GLOBAL ACTION

A Newsletter of the **International Law Section** of the Cleveland Metropolitan Bar Association

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EDITOR'S NOTES

Mark J. Sundahl

This summer issue of Global Action features two articles that showcase the international legal expertise that exists among our members. The first piece was contributed by Professor Jacqueline Lipton of Case Western Reserve University School of Law who, among other things, serves as Co-Director of the Center for Law, Technology and the Arts. Prof. Lipton's article explores the current state of the law with respect to cybersquatting – one of the more interesting issues in transnational cyberlaw. The second article, by Kristopher Justice, provides a concise explanation of triangular mergers in Japan, which have only recently been permitted to enable foreign companies to acquire Japanese targets.

As always, submissions for future issues of Global Action are welcome and can be emailed directly to me for consideration. Submissions should be brief pieces (500-800 words) on a topic of interest to members of our section.

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A MESSAGE FROM THE CHAIR

Robert M. Spira

Following our very successful Seminar in May, we are all looking forward to International Law Section activities for the 2008-2009 year. We plan to continue the newsletter and the Forums, and to do another seminar in the spring.

Also, our Section Chair Emeritus and current Symposium Chair Steve Petras has agreed to search for an appropriate follow-up to our 2007 Symposium on Northeast Ohio's Global Challenge. In the meantime, the report from the first Symposium has been posted on the section's web site. In addition to the thoughts of our many distinguished Symposium participants, the report includes the results of our survey on international business and international law in Northeast Ohio.

Please watch for notices of future section events.

Section chairs for the coming year are as follows:

Section Chair - Robert Spira
Seminar Chair - Tony Konkoly
Symposium Chair - Steve Petras
Newsletter Chair - Mark Sundahl
Forum Chair - Bob Heintel
Membership Chair - Steve Balster

CMBA reminds me that our By-Laws require that we also need a Secretary and a Treasurer. Acting as a section officer is a good way to get involved and meet people. Also, as has been reported previously, our section usually has more fun than other CMBA sections. Please call me if you are willing to help.

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INTERNET DOMAIN NAMES: REAL VIRTUAL PROPERTY?

In recent years, the Internet has posed significant challenges to domestic and international law. One recurring issue involves the extent to which we should make property analogies with the Internet. This is an important question because many legal actions are premised on property rights. One limitation of property analogies online is that the term property tends to connote common qualities of tangible goods such as rivalrousness. Rivalrous goods exist in one place at a time, and can generally only be enjoyed by one person at a time. However, most online property is nonrivalrous because it is created by software code which can be easily duplicated any number of times. This virtual property can therefore exist in more than one place at the same time. One person's use of the property does not necessarily prevent another person's simultaneous use of the same property: for example, an MP3 file of a popular song can be enjoyed by many people at once.

There are very few online "things" that are truly rivalrous. One example is the Internet domain name. A domain name can only exist in the hands of one registrant at a time. The registration of a domain name by one person prevents it from being simultaneously registered by another person. This aspect of the domain name system creates some unique regulatory imperatives. Trademark holders, for example, have often fought for control of domain names corresponding with their trademarks. Nevertheless, there is a fundamental mismatch between trademark law and the domain name system. Trademarks are, in a sense, nonrivalrous. The same mark can be enjoyed simultaneously by two or more different people in different product, service, or geographic markets. Domain names do not share this quality, being effectively global and rivalrous. It is possible for two people to hold similar domain names simultaneously, such as delta.com, delta.biz, and delta.co.uk. However, only one person can register any one name at a given time.

Trademark holders have been protected against bad faith cybersquatters by various local and global regulations. Cybersquatters are those who register domain names corresponding with others' trademarks in the hope of profiting from sale of the names. In the United States, trademark infringement and dilution actions have succeeded against cybersquatters. Additionally, Congress enacted the Anti-cybersquatting Consumer Protection Act of 1999 specifically to prevent cybersquatting. On a more global scale, the Internet Corporation for Assigned Names and Numbers adopted the Uniform Domain Name Dispute Resolution Policy ("UDRP") to combat cybersquatting. This fast and efficient, predominantly online arbitration procedure is incorporated by reference into registration agreements for <.com>, <.net> and <.org> domain names. Registrants agree that they will submit to UDRP arbitration if a trademark holder complains about their registration of a given domain name.

These regulatory measures have been effective against cybersquatters, but do little else. There are, for example, currently no regulations that facilitate sharing, apportioning or otherwise balancing rights in domain names where two or more trademark holders share similar trademarks in different product or geographic markets. The current rule is "first come, first served", subject to private negotiations between the parties. Thus, delta.com is now owned by Delta Airlines, after a series of negotiations with other companies including Delta Faucets. The current system also does not provide guidance on protecting any non-trademarked interests in words and phrases online: for example, there are no regulations that specifically protect culturally and geographically significant terms in the domain space that may not function as trademarks. Examples might be White House, Madonna, Mount Everest, or Gandhi. The current regulations are also unclear on the appropriate balance between trademarks and free speech in the domain space. If a website operator wants to set up a website to criticize, say, the labor practices of the Nike corporation, could it theoretically use nike.com or even nikesucks.com? There are currently conflicting opinions on this point both in local courts and in UDRP arbitrations. Finally, there is little guidance on the protection of individual names and identities in the domain space. Trademarked personal names will be protected under relevant trademark focused regulations including the UDRP. However, the trademarkability of personal names varies from jurisdiction to jurisdiction. Even within a given jurisdiction such as the United States, there are differing opinions on whether a particular name operates as a trademark. There are inconsistent UDRP arbitration decisions on this point as well.

The World Intellectual Property Organization continues its consideration of some of these issues. However, it would be useful if more local and global regulatory attention was focused on the domain name system to create more guidance as to the appropriate balance of various interests that may inhere in domain names going forwards.

Jacqueline D. Lipton,
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UNDERSTANDING JAPAN'S NEW TRIANGULAR MERGER LAWS

Recently, the bulk of foreign direct investment (FDI) has centered on emerging markets in China and India to the detriment of Japan's more established economy. In 2005, FDI outflows surpassed FDI inflows in Japan for the first time since 1989 (as FDI levels fell 64% from 2004). In response, the Japanese Diet, the legislative body of Japan, has taken various measures to amend the Japanese Commercial Code through the 2005 New Company Law. These measures include changes in the requirements for corporate formation and choice of entity. Yet the most controversial change in the 2005 New Company Law is the legalization of triangular mergers which took effect on May 1, 2007.

A triangular merger involves an acquiring foreign enterprise's (the parent corporation) use of a local subsidiary as the direct acquiring agent. The local subsidiary is then merged with the targeted enterprise, leaving the former shareholders of the target with shares of the foreign parent corporation. For example, in the first triangular merger since legalization, Citigroup used its subsidiary Citigroup Japan to acquire the Japanese brokerage Nikko Cordial using Citigroup stock. While triangular mergers promote FDI through mergers and acquisitions, direct acquisition of a Japanese corporation by a foreign company is still prohibited.

Japanese business and political leaders are concerned about the long-term effect of triangular mergers. While most of the 2005 Corporation Law became effective May 1, 2006, the legalization of triangular mergers was delayed until May 1, 2007. Japanese leaders worry that foreign companies are generally more highly capitalized than Japanese firms and that the introduction of the triangular merger system would lead to an explosion of hostile takeovers by foreign firms. Unsolicited takeover bids are very rare in Japan where they are

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www.zimmerdesign.net

LINKS

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www.law.csuohio.edu

Case Western Reserve University School of Law
www.law.case.edu

Greater Cleveland International Lawyers Group: GCIL@parker.com

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seen as distasteful and an example of a more ruthless form of Western capitalism. The Keidanren, the powerful Japanese Business Federation, has argued that hostile takeovers by foreign companies will force domestic companies to focus solely on financial performance. Sole focus on the bottom line would mean abandoning traditional Japanese business practices of creating a social entity, offering lifetime employment, building long-term business relationships, and company paternalism. Others contend that these concerns are merely based on a fear of the unknown. In response, the government postponed the implementation of triangular mergers to give companies time to develop anti-takeover measures.

Since triangular mergers were legalized, over 400 companies, or about 10% of publicly listed companies in Japan, have enacted poison pills that would dilute the stake of any unwanted bidder. For instance, in the face of a hostile takeover attempt by Steel Partners of the United States, Bull-Dog Sauce Co.'s shareholders enacted a poison pill to fend off the unsolicited bid. Steel Partners asked the Tokyo District Court to issue an injunction to prevent the poison pill from being exercised and diluting Steel Partners' shareholdings. The court, in a ruling affirmed by the Supreme Court of Japan, denied Steel Partner's request and labeled them as an abusive acquirer. It is likely that other poison pills will be upheld if challenged.

Japanese companies have returned to the traditional keiretsu cross-shareholding business model as another protective measure against unwanted foreign takeovers. Cross-shareholding was prevalent during the height of the keiretsu industrial groupings, where several individual companies would work in collaboration with one another and were bound together through series of cross-shareholding agreements with a central bank at its core. The keiretsu business model and cross-shareholding declined in recent years. However, since the legalization of triangular mergers, the practice has increased as a protective measure against possible hostile takeovers.

Yet, these concerns about hostile foreign takeovers through triangular mergers are most likely overblown given the shareholder voting rules enacted by the Diet. Shareholders of both the acquiring and dissolving company must approve the triangular merger by supermajority vote (i.e., two-thirds of the shareholders present at the shareholder meeting). Shareholder approval requirements can be even greater if the dissolved company's assets fall under one of the protected industries vital to national security listed in the Ministerial Regulations. In the future, it is likely that the Diet, under the urging of the Keidanren, will continue to pass laws to protect Japanese companies from hostile takeovers by removing requirements for shareholder approval of poison pills. Additionally, other business leaders are urging the Diet to allow companies to unilaterally strip voting rights from any shareholder with a stake of above 20%.

In the end, practitioners should recognize that triangular mergers will become an increasingly useful investment tool in the future and will spur FDI growth through increased mergers and acquisitions, but only in limited situations. Attorneys should advise their clients that triangular mergers are useful only when there is a mutual agreement between the Japanese and foreign company to merge, such as the Citigroup and Nikko Cordial example described above. Only then can the concerned parties successfully garner the support of two-thirds of the shareholders. On the other hand, where a foreign company attempts a hostile takeover using a triangular merger, it will be rebuffed. With the prevalence of poison pills, the resurgence of cross-shareholding, as well as widespread disapproval of more ruthless western practices, it would be very difficult for a foreign company to muster a supermajority of shareholder votes necessary to assert a hostile takeover. Therefore, attorneys should advise their clients that if the Japanese company is not interested in a merger or is not cooperating, a hostile takeover using a triangular merger will not be a successful option.

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UPCOMING EVENTS

The International Law Section holds meetings on the second Monday of every month.

Please watch for your email for notices of additional upcoming events

Please contact Alan Skerl, Assistant Director of Sections, at askerl@clevelandbar.org to be placed on the mailing list for updates or when seeking other information regarding section membership and activities.

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