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The International Trade Discussion: A Multidisciplinary Approach – Part I

The Editor interviews Marian E. Ladner, Michael A. Levine and Elizabeth Ann Morgan, Epstein Becker & Green, P.C. Part II of this interview will appear in the December issue of The Metropolitan Corporate Counsel and Part III in January.

Editor: Would each of you tell our readers something about your professional experience?

Ladner: My background is in international trade law, in which I have an LL.M. I concentrate on compliance with U.S. import and export regulations and on establishing global compliance programs. I run the international trade law practice group for Epstein Becker & Green. Prior to entering private practice, I was a senior attorney for U.S. Customs & Border Protection (U.S. Customs).

I came to EBG after meeting with Ron Green and learning that the firm – nationally known for its labor and employment and healthcare-life sciences practice – also possesses a strong background in international law. EBG was one of the original founders of the International Lawyers Network, which is in approximately 80 countries. I believed that that international focus would be a natural fit for the International Trade compliance practice.

Levine: I am the Chair of Epstein Becker & Green's Corporate Social Responsibility and Sustainability practice. Prior to joining Epstein Becker, I worked in that area and as an IP litigator at an IP boutique. I also have had prosecutorial experience at the Kings County District Attorneys Office.

The firm's strong client base of multinational corporations offered a tremendous platform for my practice, which is international in nature.



**Marian E.
Ladner**



**Michael A.
Levine**



**Elizabeth Ann
Morgan**

Morgan: I am an IP trial lawyer, and I have spent my entire career in intellectual property law, although I am board certified in business litigation and have done other types of litigation. For the past six years I have specialized in IP infringement, patent infringement, copyright infringement, trademark infringement and trade secrets.

I was a partner at Hunton & Williams until June of this year, when I came to Epstein Becker & Green to help the firm get a broad-based IP practice off the ground.

Editor: Please tell us about your practice and how it has evolved over the course of your career.

Ladner: For purposes of compliance, my practice has evolved from a U.S.-centric model to one that is global. Companies that do business around the world – which typically involves, although not exclusively, countries that are signatories to the World Trade Organization – must comply with a variety of trade laws. In terms of understanding how the system works, the starting point is the World Customs Organization and the rules it oversees. That is one of the primary foundations of my practice.

In addition, the U.S. government has ramped up its export controls. As our clients

move their products across our borders, there is an increasingly complex process they must go through in order to be compliant, particularly if those products are sensitive. At EBG, we take a great deal of pride in our ability to look at a transaction through the

totality of this process. We have the resources to ensure that all of the legal disciplines necessary for compliance are present, and the result is of great benefit to our clients.

Levine: Besides having commercial and IP litigation experience, I counsel corporations about how to implement Corporate Social Responsibility programs. With respect to the evolution of this practice, it has changed from initially having to make a business case for Corporate Social Responsibility, from trying to show the company *why* it should undertake these activities, to focusing on how to do it best, and how to maximize the business benefits that ensue from it. With so many companies engaged in global business, and with supply chains that span across the world, including in many less developed countries, this service to our clients has become increasingly important.

Morgan: My practice has involved copyrights, patents and trademarks from the beginning. Particularly as it involves counterfeiting, it has evolved into an international practice concerned with many of the policy issues that governments all across the world are implementing to try to stop the huge volume of counterfeit articles that travel in

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international commerce. If we are going to exercise any control whatsoever over this traffic, we must do so by working with the authorities in the countries where the counterfeit articles originate, rather than depend exclusively on Customs control at the point of final destination. Fortunately, in this age of globalization there seems to be increasing agreement on this point.

Through my work with the International Trademark Association and the Intellectual Property Owners Association, I have developed excellent working relationships with lawyers in many different countries, particularly in Latin America, Europe, and Asia. This has been of great value in dealing with local counsel on a variety of infringement issues and in guiding U.S. companies through the statutes and regulations that govern IP protection in different jurisdictions.

Editor: Each of you brings a very distinctive background and set of professional experiences to the issues you are called upon to handle together. You have developed a hypothetical case to illustrate how you bring your different perspectives together to attain the most beneficial result for the client, as follows:

Ultimate Factory (UF) was hired by the Greatest Agency of Global Sourcing (GAGS) the external sourcing agent for Supremo Brands (SB), a small toy and electronic games manufacturer in the United States with global aspirations and an upcoming initial public offering. UF is manufacturing SB's electronic game, "Zapped," which features a sophisticated remote control technology, which is a knock-off of a patented system. The game's exterior packaging bears prominent checkmark-like logos that rest on top of the words "Just Win It."

UF's workers work a hundred hours a week, or more in peak season, which lasts nine months each year. UF's workers' hours keep increasing because SB keeps changing its product designs and deadlines. UF has visible cracks in its walls and its foundation. UF's workers are migrants from remote provinces, but they are not paid the current minimum wage, or for the overtime hours they work.

UF also has been using a subcontractor, Uh My (UM), in Mongolia, to fill GAGS' orders on SB's behalf, and it followed all of UF's working practices. UF, however, did not indicate that UM actually made the Zapped units on the shipping documents or bills of lading that accompany them to SB's consolidation center in Toronto, from which they are shipped to a U.S. distribution center in Vidalia, Georgia. Finally, while many of the Zapped controllers malfunction, the problem is promptly resolved by T. Engineer, who is an Iranian national employed by SB,

who can fix anything because of his knowledge of sophisticated remote control systems. Mr. Engineer, however, is exhausted by his frequent trips from China, where he gives production line workers training and instructions on how to build the products, to Toronto and Vidalia.

Editor: Would each of you give us your particular focus on this?

Morgan: For starters, there are some global IP issues. The technology was patented, so there is a patent infringement issue. There is also a slogan that appears to be very close to a famous one used by the international athletic sportswear enterprise Nike. There is also a trade dress problem that arises from the product's packaging, which utilizes a checkmark very close to the Nike logo. Clearly there are some very serious IP concerns here, and, depending on the role that each company plays, issues of direct or at least contributory infringement liability as well.

The international aspect of this infringement triggers the possibility that the owner of the infringed patent and trademark may use a forum other than the U.S. federal court system. An alternative venue is available at the U.S. International Trade Commission in the form of a Section 377 proceeding to obtain an exclusion order to halt importation of the product. The ITC proceedings are very fast paced and require a defending company to get its ducks in a row quickly.

Levine: Focusing on the employment issues, SB is in the toy industry, and that entails a heightened sensitivity to CSR issues, or at least it should. Because its consumers are children, few other industry sectors are subject to greater scrutiny on child labor issues than the toy industry. Here, through a sourcing agent, toys are being produced for SB by a factory in apparent violation of local wage and hour laws, in addition to exceeding maximum overtime hour limits. There are related compensation issues. All of this adds up to a "sweatshop" image for this factory and the products made by it. The value of SB's brand and the trademarks associated with it, may be severely diminished by if there was a published report that SB's products for children were manufactured in a sweatshop.

It is critical that a company like SB develop adequate standards that notify its suppliers about its expectations concerning the conditions under which they are to be made. In addition, the extent to which SB's suppliers comply with those standards should be monitored on an ongoing basis, and steps should be taken to address any substandard conditions. Additionally, as a last resort, SB should be prepared to end its

business relationship with the supplier if it is unwilling, or fails, to respond adequately.

Editor: What about reputational risk?

Levine: For some companies, reputation – sometimes associated with a trademark – may be their greatest asset, their most valuable property. The expenditure of millions of dollars on promoting a product, and the values the company seeks to associate with it, may be undone in a single moment of bad publicity. And *that* may take years to overcome.

There is a practical side to this that cannot be forgotten in the attempt to be, and to appear, altruistic. Companies move operations to less developed countries because labor costs are low. Very often labor conditions in these places are less than ideal, whether because of weak legal codes, or weak law enforcement. It is important to recognize, and to take steps to minimize, the risks that come with conducting operations in such places. In such circumstances, it is the *company* – SB in our hypothetical – that must fill this vacuum. In light of the catastrophic injury to the company's reputation that might arise from the perception that it is taking advantage of a terrible labor environment, there are very practical reasons for the company to "do the right thing."

Ladner: SB, the importer of record, has liability on the inbound side. There is a marking issue: the country of origin for the products or the underlying documentation, is not properly marked or accurate. That points to a potential fraudulent situation.

On the IP side – the logo and tradenames issues – U.S. Customs might stop importation at the border and detain, even seize, the entire shipment. The sourcing agent, GAGS, is also mysterious. For whom is the agent working? Are they working as an agent of SB, as an independent contractor or as selling agent for UF? The duty liability and tax consequences for the product vary depending on the relationship. Invoicing issues also arise. One would assume that UM's price is lower than UF's, and then there is a price from UF to SB. Which is utilized on documentation for U.S. entry and for duties? And, indeed, what is the currency of the transaction? Perhaps there is a "first sale" opportunity – a way to lower duties due.

From an export perspective, the Iranian engineer may require a license prior to accessing the technology. Some of these very sophisticated toys may have components that may be used for illegal purposes. That will require a very careful analysis and forethought as to whether they are "dual use" or otherwise controlled.