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# Briefing the Foreign Client on Starting a Business in the United States

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# Briefing the Foreign Client on Starting a Business in the United States

by John L. Gornall\* and Phillip L. Wharton\*\*

## I. Introduction

United States businesses, which have never before seriously considered exportation or operations abroad, are today making decisions to expand their markets throughout the world. Foreign businessmen are also taking steps to obtain a share, or increase their current share, of the U.S. market either by export to the United States or by starting business operations within the United States. In the initial planning of his U.S. business operations, the foreign businessman will often request that a U.S. attorney brief him on those areas of U.S. law with which he should be concerned. This article provides the U.S. attorney asked to provide such a briefing with a starting point for his briefing preparation.<sup>1</sup>

The authors' experience indicates that when foreign corporations or individuals wish to establish business operations in the United States, they are usually initially concerned with the following major areas:

1. Immigration;
2. Limitations on and reporting of investment;
3. Taxation, including:
  - a) Federal income taxation,
  - b) State income, sales and franchise taxation,
  - c) Local property taxation,
  - d) Federal and state employment taxation, and
  - e) Restrictions and taxation on repatriation of profits;
4. Finance/Banking (including the use of industrial development bond financing);
5. Mechanics of incorporation;

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<sup>1</sup> For a useful overview of U.S. law as it relates to a foreign individual or corporation doing business in the United States *see generally*, COMMITTEE TO STUDY FOREIGN INVESTMENT IN THE UNITED STATES, SECTION OF CORPORATION, BANKING AND BUSINESS LAW, ABA, A GUIDE TO FOREIGN INVESTMENT UNDER UNITED STATES LAW (1979); J. FORRY, A PRACTICAL GUIDE TO FOREIGN INVESTMENT IN THE UNITED STATES (1979); J. SPIRES, DOING BUSINESS IN THE UNITED STATES (1978 as supplemented).

6. Labor law;
7. Protection of intellectual property; and
8. Products liability and insurance.

This article furnishes an outline of how each of these topics should be presented in briefing the foreign corporate or individual client wishing to establish a business in the United States. The intent of this article is not to provide an in depth treatment of U.S. law relating to the topics covered. That should not be the intent of a U.S. attorney briefing a foreign client, either. On the contrary, a U.S. attorney briefing a foreign client should ensure that the foreign client understands that the briefing is just that; in other words, that it is a generalization fraught with the usual problems inherent in any such treatment of a legal topic. The briefing is intended to give the foreign client only a general overview of relevant U.S. law.

## II. Immigration

Immigration should be among the first considerations of an individual or company desiring to establish a business in the United States.<sup>2</sup> Even if the foreign businessman does not intend to immigrate to the United States, almost certainly one or more of the non-United States employees of his business will be needed in his United States business operation either on a temporary or permanent basis. The proper visas must be obtained in either case.

United States immigration laws are directed toward two basic objectives: the protection of the United States labor force and the reunification of families. In the United States, immigration law is regulated and administered by federal agencies. The federal agencies involved with immigration are the Department of State, through consulates and embassies, the Department of Justice, through the Immigration and Naturalization Service (INS), and the Department of Labor.<sup>3</sup>

Aliens coming to the United States are classified under two basic categories: nonimmigrants and immigrants. The first group, nonimmigrants, consists of persons who come to the United States for a temporary visit only. The second group, immigrants, consists of persons who come to the United States to reside permanently. Generally, the spouse and unmarried minor children of the principal alien who has obtained a visa are automatically eligible for derivative visas, whether temporary or permanent, to allow them to accompany their sponsor.

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<sup>2</sup> For an excellent multi-volume comprehensive treatise on immigration *see* C. GORDON & H. ROSENFELD, *IMMIGRATION LAW AND PROCEDURE* (rev. ed. 1980). For a quick-reference, less detailed treatment *see* NATIONAL LAWYERS GUILD, *IMMIGRATION LAW AND DEFENSE* (2d ed. 1980).

<sup>3</sup> 8 U.S.C. §§ 1103, 1104, 1182(a)(14) (1976 & Supp. III 1979). Regulations promulgated by the Immigration and Naturalization Service are found in 8 C.F.R. §§ 1-499 (1980); by the Department of Labor in 20 C.F.R. §§ 655-656 (1980); by the Department of State in 22 C.F.R. §§ 41-42, 46, 50-53 (1980).

### A. *Nonimmigrant (Temporary) Visas*

There are twelve basic types, or classes, of nonimmigrant (temporary) visas.<sup>4</sup> Generally, to obtain a nonimmigrant visa the alien must satisfy the consular officer or immigration official that he or she intends to depart the United States at the expiration of his or her authorized temporary stay.<sup>5</sup> Of the twelve basic nonimmigrant visa classifications, those most often utilized by foreign companies establishing operations in the United States are as follows.

#### (1) *Temporary Business Visitor*

The Temporary Business Visitor, or "B-1", visa is available to aliens coming to the United States to conduct brief, limited business activity. This may include scouting for investment opportunities, conferring with business associates, and attending meetings.<sup>6</sup> A B-1 nonimmigrant may not receive United States source income other than reimbursement for expenses incidental to his or her travel and stay in the United States.<sup>7</sup> Generally, a Temporary Business Visitor is initially admitted for a period not exceeding six months and may extend his B-1 visa for an additional six months.<sup>8</sup> Under reciprocal agreements between the United States and Canada, Canadian nationals may come to the United States for brief business visits without a visa; however, they are considered to be in B-1 status and are subject to the restrictions of the B-1 visa.<sup>9</sup>

#### (2) *Treaty Trader—Treaty Investor*

Treaty Trader (E-1)<sup>10</sup> and Treaty Investor (E-2)<sup>11</sup> visas are available to aliens entitled to enter the United States pursuant to a treaty of commerce and navigation between the United States and the foreign state of which the alien is a national. The Treaty Trader must be coming to the United States "solely to carry on substantial trade, principally between the United States and the foreign state of which he is a national."<sup>12</sup> The Treaty Investor must be coming to the United States to develop and direct operations of an enterprise in which he or she has made, or is in the process of making, a substantial investment.<sup>13</sup> The Treaty Investor, like the Treaty Trader, may rely entirely on a personal investment, or may be employed by a foreign individual or corporation

<sup>4</sup> 8 U.S.C. § 1101(a)(15) (1976).

<sup>5</sup> *Id.*

<sup>6</sup> 8 U.S.C. § 1101(a)(15)(B) (1976); 22 C.F.R. § 41.25(a), (b) (1980).

<sup>7</sup> 9 DEP'T OF STATE, FOREIGN AFFAIRS MANUAL § 41.25, n.4.2(b) (1980) *reprinted in* 6 C. GORDON & H. ROSENFIELD *supra*, note 2.

<sup>8</sup> 8 C.F.R. § 214.2(b) (1980).

<sup>9</sup> *Id.* § 212.1(a).

<sup>10</sup> 8 U.S.C. § 1101(a)(15)(E)(i) (1976); 22 C.F.R. § 41.40 (1980).

<sup>11</sup> 8 U.S.C. § 1101(a)(15)(E)(ii) (1976); 22 C.F.R. § 41.41 (1980).

<sup>12</sup> *See* note 10 *supra*.

<sup>13</sup> *See* note 11 *supra*.

that qualifies as a Treaty Investor or Treaty Trader.<sup>14</sup> E visas entitle the holder to an initial stay of one year and may be renewed indefinitely in one-year increments.<sup>15</sup>

### (3) *Intra-Company Transferee*

Intra-Company Transferee, or "L-1", visas are available to persons who transfer to a United States office, subsidiary, or affiliate of their foreign employer, to assume executive or managerial positions or positions requiring specialized knowledge.<sup>16</sup> L-1 visas are issued for an initial period of up to one year, and may be extended in one-year increments up to an aggregate of three years.<sup>17</sup> Having an L-1 visa may also enable the holder to avoid the labor certification process<sup>18</sup> should the holder desire to adjust his or her status to permanent resident.<sup>19</sup> Avoiding the labor certification process nearly always results in a considerable savings of time and effort.

### (4) *Temporary Worker or Trainee*

The alien who wishes to come to the United States temporarily to perform services or receive training, may wish to obtain a Temporary Worker, Trainee, or "H" visa. There are three types of H visas: the H-1 visa, the H-2 visa, and the H-3 visa.<sup>20</sup> The H-1 visa is available to aliens of distinguished merit and ability in the arts and sciences, who are coming to the United States to perform services of an exceptional nature requiring such special ability.<sup>21</sup> Members of the professions (physicians, architects, lawyers, engineers, etc.) qualify for the H-1 visa.<sup>22</sup> The H-2 visa is available to aliens, other than medical school graduates, coming to the United States to perform temporary services for which there are no available United States workers.<sup>23</sup> The service to be rendered must itself be temporary in nature, and the alien must obtain an abridged form of labor certification from the Department of Labor. The H-3 visa is available to aliens coming to the United States temporarily to receive training.<sup>24</sup> The employer petitioning for the H-3 visa must show that the company has a planned training program, and that the alien will not be

<sup>14</sup> 22 C.F.R. §§ 41.40, 41.41 (1980).

<sup>15</sup> 8 C.F.R. § 214.2(e) (1980).

<sup>16</sup> 8 U.S.C. § 1101(a)(15)(L) (1976); 22 C.F.R. § 41.67 (1980).

<sup>17</sup> 8 C.F.R. § 214.2(h)(11) (1980).

<sup>18</sup> See discussion *infra*, at notes 35-37, and accompanying text.

<sup>19</sup> 20 C.F.R. § 656.10(d)(1) (1980).

<sup>20</sup> 8 U.S.C. § 1101(a)(15)(H) (1976); 22 C.F.R. § 41.55 (1980).

<sup>21</sup> 8 U.S.C. § 1101(a)(15)(H)(i) (1976).

<sup>22</sup> *In re* Essex Cryogenics Indus., 14 I. & N. Dec. 196 (1972). A graduate of a medical school coming to the United States must have an invitation to teach or conduct research in order to qualify. 8 U.S.C. § 1101(a)(15)(H)(i) (1976).

<sup>23</sup> 8 U.S.C. § 1101(a)(15)(H)(ii) (1976).

<sup>24</sup> 8 U.S.C. § 1101(a)(15)(H)(iii) (1976). Aliens coming to the United States to receive graduate medical education or training do not qualify.

involved in actual production except that incidental to the training.<sup>25</sup>

### *B. Immigrant (Permanent Resident) Visas*

The alien desiring to reside permanently in the United States must qualify for an immigrant visa on the basis of either (1) a close family relationship to a United States citizen or a permanent resident alien, or (2) his or her profession or occupation. The availability of permanent visas is limited to 270,000 per fiscal year, worldwide.<sup>26</sup> Each independent country is allotted a maximum of 20,000 permanent visas annually, and each dependent state is allotted 600.<sup>27</sup> Within these general quantitative limitations, immigrant visas are allocated qualitatively under one of six "preference" categories.<sup>28</sup> Four preference categories are based on family relationships, and two on profession or occupation.<sup>29</sup> In the past, a catch-all category, sometimes called the "non-preference" category, was available when visas were not completely used up in the preceding categories. By 1977 the "non-preference" category was so backlogged that the category was closed.<sup>30</sup> Immigration authorities have stated that "it is not anticipated" that any permanent visas will be available in the "non-preference" category within the next four or five years.

The two preference categories based on profession or occupation are the third and sixth preference categories. The third preference is available to aliens who (1) are members of a "profession" as recognized by INS (physicians, architects, lawyers, engineers, accountants, teachers, etc.), and (2) have a permanent job offer in that profession.<sup>31</sup> Generally, the minimum requirement is a bachelor's degree in that profession, or its equivalent in work experience.<sup>32</sup> The sixth preference is available to skilled and unskilled workers coming to fill permanent jobs for which there are insufficient qualified, available United States workers.<sup>33</sup> The sixth preference alien must have a job offer.<sup>34</sup> The unavailability of qualified United States workers is determined through a process known as "labor certification."

### *C. Labor Certification*

Labor Certification is a statement from the U.S. Secretary of Labor certifying that there are insufficient qualified, available United States workers to fill certain jobs, and that employment of the alien in a specific

<sup>25</sup> *In re Int'l Transp. Corp.*, 12 I. & N. Dec. 389 (1967); 8 C.F.R. § 214.2(h)(4)(ii) (1980).

<sup>26</sup> 8 U.S.C. § 1151(a) (1976).

<sup>27</sup> *Id.* § 1152(a) & (c).

<sup>28</sup> *Id.* § 1153(a).

<sup>29</sup> *Id.*

<sup>30</sup> 8 U.S.C. § 1153(a)(7) (Supp. III 1979) (current version at 8 U.S.C.A. § 1153(a)(7) (West Cum. Supp. 1981)).

<sup>31</sup> 8 U.S.C. § 1153(a)(3) (Supp. III 1979).

<sup>32</sup> *In re Bienkowski*, 12 I. & N. Dec. 17 (1966).

<sup>33</sup> 8 U.S.C. § 1153(a)(6) (1976).

<sup>34</sup> 22 C.F.R. § 42.35 (1980).

job will not adversely affect the wages or working conditions of United States workers similarly employed.<sup>35</sup> The labor certification process involves active recruiting efforts on the part of the employer. Those efforts include placing advertisements in newspapers and trade journals and posting a notice on the company premises in an attempt to find a United States worker to fill the job.<sup>36</sup> Labor certification is required to obtain visas under the Third and Sixth Preference categories, and, in an abridged version, to obtain an H-2 visa.<sup>37</sup>

#### *D. Adjustment of Status*

An alien already in the United States on a nonimmigrant visa may seek to change his or her status to permanent resident through a process called "adjustment of status."<sup>38</sup> The process for adjusting status to permanent resident once in the United States is essentially the same as the process for obtaining a permanent visa through a United States Consulate outside the United States. Where required, labor certification must be obtained, and classification under a preference category must be sought. The adjustment of status process was instituted to alleviate the undue expense and inconvenience of returning to the home country to apply for a permanent visa. In order to avail himself or herself of this benefit, the alien must not have engaged in unauthorized employment prior to filing an application for adjustment of status.<sup>39</sup> This statute applies to employment engaged in since January 1, 1977.<sup>40</sup>

#### *E. Summary*

The foreign individual or company interested in establishing a business in the United States should consider United States immigration requirements early in his or its business planning. Careful assessment of travel and personnel needs will best assure the smooth establishment or transfer of business activity to the United States.

### **III. Limitations on Ownership and Mandatory Reporting of Investment**

Foreign companies and individual investors are frequently concerned with existing and proposed limitations on, and required disclosure of, foreign ownership of United States real property and shares of United States corporations. Several states have limitations of some form with respect to foreign ownership of real property.<sup>41</sup> No state restricts the

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<sup>35</sup> 8 U.S.C. § 1182(a)(14) (1976); 20 C.F.R. § 656.2(e) (1980).

<sup>36</sup> 20 C.F.R. § 656.21(b)(1) (1980).

<sup>37</sup> 8 U.S.C. § 1182(a)(14) (1976); 8 C.F.R. § 214.2(h)(3) (1980).

<sup>38</sup> 8 U.S.C. § 1255 (1976); 8 C.F.R. 245 (1980).

<sup>39</sup> 8 U.S.C. § 1255(c) (1976).

<sup>40</sup> 8 C.F.R. § 245.1(a) (1980).

<sup>41</sup> The limitations normally deal with agricultural land or real property in excess of a certain amount. In addition, some states require disclosure of foreign ownership of such prop-

ownership of shares of corporations formed in that state, however.<sup>42</sup> With respect to limitations on the foreign ownership of real property, most of the limitations do not affect property acquired for industrial development. The United States attorney should be aware that such restrictions are not unconstitutional and recent court decisions have confirmed that most United States Friendship, Commerce and Navigation Treaties do not guarantee the rights of foreign nationals to own real estate located in the United States.<sup>43</sup> The United States attorney should carefully review the laws of the relevant state or states to ensure that he adequately informs the foreign client as to the existence of any such state restrictions.

Although there are no general federal limitations on the ownership of land or property in the United States, certain federal level mandatory reporting requirements exist for foreign direct investment. These reporting requirements are of critical importance to the foreign client.<sup>44</sup> The two major reporting schemes currently in effect are those mandated by the Agricultural Foreign Investment Disclosure Act of 1978 (AFIDA)<sup>45</sup> and the International Investment Survey Act of 1976 (IISA)<sup>46</sup> along with the regulations promulgated under these acts.<sup>47</sup> Responsibility for implementation of AFIDA lies with the Department of Agriculture's Agricultural Stabilization and Conservation Service (ASCS). Responsibility for implementation of the parts of IISA relating to direct foreign investment, as opposed to portfolio investment, lies with the Commerce Department's Bureau of Economic Analysis (BEA).

An additional reporting scheme, relating to disclosure and taxation of foreign persons holding interests in United States real estate, the Foreign Investment in Real Property Tax Act of 1980,<sup>48</sup> was enacted at the end of President Carter's term in office. The act applies to interests in United States real property held on or after June 18, 1980. It requires that certain annual information returns be filed by foreign persons holding such interests in U.S. real property whether the interest is held directly or indirectly through a real property holding structure.<sup>49</sup>

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erty. See BRODKEY, FOREIGN INVESTMENT IN U.S. REAL ESTATE: THE ROLE OF STATE RESTRICTIONS IN STRUCTURING THE TRANSACTIONS, (Sept. 1978 & Supp. Nov. 1979) (published by Chicago Title Insurance Co.); J. FORRY, A PRACTICAL GUIDE TO FOREIGN INVESTMENT IN THE UNITED STATES 71 (1979). Aburtyrn, *Investment in United States Real Estate by Nonresident Alien Individuals and Foreign Corporations*, 77-9 TAX MANAGEMENT INT'L J. 9 (1977).

<sup>42</sup> Some states have laws restricting the ownership of agricultural property by any corporation which engaged in substantial nonagricultural activities or which is held by a large number of shareholders.

<sup>43</sup> *Lehndroff Geneva, Inc. v. Warren*, 74 Wis. 2d 369, 246 N.W.2d 815 (1976).

<sup>44</sup> See generally Reiner, *Survey of Selected U.S. Reporting Requirements of International Operations*, 80-7 TAX MANAGEMENT INT'L J. 3 (1980).

<sup>45</sup> 7 U.S.C. §§ 3501-3508 (Supp. III 1979).

<sup>46</sup> 22 U.S.C. §§ 3101-3108 (1976 & Supp. III 1979).

<sup>47</sup> 7 C.F.R. § 781 (1980) (AFIDA); 15 C.F.R. § 806 (1980) (IISA).

<sup>48</sup> Foreign Investment in Real Property Tax Act of 1980, Pub. L. No. 96-499, §§ 1121-1124, 94 Stat. 2682 (1980) (to be codified in scattered sections of 26 U.S.C.).

<sup>49</sup> *Id.* § 1123 (to be codified at I.R.C. § 6039c).



### A. AFIDA Reporting

The primary purpose of AFIDA is the disclosure of foreign ownership of United States agricultural land. An ASCS-153 report must be filed whenever a foreign person, including United States corporations in which more than five percent of the stock is held by foreign individuals or legal entities, acquires or transfers an interest, other than a security interest, in agricultural land.<sup>50</sup> Such reports must be filed within ninety days of the acquisition or transfer with the ASCS office in the county in which the acquired or transferred land is located.<sup>51</sup> Agricultural land includes land which is used for agricultural, forestry or timber production purposes or, if idle at the time of acquisition or transfer, has been so used within a five-year period prior to the acquisition or transfer.<sup>52</sup> AFIDA obviously is relevant when a foreign businessman is purchasing a farm which will be operated as a farm. The United States attorney should bear in mind, however, that AFIDA is also relevant when the foreign client is contemplating the purchase of a large industrial site which is within the definition of agricultural land. Under AFIDA, no foreign person investing in United States agricultural land is exempt from reporting. However, there is a *de minimus* exemption for tracts of land acquired or transferred which do not exceed one acre in the aggregate.<sup>53</sup>

If the acquiring or transferring entity is a corporation, the identities of the shareholders of that corporation must be revealed on the report form.<sup>54</sup> Moreover, if the shareholders so disclosed are also corporations, the Department of Agriculture, at its option, may require that the identities of the shareholders of such corporations be revealed.<sup>55</sup> This third tier disclosure is the extent to which the Department of Agriculture may require disclosure pursuant to AFIDA.

Under AFIDA, the Department of Agriculture is authorized to levy penalties for failure to comply with the Act, even in the case of inadvertent late filing.<sup>56</sup> Pursuant to AFIDA regulations, such penalties for inadvertent late filing may be assessed in amounts up to a maximum of one-tenth of one percent of the fair market value of the land acquired or transferred for each week beyond the ninety-day deadline that the required report has not been filed.<sup>57</sup> Such penalties are rarely assessed at the maximum amount, but a substantial penalty is almost always assessed, even for seemingly small infractions. The penalty for willful failure to file is up to twenty-five percent of the fair market value of the land

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<sup>50</sup> 7 C.F.R. §§ 781.1, 781.2(1) (1980).

<sup>51</sup> 7 C.F.R. §§ 781.3(a), (c) (1980).

<sup>52</sup> 7 C.F.R. § 781.2(b) (1980).

<sup>53</sup> *Id.*

<sup>54</sup> 7 C.F.R. § 781.3(f)(1) (1980).

<sup>55</sup> *Id.* § 781.3(f)(2).

<sup>56</sup> 45 Fed. Reg. 7,775-76 (1980) (to be codified in 7 C.F.R. §§ 781.4, 781.5).

<sup>57</sup> *Id.*

acquired or transferred.<sup>58</sup>

### *B. IISA Reporting*

The purpose of the portion of IISA relating to direct reverse investment, investment in the United States by foreigners, is to provide the BEA with sufficient information regarding the nature of direct investment in the United States by foreign persons to enable the BEA to publish statistical analyses regarding such investment. Thus, while certain disclosures are inherent in the IISA reporting scheme, the focus of the BEA program has been and continues to be the acquisition of statistically relevant information.<sup>59</sup> Pursuant to IISA, reports generally must be filed with BEA whenever a foreign person or the United States affiliate of a foreign person directly or indirectly acquires a ten percent or greater voting interest in a United States business enterprise.<sup>60</sup> A United States business enterprise includes any organization, association, branch or venture which exists for profit-making purposes or to otherwise secure economic advantage. In order to ensure that real estate investment information is gathered, the IISA regulations define "business enterprise" to include United States real estate ownership.<sup>61</sup> Forms BE-13A and 13B must be filed with the BEA within forty-five days of the occurrence of the reported investment transaction.<sup>62</sup> If the investment is in an enterprise of significant size, then the newly affiliated United States business enterprise may be required to file quarterly reports regarding transactions with its foreign parent on forms BE-605 or 606<sup>63</sup> and annual update reports on form BE-15.<sup>64</sup>

Total exemptions from reporting under IISA exist when the United States business enterprise acquired is a residence acquired for the personal use of the investor, or the United States business enterprise acquired is purchased for less than \$500,000 and is merged into the operations of an existing United States affiliate of the foreign investor.<sup>65</sup> Reduced reporting is allowed when the "United States business enterprise" is acquired for a purchase price of less than \$500,000 and includes less than 200 acres of real estate.<sup>66</sup> It should be noted that if the "United States business enterprise" includes 200 or more acres of land, there is no

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<sup>58</sup> *Id.*

<sup>59</sup> H.R. REP. NO. 1490, 94th Cong., 2d Sess. 3 (1976), *reprinted in* [1976] U.S. CODE CONG. & AD. NEWS 4663-65.

<sup>60</sup> 15 C.F.R. § 806.15(g)(3)(g)(A) (1980). *See* U.S. DEP'T OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS Forms 13A, 13B.

<sup>61</sup> As a drafting technique to ensure that investment by foreigners in U.S. real estate is reported, the IISA regulations define "business enterprise" to include U.S. real estate transactions. 15 C.F.R. § 806.15(g)(3) (1980). *See* U.S. DEP'T OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS Form 13A.

<sup>62</sup> U.S. DEP'T OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS Forms 13A, 13B.

<sup>63</sup> 15 C.F.R. § 806.15(e) (1980).

<sup>64</sup> *Id.* § 806.15(f).

<sup>65</sup> *Id.* § 806.15(g)(3).

<sup>66</sup> *Id.*

exemption from or reduction of the required reporting.<sup>67</sup>

Generally, the ultimate beneficial owner of the new United States direct investment must be reported to BEA on the initial report forms if there is not an exemption from reporting.<sup>68</sup> Complex investment structures to avoid such disclosure are normally to no avail. In keeping with the statistical focus of the BEA implementation of the IISA, however, BEA officials have indicated that under certain circumstances they will consider requests for anonymity if sufficient information is supplied for their statistical purposes. In other words, at a minimum the country of origin of the investment and like information must be disclosed.<sup>69</sup>

The BEA has a built-in policing mechanism in its reporting scheme. United States persons assisting or intervening in the foreign direct investment transaction are required to file what is essentially a short-form notice of the investment transaction on a form BE-14 if such United States persons do not file the BE-13A and/or BE-13B report forms on behalf of the foreign investor,<sup>70</sup> or have a good faith belief that the BE-13 report forms have been filed.<sup>71</sup>

The maximum authorized penalties for failure to report are a \$10,000 fine and, if such failure to report is willful, certain criminal sanctions including imprisonment.<sup>72</sup> However, the Commerce Department has not shown any disposition toward imposing penalties for late filing where such late filing was the result of inadvertence, and not the result of willful or grossly negligent conduct.<sup>73</sup>

#### IV. Taxation

Experience has indicated that the best way to respond to questions on taxation is to prepare an economic model of the balance sheet and income statement of the new business after its first year of operation and for all other years of operation for which tax information is desired. Any assumption should be clearly stated and, for simplicity's sake, the numbers chosen should be round numbers. All of the relevant taxes can then be calculated, with each calculation being explained in a detailed narrative. In this manner, foreign controllers and executives can be familiar-

<sup>67</sup> *Id.*

<sup>68</sup> U.S. DEP'T OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS Form 13B.

<sup>69</sup> Various telephone conversations with James L. Bomkamp at BEA. Under new regulations proposed by the Commerce Department, this policy would be formalized, at least with respect to individual foreign investors. 46 Fed. Reg. 7,214 (1981).

<sup>70</sup> 15 C.F.R. § 806.15(g)(4) (1980).

<sup>71</sup> Various telephone conversations with Joe Cherry at BEA.

<sup>72</sup> 15 C.F.R. § 806.6 (1980).

<sup>73</sup> For a more thorough discussion of AFIDA and IISA reporting, see generally Gornall, *Agricultural Foreign Investment Disclosure Act of 1978—The 1979 Final Regulations*, 79-10 TAX MANAGEMENT INT'L J. 3 (1979); Wharton, *1979 Department of Commerce Mandatory Reporting Requirements for Foreign Investors in the United States*, 79-12 TAX MANAGEMENT INT'L J. 34 (1979); Pedersen, *Reporting of Foreign Investment in U.S. Business—Commerce Department Requirements*, 80-8 TAX MANAGEMENT INT'L J. 11 (1980).

ized with United States taxing concepts as they apply to their proposed establishment in the United States.

### *A. Federal Income Taxation*

Most incoming companies have a basic understanding of federal corporate income taxation. However, calculation of federal income tax based on the model's assumptions allows the United States attorney to verify the foreign client's understanding.<sup>74</sup>

### *B. State Income, Franchise, and Sales Taxation*

With respect to state taxation, the following topics are of major interest to foreign companies:

1. Allocation formulas utilized by states for allocating corporate income for the purposes of the state's corporate income tax.
2. State Franchise Taxes.
3. State Sales Taxes and the problems with out-of-state sales.

The United States attorney should explain the relevant state corporate income tax formula and apply it to the model, calculating the tax based on the assumptions made, always showing each step in the calculation. For instance, the Georgia ratio is the sum of three fractions divided by three.<sup>75</sup> These include Georgia property compared to the total United States property, Georgia payroll compared to the total United States payroll, and Georgia gross receipts compared to the total gross receipts. These three fractions are divided by three to obtain the portion of the company's income attributable to the State of Georgia. In addition, the U.S. attorney should explain those activities which occasion income taxation in states other than the state in which the new facility is located and the types of formulas utilized by other states in apportioning corporate income.

To explain state franchise taxes, the U.S. attorney should refer to the company's model balance sheet. He should mention that the company may be subject to franchise taxes in each state in which it does business.

In explaining the sales tax, the U.S. attorney should cover the rate and its application to in-state and out-of-state sales. He should also point out that the company may be required to collect taxes for other states in which sales are made. Note that many states grant an exemption from sales taxes for productive machinery purchased for a new industrial facility or to expand an existing facility.<sup>76</sup> For obvious reasons, this exemption should be explained and, if relevant, the procedure for obtaining the exemption should be covered.

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<sup>74</sup> For a general treatment of U.S. taxation of foreign corporations or persons investing or doing business in the United States, see generally R. RHOADES, *INCOME TAXATION OF FOREIGN RELATED TRANSACTIONS* (1980).

<sup>75</sup> 91A GA. CODE ANN. § 3611(d)(2).

<sup>76</sup> 1 STATE AND LOCAL TAXES (P-H) Chart at ¶ 92,953.1.

### C. *Local Property Taxes*

In dealing with property taxes, assume in the model a geographic location which is in a certain municipality, county, and school district. If the foreign client has indicated a preferred location, assume that location in the model. Then set out the millage rates for each of the taxing authorities for that location. Describe the method of ascertaining fair market value and the percentage of fair market value which is subject to taxation. It should be noted that many incoming foreign companies view property taxes as the most oppressive of taxes because they bear no relationship to income. The tax may be particularly difficult during start-up years. Some states alleviate this problem somewhat by offering short-term exemptions from such taxes or deferral of such taxes.

Foreign companies are particularly interested in exemptions of inventories, finished goods, raw materials, and work in progress from such taxes. Many states have exemptions for such classes of property. Some of the exemptions depend upon duration of storage and/or out-of-state sale. If the relevant states have such exemptions, an explanation of the exemptions should be included in the model.

### D. *Federal and State Employment Taxation*

Generally, federal and state employment taxation can be covered in the model. Frequently, however, a foreign company sends technicians and managers to the United States for abbreviated periods of time to help in the start-up of a United States facility. Often, under the 90-day/\$3,000 provision found in the Internal Revenue Code<sup>77</sup> or the 183-day provision found in many tax treaties,<sup>78</sup> employees temporarily assigned to a United States facility can avoid *income* taxation in the United States. Unfortunately, the Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) do not contain correlative exemptions from these taxes.<sup>79</sup> Until very recently, the Internal Revenue Service did not ask a foreign employer whose technician was in the United States for a short period of time to pay such United States employment taxes. Recently, however, the Internal Revenue Service has begun to monitor such arrangements and to attempt to collect the tax. For example, if a foreign corporation applies for an L-1 visa to transfer one of its managers to a United States facility, it or its attorney or accountant receives the FICA and FUTA withholding and reporting forms with a request to state who is acting as the withholding agent.

In many instances foreign employers are faced with the situation of

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<sup>77</sup> I.R.C. § 864(b)(1).

<sup>78</sup> *E.g.*, Tax Treaty, Sept. 17, 1965, United States-Federal Republic of Germany, art. X, 16 U.S.T. 1875, T.I.A.S. No. 5920.

<sup>79</sup> See generally Gornall & Copenhaver, *A Practitioner's Guide to United States Employment Taxation of Nonresident Aliens Working in the United States*, 9 GA. J. INT'L & COMP. L. 21 (1979); Bissel, *International Aspects of the U.S. Social Security Tax*, 332 TAX MGMT PORTFOLIO (BNA).

paying employment taxes to both the United States and the home country for the same employee. To obviate these problems, the United States began to enter into a series of "Totalization Agreements." These agreements allow reciprocal credit to the employee for contributions made to either country's social security system and allow the employer and employee to pay tax to only one system. The United States has entered into such agreements with Italy,<sup>80</sup> Germany,<sup>81</sup> and Switzerland.<sup>82</sup> As of the time this article went to press, an agreement was under discussion with the United Kingdom.<sup>83</sup> Upon request, the Department of Health and Human Services will provide information on these programs.

### *E. Repatriation of Profits—Restrictions/Taxation*

The United States does not presently have any restrictions on the repatriation of profits. It is important for an incoming business to determine whether it wishes to repatriate profits, and to examine the tax costs of doing so in various forms. Repatriation of profits of corporations is normally done in the form of a dividend. Dividend withholding rates between countries are frequently quite high. For example, the United States has a withholding rate of thirty percent on interest, royalty, and dividend income.<sup>84</sup> By setting up a multi-tiered corporate structure with corporations in various countries, a multinational corporation can frequently reduce the amount of withholding tax due by virtue of provisions of the tax treaties between each of the countries in which subsidiary corporations are domiciled.<sup>85</sup>

## **V. Financing/Banking**

The authors' experience indicates that in briefing incoming foreign corporate clients the U.S. attorney should emphasize several items with respect to U.S. finance and banking practices. First, U.S. commercial banks are not in the long-term lending business; in other words, they are not in the business of loaning money for land, buildings, and machinery on a long-term basis. Because some foreign banks are fully integrated as to these activities, the foreign client is often confused and ends up speaking to the wrong institutions for this type of financing. A commercial bank is a good place to start; however, the client should be aware that

<sup>80</sup> Agreement on Social Security, May 23, 1973, United States-Italy, 29 U.S.T. 4263, T.I.A.S. No. 9058.

<sup>81</sup> Agreement on Social Security, Jan. 7, 1976, United States-Federal Republic of Germany, 30 U.S.T. 6099, T.I.A.S. No. 9542 (entered into force Dec. 1, 1979).

<sup>82</sup> Agreement on Social Security, July 18, 1979, United States-Switzerland, — U.S.T. —, T.I.A.S. No. 9830, (entered into force November 1, 1980).

<sup>83</sup> Bissel, *International Aspects of the U.S. Social Security Tax*, 332 TAX MGM'T PORTFOLIO (BNA) A-53 (Supp. C & A-2, 4-6-81).

<sup>84</sup> I.R.C. §§ 871, 881, 882.

<sup>85</sup> See generally W. DIAMOND & D. DIAMOND, *TAX HAVENS OF THE WORLD* (1981), and D. DIAMOND, *FOREIGN TAX AND TRADE BRIEFS, INTERNATIONAL WITHHOLDING TAX TREATY GUIDE* (1980).

the bank will seek to place the long-term industrial financing with traditional sources of such financing such as insurance companies. Nevertheless, a foreign company should bring the following to its initial meeting with a financial institution if it intends to discuss financing of its operations in the United States:

- (a) its last three years' financial statements;
- (b) an analysis of its previous year's sales in the United States; and
- (c) a full statement of its business plans for the United States.

In addition, possible use of industrial development bond financing should be discussed with the client, though such financing is available only to companies viewed as very good credit risks. The foreign corporate client should be made aware that industrial development bond financing is only a method of reducing the cost of financing. It is not a method whereby a community finances a plant and equipment for an incoming company. An institution or investor must purchase the bonds. In the following paragraphs a more detailed discussion of industrial development bond financing is presented because this topic is frequently of interest to the foreign client preparing to begin operations in the United States.

Recently, foreign companies have widely utilized Industrial Development Bond (IDB) financing to obtain funds for the construction or acquisition of industrial facilities. The attractiveness of IDB financing lies in the fact that the bondholder does not pay United States income tax on the interest received. For a person or financial institution in a relatively high tax bracket, this can result in considerable tax savings: therefore, the holder of the bonds is willing to accept a lower interest rate on this type of obligation. Typically, the rate for IDBs is one-half the prime interest rate plus  $\frac{3}{4}\%$  to  $1\frac{1}{2}\%$ .

The laws of both the individual states and the United States govern the issuance of IDBs. In general, state law governs the issuance and validity of the bonds and the purposes for which bond proceeds may be spent. In order for the bond interest to be tax-free, federal law must also be followed. Three categories of tax-exempt IDBs exist: a \$1,000,000 exempt small issue; a \$10,000,000 exempt small issue; and air and water pollution control facility issues.<sup>86</sup>

Some practical considerations should be kept in mind when dealing with bonds. First, once a company has decided to finance with IDBs it should obtain an "inducement resolution"<sup>87</sup> from the local development authority which will issue the bonds. This should be done prior to contracting for any of the project property or spending any money for such items. Second, the user of the facilities to be financed must usually find a

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<sup>86</sup> I.R.C. § 103(b)(6).

<sup>87</sup> An "inducement resolution" is a resolution passed by the local development authority (or its equivalent) adopting an agreement in principle for the issuance of bonds to finance a proposed manufacturing facility or other facility which will allow the use of the favorable internal revenue code provisions relating to industrial revenue bonds.

buyer for the bonds. The development authority does not perform this function. A common misconception of foreign clients is that they believe the locality is lending its credit to help finance the industrial facility, an action that can only be taken through the use of general obligation bonds. Third, the terms of the financing, including interest rate, maturity, and security, must be negotiated between the lender and the borrower/user.

There are three basic ways in which an IDB issue can be structured: by lease, by installment purchase, or by loan.<sup>88</sup> Under the lease procedure, the development authority owns the land, buildings and equipment, and other items of property to be financed with the bond issue. All of this property is then leased to the user at a rental rate sufficient to pay the principal and interest on the bonds as this principal and interest fall due during the term of the bond. At the end of the term of years of the lease, the authority is required to sell and convey all of the leased property to the user for a nominal sum.

Under the installment-purchase method the authority purchases the land, buildings, equipment, and other items to be financed by the bond, and then sells and conveys the project to the user. The user agrees to make installment payments equal to the amount necessary to pay the principal and interest on the bonds as they come due.

Under the loan method, the development authority lends the bond proceeds to the user for construction and equipping of the project. The user executes a note to the authority, which has installment payments equal to the amounts of principal and interest payments on the bonds as they come due.

It is important to remember that the tax-exempt status of IDB interest may be lost after the bonds are issued.<sup>89</sup> For the \$1,000,000 IDB issue the only loss of tax exemption will likely occur from expenditure of proceeds for unauthorized purposes. For example, if more than ten percent of the bond proceeds is used to pay costs other than for land and property subject to allowance for depreciation, tax-exempt status will be lost.<sup>90</sup>

Unfortunately, there are many ways in which the tax-exempt nature of IDB interest for issues over \$1,000,000 but less than \$10,000,000 can be lost. For issues in excess of \$1,000,000, federal tax law states that the face amount of the bond issue *plus* all "capital expenditures" of the user and any "related" party<sup>91</sup> must not exceed \$10,000,000 or the tax-free

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<sup>88</sup> See the relevant state enabling statute, e.g., 69 GA. CODE ANN. §§ 1501-1510 (1976 & Cum. Supp. 1980), since the available structures will be set out in such a statute.

<sup>89</sup> See I.R.C. § 103 and relevant state enabling statute.

<sup>90</sup> I.R.C. § 103(b)(6)(A)(ii); Treas. Reg. 1.103-10(b)(1)(ii).

<sup>91</sup> I.R.C. § 103(b)(6)(C). Related persons are members of the same group of controlled corporations—one corporation owns fifty percent of the voting stock of the other, or is standing in a fiduciary or similar relationship to one another.



treatment of the bond interest is lost.<sup>92</sup> The relevant area is the area covered by the jurisdiction of the issuing development authority and, in certain instances, contiguous jurisdictions.<sup>93</sup> The relevant period for this determination is a period beginning three years before and ending three years after issuance of the bonds. Thus, the user, in determining the amount of the bond issue, must carefully account for capital expenditures made in the development authority's area in the three years prior to the bond issue as well as projected capital expenditure needs over and above the amount of the bond issue for the ensuing three years. All costs which the user is permitted to capitalize under tax and accounting practices must be capitalized in determining the amount of capital expenditures.<sup>94</sup> A common method of avoiding the capital expenditure limitation is to utilize a true lease of certain property or equipment.

Occasionally, a company will utilize IDB financing even if in doing so it will exceed the \$10,000,000 limit and lose the tax-exempt status of the interest paid. The business will use this financing to place title to the property in a development authority, a public body. By placing title in a public development authority and maintaining only a leasehold interest of the property, it may frequently avoid local city and county ad valorem (property) taxes on the project until the bonds are retired and the project is conveyed from the development authority to the user.

Finally, it should be noted that the \$10,000,000 capital expenditure limit is increased to \$20,000,000 if an Urban Development Action Grant (UDAG) of any amount is obtained in connection with a project.<sup>95</sup> For example, if a UDAG grant of \$500,000 were obtained for construction of a \$19,000,000 project, the user would be permitted to finance the entire remainder of the project, \$18,500,000, with the IDBs carrying tax-free interest.

## VI. Incorporation

In the initial briefing with the client, the U.S. attorney may find it worthwhile to briefly describe the various legal forms of doing business in the United States, such as the sole proprietorship, partnership, limited partnership, branch, and United States corporation; frequently the most advantageous form of doing business will be through a U.S. corporation. If this is the case, the U.S. attorney will need to explain the mechanics of incorporation, and often, the mechanics of corporate governance. To answer questions relating to the mechanics of incorporating in the United States, it is very helpful to have a short description of the relevant state's corporation code to give to incoming foreign clients. This reference

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<sup>92</sup> I.R.C. §§ 103(b)(6)(D), (E), (F); Treas. Reg. 1.103-10(b)(2).

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> I.R.C. § 103(b)(6)(I).

should supplement the U.S. attorney's brief coverage of the necessary incorporation procedures.

If the U.S. attorney does cover all forms of doing business, he should bear in mind that the legal forms of doing business in other countries often do not directly correlate with U.S. forms of doing business. One particular point that often needs to be covered in the briefing, even if the attorney discusses only the corporate form of doing business, is the distinction between the European managing director and a U.S. director. The European corporation in some cases is run by a Managing Board made up of one or more Managing Directors. Unlike the standard U.S. bi-level corporate governance system, wherein a Board of Directors makes policy decisions which are implemented by a group of officers having control of the day-to-day management of the corporation, the European corporation with a Managing Board is frequently run entirely by that Managing Board. Its members are both officers and directors in their capacity as Managing Directors. In such a case, the Managing Board is directly responsible to the shareholders resulting in corporate governance by a single level management system.

## VII. U.S. Labor Law

Most incoming foreign clients wish to know if the state has a right-to-work law, the general level of unionization among industrial workers,<sup>96</sup> and the requirements of Equal Employment Opportunity Legislation,<sup>97</sup> wage and hour laws, and sex discrimination provisions.

In addition, clients should be informed that most states have a program whereby a state will, at its expense, train workers for incoming companies. An example of a state training program for incoming companies is the Georgia "Quick Start" program. Under this program the state trains workers to operate the machinery which is to be brought in by an incoming foreign manufacturer at no cost to the foreign manufacturer and without obligation on the part of the foreign manufacturer to hire such trained personnel. The training program is usually set up with the assistance of, or under the supervision of, personnel of the incoming foreign manufacturer and, for obvious reasons, is normally located in the area into which the manufacturer intends to come. If such a program is available for the incoming business, it should be explained in detail to the incoming companies.

## VIII. Protection of Intellectual Property

Many foreign corporations are familiar with a system of protection for intellectual property. Most developed foreign countries protect patents, copyrights, and trademarks. Many aspects of U.S. intellectual

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<sup>96</sup> This information is usually readily available from the U.S. attorney's state department of commerce or its equivalent.

<sup>97</sup> *Avigliano v. Sumitomo Shoji America, Inc.*, 638 F.2d 552 (2d Cir. 1981).

property law, however, are different from the norm outside the United States.<sup>98</sup>

### A. Patents

In working with a foreign company it is important to realize that a foreign patent can be helpful in obtaining a U.S. patent. Under Article IV of the International Convention for the Protection of Industrial Property (Paris Convention),<sup>99</sup> a foreign applicant for a U.S. patent may utilize the filing date of his original foreign patent as a priority date for his patent application for the same invention in the United States if his country is a signatory to the Paris Convention.<sup>100</sup> To obtain this priority date, however, the U.S. patent application must be filed within one year from the filing date of the initial foreign patent application.<sup>101</sup> In addition, under U.S. law, a U.S. patent cannot be obtained if (1) a foreign patent on the invention was obtained prior to the date of the application for a U.S. patent or (2) the foreign patent application was filed more than twelve months before filing an application in the United States.<sup>102</sup> These restrictions are not changed by the Paris Convention. For these reasons, it is important for foreign proprietors of technology to consider a United States patent program before the expiration of the year provided for in the Paris Convention. Protective filing in the United States may be a good idea even if there is no present intention to work the patent in the United States, because the United States has neither a compulsory licensing provision nor a tax for failure to work a patent.

In brief, the United States patent system differs from the systems of other countries in the following principal ways:

1. The United States has no annual patent "tax";
2. There is no U.S. compulsory licensing provision, except in matters involving national security, and the patent holder is not required to work the patent;
3. No U.S. patent protection exists for utility models which are not otherwise patentable inventions; and
4. Only "ornamental" designs are protected; what are commonly thought of as industrial designs are not generally protected.

Once having obtained a U.S. patent, a patent owner should not feel that the issuance of a U.S. patent means that he will be sure to obtain injunctive or pecuniary relief in the face of what appears to be infringement. A defendant in an infringement suit may raise any or all of several

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<sup>98</sup> See generally, 1 J. SPIRES, DOING BUSINESS IN THE UNITED STATES 10-1-1-10-172 (1978 and Supp. 1980), E. KINTNER & J. LAHR, AN INTELLECTUAL PROPERTY LAW PRIMER (1975). Note that the latter reference is not updated, so while it may provide good theoretical background in U.S. industrial property concepts, anyone using it should understand that certain points of law may have changed subsequent to its publication.

<sup>99</sup> July 14, 1967, 21 U.S.T. 1583, T.I.A.S. No. 6923.

<sup>100</sup> 35 U.S.C. § 119 (1976).

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

defenses.<sup>103</sup> Among the defenses, he may show that the patent is invalid, even if he is a licensee being sued by his licensor, or that the patent owner has issued his patent in violation of the antitrust laws. Thus, a patent owner should ensure that he has a solid basis for his lawsuit before attacking any alleged infringers. He should be made aware of the fact that patents are upheld as valid in only about half of the patent infringement cases. In other words, the fact that the United States Patent Office issued the patent does not mean that the courts will agree that the patent is valid.

### *B. Trade Secrets*

Foreign clients may not be familiar with the U.S. common law concepts relating to trade secrets. Trade secrets are normally protected under the common law theory of unfair competition. In addition, some states treat theft of a trade secret as a criminal offense.

Because trade secret protection is provided by common law, the foreign client will have to be briefed on the laws of the state or states in which his business is to operate. In general, however, in comparing the use of trade secrets with patents for foreign clients, it is important to stress the fact that maintaining industrial information as a trade secret is not a protection against the use of similar information independently developed by other parties. In addition, the foreign client must understand that if information is wrongfully divulged to numerous parties, under the laws of most states it will lose its status as a trade secret and thereby lose its protection. The foreign client may be left with a damage claim against the wrongdoers; however, this claim may not be particularly helpful, because the secret itself has been lost.

Finally, the applicable state laws should be reviewed to see if there is a provision regarding industrial espionage. Some states treat industrial espionage as a criminal offense. If that is the case in a relevant state, the foreign client should be so informed, but cautioned not to expect to protect his trade secrets by virtue of the law, because misappropriation of trade secrets rarely rises to the level of industrial espionage.

The tension between trade secret law, which has developed as state law, and various overlapping federal laws, such as federal copyright laws which may protect trade secrets embodied in tangible form, should also be emphasized to the foreign client. For example, a federal court recently decided that if a trade secret falls within the ambit of the federal copyright law, state common law regarding trade secrets is pre-empted and thus cannot be applied.<sup>104</sup>

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<sup>103</sup> 35 U.S.C. § 282 (1976).

<sup>104</sup> *Avco Corp. v. Precision Air Parts, Inc.*, (M.D. Ala. 1980), [1981] 2 COPYRIGHT L. REP. (CCH) ¶ 25,207.

### C. Copyrights

In the copyright area, it is important to make the foreign client aware that federal copyright law preempts state law on the matter.<sup>105</sup> Foreign authors may satisfy the notice requirement contained in the federal copyright statute by utilizing the notice format specified in the Universal Copyright Convention.<sup>106</sup> U.S. copyright protection is available for the published works of non-United States authors only if the author is a national or domiciliary of a country party to a copyright treaty with the United States, or the work was first published in the United States, or a nation party to the Universal Copyright Convention on the date of publication.<sup>107</sup>

An important distinction which must be drawn for foreign clients is that copyrighting a photograph or drawing does not protect the article depicted therein. Copyright protects only against the slavish reproduction of the photograph or drawing.

### D. Trade Names and Trademarks

Trade names and trademarks are constant sources of confusion for foreign clients. The following is a summary of U.S. law relating to trade names and trademark protection which the author has found useful in clarifying the U.S. law relating to this area in the mind of the foreign client.<sup>108</sup>

Briefly, trade names and trademarks are indicators of source. They assist a customer or buyer in distinguishing between one business and another business, and between one product or service and another product or service. The distinction between a trade name and a trademark, as the terms are used in the United States, is fairly clear; however, there is some overlap between the terms. A trade name is commonly a company name or a corporate name used to identify the business, vocation, or occupation of that company. For example, "General Motors" is the well-known trade name of the corporation, General Motors Corporation, which manufactures and sells automobiles. In contrast, a trademark is any word, name, symbol, or device, or a combination of these, adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others. For example, the automobiles manufactured and sold by General Motors Corporation and its subsidiaries bear varying trademarks such as "Chevrolet," "Buick," and "Pontiac." Thus, while the trade name describes the entire business,

<sup>105</sup> *Id.* See also 17 U.S.C. § 301(a) (Supp. III 1979). For a detailed treatment of copyright law see M. NIMMER, NIMMER ON COPYRIGHT (1963).

<sup>106</sup> Universal Copyright Convention as Revised, July 24, 1971, art. III(1), 25 U.S.T. 1341, T.I.A.S. No. 7868.

<sup>107</sup> 17 U.S.C. § 104 (Supp. III 1979).

<sup>108</sup> See generally, E. VANDENBURGH, TRADEMARK LAW AND PROCEDURE (2d ed. 1968 as supplemented).

the trademark is used to identify the origin of a particular product. Occasionally, a trade name also serves as a trademark, as in the case of Chrysler Corporation selling "Chrysler" trademarked automobiles or Coca-Cola Company selling "Coca-Cola" trademarked soft drink products.

In the United States, rights in trade names and trademarks arise at common law by the use of such names or marks in connection with a business or goods over a period of time. The fact that such rights arise independently of registration of the name or mark should be emphasized to the foreign client. The dual policy underlying the recognition of common law rights in a name or mark is (1) a desire to protect the buying public by ensuring that they have a reliable means of identifying goods from a particular source and to prevent deception or confusion, and (2) a desire to safeguard the goodwill created by a proprietor through his use of a name or mark in connection with his business or goods over a period of time. Common law rights in a name or mark are normally limited (1) to the geographic market area of the owner of the name or mark, and (2) to the type of business or type of goods in connection with which the owner has used the name or mark, because no extension of the protection of such rights is necessary to accommodate the policy of preventing deception or confusion of the public.

Under both federal<sup>109</sup> and state law, the common law owner of an unregistered trademark will be protected from the use of a confusingly similar mark by another person. Additional protection for trademarks is obtained through registration at the state and federal levels. It should be emphasized, however, that common law rights are in no way dependent on registration. Further, note that usually no additional protection is afforded trade names by registration. For instance, reserving a corporate name with a state Secretary of State normally does not prevent the assertion of common law rights in that name by a prior user of the reserved name or a similar name.<sup>110</sup> Moreover, although many states require the registration of a "trade name" if such name is different than one's corporate name, no proprietary rights are obtained by virtue of such registration.<sup>111</sup> Such registration is usually only intended to ensure that the principals in any business are identified on public record.

Registration of trademarks in most states is relatively simple and inexpensive. For example, in Georgia one merely completes the registration application form, in which the applicant must assert, in essence, that he is the common law owner of the mark, and submits it, along with a five dollar registration fee to the Georgia Secretary of State.<sup>112</sup> State

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<sup>109</sup> 15 U.S.C. § 1125(a) (1976).

<sup>110</sup> 22 GA. CODE ANN. § 301(b)(3) (1977).

<sup>111</sup> 106 GA. CODE ANN. § 301 (1977).

<sup>112</sup> 106 GA. CODE ANN. § 103 (1977).

registration normally affords the registered owner no rights in addition to those he would have at common law.

Registration at the federal level is more expensive and time-consuming than state level registration; however, federal registration is definitely worth the effort if extensive use of the trademark is foreseen. Under the U.S. trademark statute, an inter-state sale by the proprietor of the mark is required before federal registration is permitted.<sup>113</sup> However, a foreign business's exportation to and sale of goods in the United States is sufficient to qualify for federal registration. The owner of a federally registered trademark has considerable procedural and substantive advantages over the owner of a common law trademark in seeking to prevent infringement of his mark. For instance, the owner of a registered mark has the right to enjoin the use of that mark by subsequent users on products of the same type as his in any market in the entire United States into which he chooses to market his product rather than only in the particular geographic areas within the United States in which his goods bearing the mark were originally sold. Of particular importance to the foreign client is the fact that, in the proper circumstances, if the mark is registered at the federal level it can also be registered with the Treasury Department's customs officials. If the mark is so registered, the customs officials will impound merchandise of the same basic class upon which the registered mark has been falsely used as such merchandise enters the United States from other countries.<sup>114</sup> Thus, the customs officials will, in effect, police the infringement of the registered mark by foreign manufacturers or sellers.

Unlike the consequence of failure to file in a patent case, the failure to file a U.S. application to register a trademark previously registered abroad within the priority period provided by the Paris Convention does not usually bar subsequent U.S. registration. Generally, if the mark or a similar mark has not been registered by another party, and if it does not violate some public policy, the trademark will be registered in the United States. Further, while patents have validity for a fixed number of years, federal trademarks may be maintained indefinitely, provided they are renewed prior to the expiration of each successive twenty year registration term.<sup>115</sup>

## IX. Products Liability

Foreign clients are normally very concerned with potential products liability claims.<sup>116</sup> Horror stories about the frequency of claims and size

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<sup>113</sup> 15 U.S.C. §§ 1051, 1127 (1976).

<sup>114</sup> 15 U.S.C. § 1124 (Supp. III 1979); 19 U.S.C. § 1526 (Supp. III 1979); 19 C.F.R. §§ 133.21-24 (1980).

<sup>115</sup> 15 U.S.C. §§ 1058, 1059 (1976).

<sup>116</sup> See generally Prod. Liab. Rep. (CCH). See also for a comparative law products liability symposium, Sentell, *Strict Products Tort Liability in Georgia: Smudging a Clean Slate*, 8 GA. J. INT'L & COMP. L. 233 (1978).

of jury awards in the United States abound. In contrast to the U.S. law relating to products liability, the laws of many foreign countries do not recognize a strict liability theory. In fact, the laws of many countries limit liability to the contractual obligation contained in the warranties. No other theories for liability, such as defective or negligent design, or negligence in general, are permitted.

Considering the potentially broad liability under U.S. law, foreign companies frequently wish to obtain products liability insurance against their United States risks. However, the foreign businessman is usually shocked at the magnitude of the premium and the percentage or amount of the risk retained by the manufacturer under U.S. products liability insurance policies. In the initial briefing, the U.S. attorney should first give the foreign client a general description of the risks covered by products liability insurance policies. He should make sure that the client does not mistake coverage under its general liability policy for products liability coverage. Next, the U.S. attorney should make it clear that the policy will generally exclude coverage of business risks. In other words, products liability coverage insures merely against noncontractual liability resulting from physical damage or injury. Neither contractual nor consequential damages are covered. Further, the U.S. attorney should explain the difference between "claims made" and "occurrence" policies. A "claims made" policy is one which covers claims actually made against the insured during the term of the policy. An "occurrence" policy covers claims which are made based on an occurrence (accident, etc.) during the term of the policy. He should also point out the availability of vendors' endorsements to cover U.S. distributors and dealers. A "vendors' endorsement" is an endorsement to an insurance policy which insures the vendor in addition to the manufacturer. Without such an endorsement, the insurance might cover claims made against the manufacturer, but would not cover the same claims against the distributor or sales representative of the manufacturer.

Perhaps the most helpful advice one can give foreign companies concerned with products liability coverage in the United States is to utilize their foreign insurance company to obtain such coverage. The foreign insurance company, being familiar with the foreign company and hopefully having a substantial economic stake in its insurance business, can utilize its bargaining position with its United States correspondent insurance company to obtain products liability coverage and to reduce the rate for such products liability coverage. Often, the United States insurance company will insure the United States risk with reinsurance by the foreign insurance company.

It should be noted that the authors have had considerable difficulty explaining to foreign manufacturers that they will be subject to suit in the United States, even if the manufacturers are selling in the United States through distributors and in fact have no office or establishment in



the United States. In such a situation, a U.S. plaintiff may have to go to considerable time and expense either to find assets of the foreign manufacturer in the United States to satisfy a U.S. judgment or to enforce that judgment in the foreign company's home country. However, even if the U.S. plaintiff is not willing to go to such lengths, the judgment can be enforced at a later date when the foreign company decides to expand its operations in the United States and to establish a U.S. facility. From the foreign manufacturer's point of view, it is helpful that the United States has entered into no treaties for reciprocal enforcements of judgments. On the other hand, the trend is for developed country courts to enforce the judgments of other developed country courts, regardless of whether any such treaty is in force. In addition, the authors understand that the United States is negotiating at least one treaty regarding reciprocal enforcement of commercial judgments and others may be forthcoming.

## X. Conclusion

As stated earlier, this article is not intended to be a detailed treatment of the law; in fact, it probably does not even deal with all of the topics of interest to the foreign client in the initial briefing. As with any other new client, the U.S. attorneys should be prepared to discuss the general aspects of any area of United States law. The key throughout the briefing is to maintain an awareness that the concepts being explained to the foreign client are in many cases "foreign" to him.

### *Note:*

*After this article went to the printer, the proposed regulations relating to reporting of foreign investment found at 46 Fed. Reg. 7,214 (1981) were formally adopted by the Commerce Department. It should be noted that these regulations effect significant changes in the exemption criteria discussed at supra p. 243.*