

NEGOTIATED PAYMENT, OR BRIBE?

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The UK, Russia and China have new laws on bribery and other countries are increasing enforcement. But when do they affect IP, or even a nice client lunch? Local lawyers give their views

ONE-MINUTE READ

The line between a legitimate payment made as part of a negotiated deal and what regulators consider a bribe is a thin one. This is particularly the case with private arbitration or payments to parties like cybersquatters, who make their money from forms of extortion. Other parts of IP interactions, such as payments to accelerate filings, can also fall foul of anti-bribery rules. While the laws are relatively consistent across major jurisdictions, small differences can easily trip up international counsel. Here, local lawyers give their recommendations on how to treat deals, facilitation payments and entertainment

QUESTIONS

- 1. Where is the line drawn between a legitimate payment made in a deal, and liability for bribery for payments to facilitate patent licence agreements, negotiating with patent trolls or paying cybersquatters to hand over domains?**
- 2. If a company that is competing to be a distributor or franchisee offers to take your staff on an all-expenses-paid trip, is it likely that an offence is committed?**
- 3. Can a parent company based in your jurisdiction be liable for the actions of an overseas subsidiary that pays a bribe to secure an IP transaction?**
- 4. Are facilitation payments, such as a small payment to an official to speed up the registration of a license or a registered right, prohibited?**
- 5. Can a company be liable for the actions of an agent or employee?**

CHILE

1. Legitimate payments and bribes

The line is very clear about payments. Only legitimate payments established in the corresponding licence, assignment or similar agreement are acceptable. Although illegitimate payments to third parties are not strictly considered bribes in terms of applicable criminal liability (if they are not made to government officials), other charges such as fraud or crimes involving privately held companies or individuals may apply. There could also be possible conflicts with the Chilean Bar Association Ethical Code of Conduct in cases involving local agents or legal counsel.

With respect to negotiations with patent trolls or cybersquatters, it is always a decision that depends on the client; the key point is to provide all information to a client in such a position, including the costs of possible litigation, cases by the same or related applicant previously detected and cost of transfer or assignment. We generally do not recommend our clients to negotiate with trolls or cybersquatters, and always advise that such conduct should be taken to court and prosecuted by legal means. Paying a price that may seem attractive in comparison to litigation costs could lead to future cases of misappropriation motivated by the possibility of obtaining such payment. Once again, whenever a payment is made to a troll or cybersquatter an ethical issue may certainly arise, but it is not strictly forbidden in terms of company criminal liability, since it implies a payment between private persons or entities.

2. Client entertainment

Our firm's attorneys or staff would not accept such an offer from a counterparty or third party seeking a partnership or commercial relationship of any kind with one of our clients. Although an offence or crime is unlikely if it only involves private companies or individuals (as opposed to a government official), an ethical conflict would certainly arise. Our firm is also very strict when it comes to gifts or offers received in the name of or made to our clients. In addition to their natural concerns about liability in Chile, we must consider liability under other national anti-bribery legislation such as the US Foreign Corrupt Practices Act (FCPA) and the UK Anti Bribery Act. All of our attorneys are also active members of the Chilean Bar Association and therefore subject to its ethical jurisdiction and rulings.

3. Overseas subsidiaries

If the IP transaction involves a government official, whether the official is Chilean or foreign, then the parent company may be liable under the Chilean statute on criminal liability of legal entities, if the act of the subsidiary is committed by a person that either represents or controls the parent.

4. Facilitation payments

They are prohibited.



Global Practice

5. Agents and employees

A company can be criminally liable for the actions of an agent or employee in matters of corruption of foreign or local officials (as well as in the case of money laundering and financing of terrorism), unless the company has put in place proper policies and procedures and appointed a fully empowered independent compliance officer to avoid the commission of such actions. Criminal liability means that the company may not only be fined, precluded from being allowed to contract with state, but also be dissolved. As to civil liability, the company will be generally liable for the acts of its agents if the agents were acting within the remit granted by the company, and will be liable for the acts of its employees if the company did not provide the proper training or put in place and enforce the appropriate policies and procedures to avoid such actions.



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CHINA

1. Legitimate payments and bribes

In commercial transactions, a business operator giving any off-book kickback to another entity or individual in secret or by other means to sell commodities, or to seek transaction opportunities and advantages or any other economic interests, shall be regarded as offering a bribe. In negotiating with patent trolls or paying cybersquatters to hand over domains, unless the business operator pays a consideration, he is not allowed to offer a bribe by handing over property or by any other means to another entity or individual.

2. Client entertainment

According to laws and judicial practices in China, if a company provides an all-expenses-paid trip for the purpose of seeking transaction opportunities and advantages or any other economic interests, it commits the offence of commercial bribery.

3. Overseas subsidiaries

If a parent company participates in the bribery action of an overseas subsidiary, the parent company may be subject to prosecution under Chinese law. However, the parent company is not responsible for the actions of a subsidiary that pays a bribe if it doesn't participate in the bribery action.

4. Facilitation payments

Under Chinese law, only those who offer a bribe for the purpose of seeking irregular interests commit the crime of offering a bribe. Thus, a facilitation payment to get officials to perform their legal duties faster is seeking legitimate interests, which doesn't fall into the scope of irregular interests and doesn't constitute offering a bribe. However, offering a bribe in order to gain from procedural impropriety either immediately or in the future is against the law.

5. Agents and employees

Whether a company is liable for the actions of an agent depends on its agreements and the actual practice. If the company is not aware of the bribing action of the agent, it is not be liable under Chinese laws.

Article 3 of Interim Provisions on Banning Commercial Bribery stipulates: "Commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the operator shall be regarded as the operator's act." Thus, the competent administrative department for industry and commerce imposes a punishment on the employer pursuant to the preceding article if an employee conducts commercial bribery for the interests of the business operator.



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INDIA

1. Legitimate payments and bribes

Unlike the US and the UK, we do not have comprehensive legislation governing corruption, especially concerning private parties. The aging Prevention of Corruption Act 1988 (PCA) incorporates provisions dealing with ill-gotten gratification by public servants and those who abet them, and wealth obtained through corrupt means. The provisions of the PCA are not suited to regulate commercial transactions carried out between private entities.

Recently, a joint committee has been constituted comprising representatives from the government and civil society to draft the Jan Lokpal Bill in an attempt to curb corruption. It will be interesting to observe the scope and powers that may be ascribed in the future.

The authorities involved in inquiring, investigating and prosecuting corruption cases are the Central Vigilance Commission (CVC), the Central Bureau of Investigation (CBI) and the Anti-Corruption Bureau (ACB). The CBI and ACB investigate cases under the PCA, while the CVC is a statutory body supervising corruption cases in government departments. In addition, cases related to money laundering by public servants are investigated and prosecuted by the Directorate of Enforcement and the Financial Intelligence Unit under the Ministry of Finance.

With this changing scenario and the ever-increasing role played by the private sector in the national economy, the government is contemplating amendments to the Indian Penal Code to bring the private sector and NGOs under anti-corruption laws. In the meantime, businesses should strengthen internal policies to control corruption till legislation is developed.

Whether or not a payment would constitute a corrupt practice would depend on a host of factors: the legitimacy of the payment, the status of the recipient (public servant or private employee), the internal corporate policies in place to tackle such misconduct and if the payment is a so-called harassment bribe. Of course, when people are forced to pay to get what one is legitimately entitled to, treating the perpetrator and the victim as co-conspirators is unjust.

2. Client entertainment

While there are no penal provisions in this regard, such an offer could violate a company's internal policies. The Companies Act, 1956, while not specifically dealing with corruption or bribery, provides for the mechanism of accounts, audit and inspection to check wrongdoings. Therefore, if such a transaction comes through, the auditors are likely to object to the legitimacy of the expenditure. Further, such agreement could be construed as having an appreciable adverse effect on competition, rendering it actionable under competition laws.

3. Overseas subsidiaries

There are no provisions under Indian law whereby an Indian parent company can be held responsible for its foreign subsidiary paying a bribe to secure an IP transaction. Indian law recognises incorporated companies as separate legal entities. Of course, if the parent company can be considered to be abetting the transaction in any manner whatsoever, it could be held liable depending on the facts and circumstances of each case.

In March 2011, the Foreign Bribery Bill was introduced under which bribery has been made an extraditable offence. Even abetment would be a criminal offence under the proposed Bill. If legislated, foreign nationals indulging in bribery for business contracts in India could be prosecuted; this would bring India closer to international standards and best practices.

4. Facilitation payments

Such payments will attract penal provisions under the PCA and are prohibited under law. The official in question being a public servant can be held criminally liable for accepting any gratification whatsoever (other than legal remuneration) as a motive or reward for showing, in the exercise of his official functions, favour to any person.

5. Agents and employees

No legislation makes an employer liable for the corrupt practices of its employees. However, the law of tort recognises the concept of vicarious liability: the liability of the master for acts of his servant, which is based on the principle of *respondet superior* – let the principal be liable. Such liability can only be fastened if the agent or employee acts in the ordinary course of and in pursuance of his official duties.



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RUSSIA

1. Legitimate payments and bribes

There are certain anti-bribery provisions in the Russian Criminal Code relating to commercial bribery, bribe taking and bribe giving; and some additional explanations can be found in a Resolution of the Plenum of the Supreme Court (February) 2000: 'On court practice concerning bribery and commercial bribery cases'.

According to these provisions, the true purpose of a payment serves to distinguish between a regular payment, such as compensation of an expense, and a bribe. While a lawful deal pursues a legal aim (profits or charity), a person committing bribery (either giving or receiving a bribe) deliberately acts unlawfully, using his powers and position for personal enrichment rather than for benefits of a state or an organisation.

All kinds of direct non-accounted payments or presents to state or municipal officials or to executives in commercial organisations, or rendering services or giving any sort of preference or property benefits may be regarded as bribery.

A payment in a deal concluded for the benefit of both sides or for another legally acceptable reason does not constitute bribery. But an extra payment or services in order to facilitate a deal, and from which a representative of a contracting party gets personal benefits, may be regarded as a bribe if its value exceeds a cost of a common business present – a small souvenir, an invitation to a free lunch in the course of or after a contract negotiation, for example.

2. Client entertainment

Taking staff on an all-expenses trip before settling a bargain goes way above the usual representation expenses and will not be regarded as a business trip. Providing such a trip constitutes a property-related service from which a partner profits indirectly. If any reasonable connection may be proven between such a service and the subsequent actions of the partner, as well as damage done to interests of the 'receiving' firm (for example, concluding a very unprofitable deal) or partner's competitors (decline of their equal or more profitable proposals), a *corpus delicti* will be present. However, when a trip takes place after a deal, such a service cannot be regarded as commercial bribery.

3. Overseas subsidiaries

Executive officials of a parent company might be liable in Russia for the actions of subsidiary officials if they have entered a conspiracy or a direct liaison exists between them (for example when obligatory orders or approvals are given by the parent company) and the bribery is committed in Russia, so involving Russian managers. If a Russian parent is involved in a corrupt activity abroad, it might be liable only in accordance with the laws of the country where such an activity is conducted.

4. Facilitation payments

Sometimes facilitation payments are officially available in governmental agencies or commercial organizations – as an extra service fee for express orders. If they are not, then one should mind that unofficial payments, gifts, rendering of monetary-valued services or giving any accessible preferences might be regarded as a bribe-giving. Size of the payment received (as well as the estimated cost of service or gift) does not matter if its illicit purpose is proved; however a giving or receiving person may be exempt from liability on the ground of insignificance.

5. Agents and employees

As there is no criminal responsibility for legal entities in Russia, a company cannot be held criminally liable at all, even for the actions of an agent or employee. An employee, engaged in bribing and acting by order of a company executive will be held guilty as an accessory, and the said executive will be accused of (commercial) bribery. Nevertheless, a company may be held responsible if the actions of an agent or an executive official constitute an administratively punishable infringement. A fine, confiscation of property used for an infringement or temporary suspending of activity may be imposed as a penalty.

According to Article 19.28 of Russian Administrative Punishments Code, the unlawful transfer of money, securities or other property on behalf of (or in the interests of) a legal entity to a public official or individual who performs management functions in a commercial or other organisation, or the unlawful rendering of services to a person in return for the performance of an act (or an omission) in the interests of the donating a legal entity in connection with that person's authority as an official may lead to a penalty up to triple the value of property transferred but no less than R1 billion (\$35,000) – with obligatory additional seizure of all the property transferred. In addition, a company may be forcibly liquidated if illegal actions constitute the main activity of that company.



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UK

1-2. Legitimate payments, client entertainment

The UK Bribery Act 2010 makes commercial bribery between private parties an offence. However, the UK government has been at pains to make clear that *bona fide* hospitality and promotional expenditure are recognised as legitimate, and even more lavish hospitality such as fine dining and tickets to sporting events would not usually raise an inference of bribery if it is connected to a legitimate business activity. Guidance from the Ministry of Justice emphasises the need to consider the value of what is offered, but also the context in which it is offered. Thus, if the manager intends the trip to induce your staff to "perform improperly a relevant function" (in this case to select his company as a distributor, franchisee or other partner) this will be an offence.

It should be noted that as well as offerors of gifts and hospitality, the recipients might also commit an offence if they intend that this should influence them in the decision as to whether to enter into a relationship with the company in question. This would very likely constitute the improper performance of their role in selecting a distributor, franchisee or other partner. In addition, the company whose manager is offering the trip, if carrying on a business in the UK, may be guilty of an offence under the Bribery Act of failing to prevent an associated person (the manager) of bribing someone to obtain business for it.

3. Overseas subsidiaries

If the overseas subsidiary is performing services for the parent company then the UK parent will be liable for its actions. The Ministry of Justice guidance for commercial organisations on the Bribery Act states that the fact that a parent benefits indirectly from bribes paid on behalf of its subsidiaries will not be sufficient to attach liability to the parent company. It will therefore be necessary for the bribe to be paid with the intention of obtaining or retaining a business advantage for the parent company in order for the parent company to be liable. Where the subsidiary is a separately managed business and the parent merely has a treasury function in connection with it, it is less likely that the parent company will be liable. However, if the parent company conducts all its business through local subsidiaries, and exercises management control over their activities, it is more likely that the payment of a bribe by the subsidiary could lead to liability for the parent company.

4. Facilitation payments

The UK Bribery Act 2010 makes no exceptions for facilitation payments, which are treated as any other bribe and are illegal. The Ministry of Justice guidance recognises the problems that commercial organisations face in some parts of the world and emphasises that, so long as they are actively seeking to avoid the payment of facilitation payments, it is unlikely that commercial organisations will be prosecuted in the event that an isolated facilitation payment is made.

5. Agents and employees

Under Section 7 of the UK Bribery Act 2010 a company can commit the offence of failing to prevent bribery if an associated person (including agents) pays a bribe on its behalf, regardless of whether the company knew or consented to that payment being made. The only statutory defence to a prosecution under Section 7 is for the company to show that it had "adequate procedures" designed to prevent such persons from paying bribes. If the company had suitable policies and procedures in place, that were effectively implemented, it would not therefore commit an offence if the agent's conduct was unforeseeable and the company had taken suitable steps to prevent such occurrences taking place.

What will constitute "adequate procedures" will depend upon several factors, but most importantly the risk of corruption in any given relationship. As a starting point a company appointing an agent should consider including a contractual provision through which the agent undertakes not to pay any form of bribe and to ensure its employees do not pay bribes, backed by an express confirmation that it has procedures in place to ensure that it complies with the contractual obligation. Breach of the provision or reasonable suspicion of a breach should be grounds for termination.

An employee is an "associated person" of a company and the company can therefore be guilty of the Section 7 offence of failing to prevent bribery with regards to employees. If the employee is sufficiently senior that he could be said to be the directing mind of the company, it is possible that the company itself will be directly liable for paying a bribe. This would usually have to involve an officer of senior management or board level.



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UNITED STATES

1. Legitimate payments and bribes

This is the least clear cut issue among the questions. Generally, whatever the buyer (the party seeking the IP right) is willing to pay in response to the IP holder's demand is the fair price to pay. Economic duress, in the sense that the buyer feels forced by exigencies of the moment to pay too much, generally doesn't work in arguing later that the deal should be rescinded. Governmental review and action against settlements typically will not occur unless there has been a settlement between competitors. For example, the Justice Department and the Federal Trade Commission have challenged settlements between branded pharmaceutical companies and generic companies in which the branded company pays the generic for delaying market entry, although arguably the branded company's patent rights did not cover the generic's products or there was strong evidence that the patent at issue was invalid. In those or similar situations, there are antitrust concerns about whether the competitors are effectively dividing a market between themselves, with adverse effects on competition. That's not the fact pattern in this question.

2. Client entertainment

Under both state and federal criminal law, extravagant 'gifts' are treated as having been made with intent to deprive the employer of the honest services of the employee, so to bribe the employee into making a decision other than solely on the basis of what's in the employer's best interests. A majority of the justices of the US Supreme Court last year in the *Skilling* case (Skilling, the former CEO of Enron, had been convicted of conspiracy to commit wire fraud by depriving Enron of his own honest services) interpreted federal mail and wire fraud statutes to include bribery or kickback schemes that deprive another of the intangible right of honest services owed to them by the recipient of the bribe or kickback. Although Skilling's conviction was reversed because it did not involve classic payments to a third party to the detriment of whoever was entitled to his honest services, but to his own conduct in allegedly ignoring Enron's interests for his personal benefit, it is clear that, if interstate commerce is involved and the mails or wires are used in the course of the accused activity, there can be a federal crime committed by offering gifts so extravagant that they appear to be calculated to deprive the company of the staff's honest services.

3. Overseas subsidiaries

This would apply if a payment is made to a governmental entity or official and the subsidiary is also subject to the Foreign Corrupt Practices Act. The Act treats a 50% or more controlled foreign subsidiary of a US corporation that issues securities as a "domestic concern" and therefore subjects its conduct to the reach of this statute, which is designed to make it criminal conduct to make payments to influence foreign governments and their officials. (Where the ownership or control is less than 50%, there can be inquiry into the practical ability of the US parent to influence or direct the subsidiary's conduct.) The Justice Department has also argued in some cases that the foreign subsidiary of a US corporation, without regard to whether that company is an issuer of securities, is liable because the subsidiary has acted as its agent in a prohibited transaction. The parent company could defend itself by endeavoring to show it had no knowledge of the subsidiary's conduct and did not authorise or encourage it. However, the government often indicts both the parent and the subsidiary in these cases, and the parent company often settles to avoid the expense and potential risks of a finding of liability after a trial. There are somewhat unsettled questions under this law about whether a corporation that is state-owned should be treated as the equivalent of the government of the foreign country. This issue has arisen with respect to some of China's state-owned enterprises, so if the payment involved an effort to secure an IP transaction with such an entity, there would be unsettled legal issues about how the entity should be treated. Generally, the Justice Department has argued for expansive interpretations of this law.

4. Facilitation payments

The size of a payment made to someone in the United States of a 'facilitation' payment to perform an administrative duty does not immunise the payment from being regarded as a bribe under state or federal criminal laws, as discussed in response to Question 2. If the payment is made to a foreign official, there is a very narrow exception in the Foreign Corrupt Practices Act for small facilitation or "grease" payments: typically, small payments customarily made in the foreign country to a relatively low ranking official to speed up a visa application or to expedite Customs processing. The Justice Department has taken a very narrow view of this exception and extending it beyond these specific situations, so an attempt to claim that it is customary somewhere to make a small payment to an individual to expedite a registration of some IP right runs a high risk of being challenged.

5. Agents and employees

This would count if the company has authorised the conduct. Even if the conduct weren't authorised, if the company becomes aware of the conduct and it involves illegal activity, many US companies that are subject to Sarbanes-Oxley have to report the matter and take appropriate remedial action.



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