

INTERNATIONAL LAW

Trade, IP issues can slip through practice-area gaps

Traditional law firm models must be recast to help clients avoid pitfalls in a global marketplace.

By James F. Chester

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IN BASEBALL, a “tweener” is a hit ball that falls between two or more fielders. For example, a ball might bloop just over the head of the second baseman, but drop in front of the center fielder. The trouble with tweeners is that it is difficult for fielders to reach a ball that is so far from their core area of protection. Furthermore, even if a player has the ability to catch the ball, he may hesitate, thinking that the ball will be caught by a teammate.

A tweener can also occur in the practice of law when legal issues overlap two or more distinct practice areas. The failure to appreciate the unique synergy created by the convergence of these areas of law can have substantial consequences. Moreover, even after one appreciates the existence of these overlapping issues, it is often difficult to spot them.

Like most businesses, the legal industry is marked by specialization. “Jack-of-all-trades” practitioners are rare in the modern American legal profession. Most attorneys gravitate toward a specific area of practice early in their careers, and most clients prefer to deal with practice-area specialists. In this traditional model, attorneys handle issues related to their special expertise, and assume that other attorneys are handling other issues depending on their own respective expertise.

The traditional law practice model produces acceptable results in most

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situations—except when an issue falls between two or more practice areas. The traditional model is not designed to address these situations, and potential liabilities and opportunities often fall through the cracks.

The convergence of intellectual property law and international trade law is a prime example of a legal industry tweener. IP law involves the protection of technology (e.g., patents and trade secrets), brands (e.g., trademarks) and artistic works (e.g., copyrights). International trade law involves the movement of goods and services across international borders. In theory, IP and international trade law have little to do with one another. In practice, however, they overlap in a number of significant ways.

Import/export issues

IP attorneys often are unaware of import/export issues. At the same time, most IP attorneys do not routinely discuss a company’s technology development activities with international trade attorneys. Similarly, international trade attorneys focus on the interpretation of trade laws, and are not called upon to draft IP license agreements.

Customs enforcement of IP rights, transfers of technology, IP license agreements and production assists are among the most common IP/international trade tweeners.

Although U.S. law affords numerous domestic protections to holders of IP rights, there is little the U.S. government can do to enforce these rights outside the United States. However, if infringing goods arrive at a U.S. port, the Bureau of Customs & Border Protection is empowered to take action.

To obtain protection, holders of registered IP rights must record their registrations with customs. As the goods enter the United States, customs will seize

allegedly infringing imports, and the importer is subject to customs penalties equal to the domestic resale value of the imported merchandise—even if the infringement is unintentional.

For a company whose goods have been seized based on alleged infringement, the problems presented by the overlap between IP and international trade are clear. Although the customs petition and appeal procedures are used to contest such enforcement actions, IP law must be effectively argued if the importer expects to prevail. Very few international trade attorneys have significant command of IP law to adequately defend an importer whose goods have been seized by customs for alleged IP violations. At the same time, most IP attorneys have no experience working with or fighting against customs.

Pitfalls to avoid

Transfers of U.S. technology abroad are controlled by U.S. export laws. Depending on the type of technology involved, where it is sent and who will be receiving it, the export shipment may require a license or may be prohibited altogether. Failure to comply with U.S. export laws can result in fines of up to \$1 million, and can include prison terms of up to 10 years for individual violators. In addition, companies can have their export privileges revoked, effectively quarantining them from the rest of the world.

Often, companies with multinational operations will send technical data and other technological materials overseas to subsidiaries, affiliates, suppliers or distributors. The transfer may not be part of a sale, but may merely be part of an internal research and development collaboration with affiliates located abroad. These data may be controlled and subject to a U.S.

export license and other export requirements. Physical shipment of CDs or disks is not necessary; downloading material from an Internet server or sending materials via e-mail can also constitute an export.

Additionally, exports of technology can occur without anything leaving the United States. In some cases, releasing technological data to a foreign national is deemed to be an export to that nonresident's home country. A Pakistani engineer working at a plant in Dallas may be party to such a deemed export by using a company's computer systems, or working with patented designs.

Deemed exports bring a third legal specialty into the tweener analysis: immigration. Thus, the deemed export rule also requires attorneys to know the immigration status of collaborators on technology development projects.

Licensing intellectual property abroad can also create potential pitfalls. Most customs duties are assessed based upon the value of imported merchandise. The higher the value, the greater the duties owed. Some, but not all, royalties paid for the license to use a patent, trademark or copyright must be included when calculating the duties owed by an importer.

Whether the license fees should be added will depend on how the license/royalty agreement itself is structured. Failure to spot this important issue can lead to incorrectly structured license agreements that can cost importers thousands of dollars in overpaid duties and fees, and can result in misstated values declared to customs, risking substantial penalties.

Finally, U.S. intellectual property used by foreign manufacturers can create problems for a company's import compliance. As defined in U.S. customs laws, "assists" are units of production provided either free or at a reduced price by a U.S. company to a foreign manufacturer. Once the finished goods are imported into the United States, the commercial invoice will often ignore the value of the assist since the foreign manufacturer didn't pay for it. Thus, the commercial invoice used to declare values to customs will understate the value of the imported goods (i.e., by the amount of the assist). Penalties for declaring incorrect values to customs can be as high as the

domestic resale value of the imported goods.

Examples of assists include parts and raw materials, molds and dies. However, certain IP assets sent to foreign manufacturers may constitute assists, including designs, schematics, special manufacturing processes and certain types of patents. Given the nature of IP assets, as opposed to more tangible assists such as parts and raw materials, IP assists are the most neglected type of assist, and thus create substantial hidden liabilities.

As the issues described above illustrate, there are several ways in which IP law and

Potential liabilities and opportunities fall through the cracks.

international trade law intersect. However, acknowledging this fact is only half the battle. Most traditional, full-service law firms, boutiques and corporate legal departments are not designed to spot issues that fall in between practice specialties. Like most attorneys themselves, legal businesses have compartmentalized their services into practice groups and departments, with little interaction between these groups.

Although some issues may be forwarded from one department to another, these issues must first be identified. The issue must then be handled by both departments, or by attorneys who are well-versed in each of the practices.

The most important mechanism for addressing these tweeners is through inter-departmental awareness and communication. The traditional compartmentalization model can enable law firms to deliver efficient legal services in most situations, but does not lend itself to identifying and addressing issues that fall between international trade and IP law.

To capitalize on the synergy between IP and international trade law, firms and legal departments should modify their business models to encourage more communication between attorneys responsible for international trade, IP and, to some extent, immigration. Moreover, attorneys themselves need to be more aware of the areas of

overlap between IP and international trade law so that they can spot the tweeners once they arise.

Cross-training, -thinking

Two measures that help foster more collaboration between international trade and IP practice groups are cross-training and cross-thinking.

Cross-training requires that specialists obtain relevant training outside their own practice specialty. An IP attorney should be encouraged to take continuing legal education courses on international trade and immigration each year, in addition to taking courses related to IP legal developments. This helps attorneys to spot key legal issues and identify hot topics in other practice areas.

Cross-thinking is a project management system designed to create more understanding and collaboration between attorneys in the international trade and IP practice groups. These attorneys should meet regularly to discuss key clients, new projects and developments in their respective specialties. This teaches attorneys to think about concepts, questions and issues from the perspectives of the other practice groups. For example, in preparing for a law firm meeting where an IP attorney expects to discuss a new patent matter, the attorney should discuss information such as whether the product will be sourced or sold overseas, or whether foreign nationals are involved in the development of the idea, for example.

The seemingly unrelated practice areas of IP and international trade law overlap in a number of ways, creating a synergy that attorneys and their clients ignore at their own peril. Traditional firm business models fail to address the issues that overlap these two practice areas. To catch these tweeners, attorneys must learn to think outside their own specialties, and must collaborate with their colleagues to ensure that no potential pitfalls or opportunities are overlooked.

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