of a statute of a winged woman holding a harp but labeled "Oscar Della Lirica" was actionably similar to the Academy's one-word trademark.

The opinion declared broadly that the word "Oscar" indicates "in various languages of the European Union" the award annually conferred by the Academy. It further noted the "very high reputation" of the trademark throughout Europe and its world-wide reputation as a "symbol of quality and excellence in the field of the motion picture industry." It added that the defendant's mark "cannot have the same allure of the award ceremony in Los Angeles," thus harming the "Oscar's" reputation and commercial value.

The Cancellation Division thus ordered the registration of the defendant's mark cancelled and awarded costs to the Academy. *See Academy of Motion Picture Arts and Sciences v. Blanc Enterprise S.R.L.*, OHIM Ref. No. 5831C.

John B. Quinn, Managing Partner of Quinn Emanuel, is General Counsel of the Academy of Motion Picture Arts and Sciences.

Amazon Wins Summary Judgment in Internet Search Results Trademark Dispute. Continuing a trend away from rigid application of the *Sleekcraft* likelihood of confusion factors in the internet context, the Central District of California recently granted summary judgment for Amazon.com and Amazon Services LLC (collectively, "Amazon") in a trademark infringement case relating to Amazon's product search results. *Multi Time Machine, Inc. v. Amazon.com* Case No. 2:11-cv-09076-DDP-MAN, 2013 WL 638888 (C.D. Cal. Feb. 20, 2013). In considering whether Amazon's search results pages for searches for "MTM Special Ops" watches infringed Multi Time Machine's trademark where no MTM Special Ops watches were available from Amazon and only listings for competitor watches were displayed, the court applied the context-specific framework for evaluating competitors' internet search advertising that the Ninth Circuit articulated in *Network Automation, Inc. v. Advanced Systems Concepts, Inc.,* 638 F.3d 1137 (9th Cir. 2011). Focusing heavily on the context of search results and the clarity of labeling, the court concluded that "there is no likelihood of confusion in Amazon's use of MTM's trademarks in its search engine or display of search results." 2013 WL 638888 *9.

Invoking Judge Berzon's concurrence in *Playboy Enterprises, Inc. v. Netscape Communications Corp.*, 354 F.3d 1020, 1035 (9th Cir. 2004), which posited a hypothetical about Macy's display of its own Charter Club clothing near Calvin Klein merchandise and how that brick-and-mortar example may translate to the internet, the *MTM* court explained: "This case squarely presents the issue posed by Judge Berzon's final question: If I search for one of MTM's trademarks, such as 'mtm special ops,' is Amazon infringing when it presents me with a list of watches from MTM's competitors?" 2013 WL 638888 *3. MTM argued that Amazon did infringe, analogizing Amazon's display of competitor search results in response to search queries for MTM's product to a restaurant serving glasses of Pepsi to customers who requested Coke, which the Ninth Circuit held to be unlawful passing off in *Coca-Cola v. Overland, Inc.*, 692 F.2d 1250 (9th Cir. 1982). 2013 WL 638888 *4 n.4. But the court rejected MTM's attempt to use the broad contours of that holding to exempt its claim from the likelihood of confusion standard. *Id.* The court reasoned that the more appropriate analogy was to "a consumer asking for a Coca-Cola and receiving a tray with unopened, labeled, authentic cans of Pepsi-Cola, RC Cola, Blue Sky Cola, Dr. Pepper, and Sprecher Root Beer, and a copy of Coca Kola: The Baddest Chick, by Nisa Santiago." *Id.* The court explained that "[t]his is a substitution, but given the context it is not infringing because it is not likely to confuse." *Id.* Evaluating the context of Amazon's presentation of competitor's products, the court likewise concluded that no confusion was likely.

The court determined that a number of *Sleekcraft* factors were not useful in its analysis. It concluded that the "proximity of the goods" factor could not favor the plaintiff even if the goods were in direct competition when, as here, the goods are presented as clearly marked options. *Id.* at * 5. Likewise, the "intent to confuse" factor was relevant "only insofar as it bolsters a finding that the use of the trademark serves to mislead consumers rather than truthfully inform them of their choice of products" (*id*. at *6 (quoting *Network Automation,* 638 F.3d at 1153))—a finding that "the clarity of labeling" (*id*. at *6) rebuts. In evaluating the "similarity of the marks" factor, the court similarly reasoned: "The issue is not whether the marks are identical but whether consumers are likely to be confused as to the source of the goods returned in the search results. Therefore, this factor is not independently relevant." *Id.* And the court found the "marketing channels" factor wholly irrelevant. *Id.* ("The fact that Amazon and MTM are both selling watches on the Internet is too commonplace to affect the likelihood of confusion analysis."). Based on the court's reasoning, in any trademark infringement case involving clearly labeled search results, none of these factors is available to tip the scales toward a finding of infringement.

The court then evaluated the remaining *Sleekcraft* factors—strength of the mark, actual confusion, and degree of care and type of goods—in light of the record evidence. It concluded that they all favored Amazon, as did the critical inquiry of labeling and context. The court explained that while MTM's expert testimony that Amazon's search results are "ambiguous, misleading, and confusing," did suggest "consumers may be confused about why they are receiving certain search results," his study failed to test the relevant legal question of "whether users of Amazon are likely to be confused as to source." *Id.* at *9.

Overall, the court's analysis clarifies why confusion is unlikely in search results cases and sets a high bar for future plaintiffs to survive summary judgment.

Life Sciences Litigation Update

Will the Supreme Court Resolve Circuit Split on Settlement of ANDA Disputes? On March 25, 2013, the U.S. Supreme Court heard oral argument in *Federal Trade Commission v. Actavis, Inc.* (Docket No. 12-416). The *Actavis* case centers around the debate over the type of antitrust analysis that should apply to settlement agreements in patent litigation between branded and generic drug companies that include an element of consideration running from the brand to the generic (referred to by regulators and legislators alternatively as "reverse payment agreements" or "pay-for-delay agreements"). The Supreme Court agreed to hear the case after the development of a circuit split on the question.

A majority of the circuits addressing the issue (among them the Second, Eleventh and Federal) have adopted the so-called "scope of the patent test," holding that "absent sham litigation or fraud in obtaining the patent, a reverse payment settlement is immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent." *See, e.g.*, *FTC v. Watson Pharmaceuticals, Inc.*, 677 F.3d 1298, 1312 (11th Cir. 2012). On the other hand, the Third Circuit has adopted the "quick look" rule of reason test advocated by the FTC. Under that rule, the court must apply a rebuttable presumption that "any payment from a patent holder to a generic patent challenger who agrees to delay entry into the market [is] prima facie evidence of an unreasonable restraint of trade." *In re: K-Dur Antitrust Litigation*, 686 F.3d 197 (3d Cir. 2012). In adopting the "quick look" rule, the Third Circuit was highly critical of the rationale

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VICTORIES

Complete Appellate Victory for Swiss Re in Synthetic CDO Action

The firm recently secured appellate endorsement by the New York Appellate Division, First Department, of the complete dismissal of fraud and contract claims against client Swiss Re brought by plaintiff noteholders. In 2003, plaintiffs invested in subordinate notes issued by a special purpose vehicle, Breithorn CDO. The synthetic CDO (the protection seller) was counterparty to a credit default swap with our client Swiss Re written against a pool of reference securities selected by Swiss Re (the protection buyer). After the notes declined in value, plaintiffs sued Swiss Re (along with the trustee for the notes) alleging, inter alia, causes of action for breach of contract and fraud, based on Swiss Re's substitution of certain reference obligations and issuance of broker quotes on the notes to plaintiffs. The trial court held that plaintiffs as noteholders could not sue as third-party beneficiaries to the underlying CDS as they were not named as third-party beneficiaries and any benefit to them as noteholders was purely incidental. The court also rejected plaintiff's fraud claims as it enforced the express disclaimers contained in the broker quotes and found the plaintiffs had the ability to assess the notes' value for themselves. The New York Appellate Division, First Department, agreed with the trial court and affirmed the dismissal of all claims against Swiss Re.

The case holds that where the contract expressly permits certain conduct—here, free substitution of reference swaps even against the interest of the CDS counterparty—the investor has no redress. The case reinforces the importance of disclosed contract terms for sophisticated investors. Importantly, the plaintiffs had alleged a convoluted theory of post-closing fraud and contract breaches, but no claim of fraud in the inducement, thus distinguishing the case from our typical CDO case on the plaintiffs' side. The time for plaintiffs to appeal to the N.Y. Court of Appeals has run, thus securing total victory in this case.

Sentencing Victory for Caviar King

The firm recently obtained a rare federal criminal sentence of "time served" for a client. The sentence, which amounted to less than four months in prison, was huge victory for a client facing dozens of years in jail. The outcome was all the more remarkable because this client was originally indicted in 1987 and fled the U.S. before trial. He was recaptured in 2012 and hired Quinn Emanuel.

The client, an Italian immigrant, had worked his way up from cabin-boy on a cruise ship to becoming one of the largest New York importers of Russian and Iranian caviar in the 1980s. In 1987 Southern District of New York U.S. Attorney, Rudy Giuliani, obtained an indictment against the client for avoiding the significant duties owed on imported caviar. According to the indictment, while purporting to re-export the caviar on cruise ships and Pan Am airways first class service, he was actually substituting domestic caviar and selling the Russian and Iranian caviars to New York retailers like Zabars. The case was widely publicized in the New York tabloids. Before trial, the client fled to his native Italy, intending never to return.

The client's plan changed, involuntarily, when he was changing planes in Panama for a routine trip in Latin America. Although he had changed planes in Panama many times before, this time he was stopped and shipped to Houston, Texas where he was arrested on the old charges. The Marshals transported him to New York to face the 25-year old indictment. He then retained Quinn Emanuel. The firm first negotiated a plea agreement with the Government that limited the client's potential jail time to four years in prison, and then made a presentation to the district judge in support of a sentence of time served. The court rejected the government's request for a lengthy additional prison term and sentenced the client to time served. The client is now free, and has returned to his native Italy.

Major Arbitration Victory for Leading European Energy Company

Quinn Emanuel obtained a first major victory for our client, a major European energy company, in winning the jurisdictional phase of a price review arbitration and securing the suspension of a parallel expert determination proceedings pending the outcome of the arbitration.

In April 2011, another major European energy company had initiated the price review mechanism of a gas purchase agreement entered into with our client in 2004, claiming a EUR 400 million price reduction (USD 530 million). Following unsuccessful negotiations, it triggered expert determination in March 2012, pursuant to the price review clause of the gas purchase agreement.

An arbitration was immediately initiated on behalf of our client, seeking an interpretation of the price review clause, in particular in relation to the reference market. In parallel, an emergency arbitrator was appointed to obtain the suspension of the expert determination proceedings. By an award dated July 29, 2012, the emergency arbitrator suspended the expert determination proceedings.

The counterparty then challenged the jurisdiction of the Arbitral Tribunal, claiming that the issues submitted to the Arbitral Tribunal should have been submitted to the panel of experts and requesting that the suspension of the expert determination proceedings be lifted. Our client's position was that the objection raised by the counterparty could not be a jurisdictional objection as (i) the arbitration agreement was not limited in scope and (ii) given that the mission of the experts was contractual in nature, they did not perform any judiciary function. At best, it could be an admissibility issue.

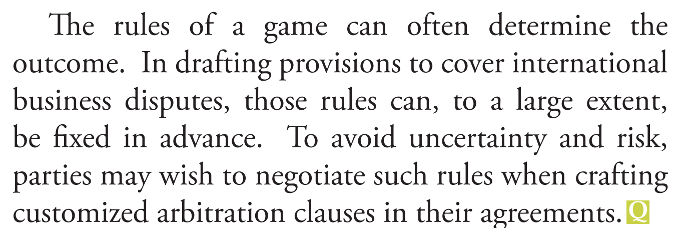
Following a hearing on jurisdiction, a very senior Arbitral Tribunal ruled in favor of our client in an award rendered on January 29, 2013, holding that the counterparty's objections were admissibility objections—not jurisdictional objections—and dismissing them by the same token.

Quinn Emanuel is now proceeding to the merits phase of the arbitration.

(Lead Article continued from page 4)

created entirely by statute, there may be a question as to whether a dispute arising under the statute is subject to arbitration even where the parties have agreed to arbitration. United States courts have recognized that actions determining certain real property rights—such as quiet title disputes and a dispute over the right of a landlord to evict a tenant (known as "unlawful detainer" actions)—are subject to strict statutory requirements and remedies that must be enforced in the courts. Such limitations will not necessarily impact the drafting of a customized arbitration clause, but wherever a claim is triggered exclusively by a statute care should be taken to ensure that there is no impediment under the applicable law to bringing the claim under the umbrella of the arbitration clause.

The rules of a game can often determine the outcome. In drafting provisions to cover international business disputes, those rules can, to a large extent, be fixed in advance. To avoid uncertainty and risk, parties may wish to negotiate such rules when crafting customized arbitration clauses in their agreements.



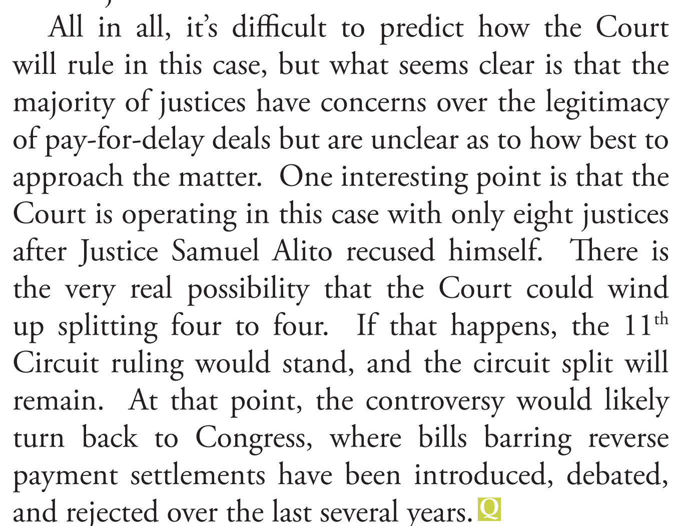
(Practice Area Notes continued from page 9)

behind the "scope of the patent test," arguing that it depends upon an "unrebuttable presumption of patent validity," and that "courts must be mindful of the fact that '[a] patent, in the last analysis, simply represents a legal conclusion reached by the Patent Office.'"

At the recent oral argument in the *Actavis* case, the Supreme Court showed signs that neither test may be entirely appropriate, and that instead the district courts should have the flexibility to examine pay-for-delay agreements on a case-by-case basis. Justice Stephen Breyer asked whether the Court should simply instruct district judges to "pay attention to the [Justice] department when it says that these [agreements] . . . can be anticompetitive," and then "ask the [drug companies] why [they're] doing it." Justices Antonin Scalia and Anthony Kennedy suggested that the key to the inquiry is the strength or weakness of the patent, calling this factor "the elephant in the room." Justice Scalia also asked why the Court should overturn settled antitrust law "just to patch up a mistake that Hatch-Waxman made."

Other justices focused on other factors, such as the burden of proof and the effect of these agreements on consumers. For example, Justice Sonia Sotomayor noted that "the burden of proving that the payment for services or the value given was too high" should be on the government, not the drug companies. And Justice Elena Kagan stated her opinion that "[i]t's clear what's going on here is that [the drug companies are] splitting monopoly profits, and the person who's going to be injured are all the consumers out there."

All in all, it's difficult to predict how the Court will rule in this case, but what seems clear is that the majority of justices have concerns over the legitimacy of pay-for-delay deals but are unclear as to how best to approach the matter. One interesting point is that the Court is operating in this case with only eight justices after Justice Samuel Alito recused himself. There is the very real possibility that the Court could wind up splitting four to four. If that happens, the 11th Circuit ruling would stand, and the circuit split will remain. At that point, the controversy would likely turn back to Congress, where bills barring reverse payment settlements have been introduced, debated, and rejected over the last several years.



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