TABLE of EXPERTS

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GOING GLOBAL

DAVID CONAWAY is a partner in the Charlotte office of Shumaker, Loop & Kendrick LLP, an Am Law 200 top U.S. law firm. His focus is representing manufacturing companies regarding a variety of issues involving customers and the supply chain including commercial and financial contracts, disputes, insolvency and cross-border transactions, litigation and insolvency. He advises clients and handles matters throughout the U.S. and abroad and represents numerous foreign-based clients regarding U.S. issues and U.S. companies doing business globally. Industry experience includes agrichemicals and seeds, appliances, chemicals, plastics and resins, furniture, paper and packaging, forest products, steel and metals, aluminum and glass containers and packaging, food packaging, textiles and machinery and equipment. Conway is the chair of Shumaker's Bankruptcy, Insolvency and Creditors' Rights Practice and of Shumaker's Global and Cross-Border Insolvency Practice; the co-chair of Shumaker Manufacturing; and a past member of Shumaker's executive committee and managing partner of the firm's Charlotte office.

PATRICK HORNE is a registered patent attorney with over 15 years of legal experience that helps him communicate effective business solutions for opportunities and mitigating risks. He has an electrical engineering degree with power meter industry experience and particular technical expertise in electronics, computer software and business methods, telecommunications, medical devices and mechanical arts. In helping clients build their international patent portfolios in a wide variety of industries, Horne leverages patent examiner histories and art unit analytics to maximize patent quality and to minimize cost and time-to-issuance.

Horne's practice involves performing legal investigations, including infringement and risk mitigation searches, validity analyses and freedom-to-operate investigations as well as counseling clients on trademark selection, protection, policing and opposition.

Horne has extensive experience in transactional matters including helping clients negotiate a wide variety of IT agreements, license agreements, purchase agreements and others. He also conscientiously advises on enforcement of IP and related litigation opportunities.

PATRICK WEAVER is the manager of International Banking for FNB Corp. He received his B.S. in Commerce from the McIntire School of Commerce at the University of Virginia. He also studied International Finance at the London School of Economics. Weaver began his 30+ year international banking career at First National Bank of Atlanta in 1984. In 1987, he moved to Charlotte after accepting a vice president position at First Union Bank in their Capital Markets Division. After 12 years, Weaver joined Bank of America as a director in the Global Rates and Currencies division. In 2011, he began a 4-year tenure at Fifth Third Bank before moving to Houston in 2015 as the director of Foreign Exchange with BBVA. He returned to Charlotte in 2017 after accepting his current position with FNB. He enjoys using his experience to help his clients grow and manage their international business.

MICHAEL SMITH has 25 years of tax experience in public accounting (Arthur Andersen, Ernst & Young, and Grant Thornton) and at Fortune 100 companies. Most notably, Smith spent 10 years as a senior vice president in Wachovia's Corporate Treasury and Tax Divisions where he provided international and M&A tax consulting services to the Capital Markets Fixed Income & Derivatives and Corporate Treasury Divisions and focused on the design and implementation of multi-billion dollar cross-border financing and investment transactions. Specific experience at CliftonLarsonAllen includes working with clients in the manufacturing, business services, real estate and financial sectors with a primary focus on repatriation and other treasury center-focused tax planning strategies, transfer pricing documentation and risk mitigation and Subpart F income, foreign tax credit, APB 23, Section 956 inclusion and other complex tax provision computations.

photos GRANT BALDWIN

Global trade offers larger markets as well as increased risks

Taking the leap to selling products internationally opens companies to more customers, extends product lines, diversifies revenue sources and potentially prolongs sales seasons. But those benefits come with a heavy dose of risk.

Companies considering going global need to protect their product designs, technology and trademarks. They need to manage the risk of currency fluctuations and the potential that a foreign customer never pays the invoice.

"In analyzing risk, doing business outside of the U.S. is a completely different profile," says David Conaway, a partner with Shumaker Loop & Kendrick who represents large manufacturing companies doing work internationally. "All customers and countries are not created equally. You need to understand the risk and build that into cost of doing business."

Conaway was part of a panel of international business experts that included a tax expert, an international banker, and two lawyers who represent companies with intellectual property to protect or who must navigate litigation with foreign entities. Joining Conaway on the panel were Patrick Horne, an IP lawyer and partner with Shumaker, Loop & Kendrick, Mike Smith, a principal in the Charlotte office of CliftonLarsonAllen and a member of the global tax services team, and Patrick Weaver, manager of international banking at First National Bank. *Charlotte Business Journal* publisher, T.J. McCullough, moderated the panel.

Panelists say that domestic companies considering going global need to develop a comprehensive plan that includes considering tax implications of selling in another country, that takes into account the timeline and requirements for protecting their intellectual property, and their plan of action if a dispute arises with a foreign customer.

McCullough: Why go global?

Weaver: The first reason is new markets. Ninety-five percent of the world's population is outside the U.S., and 85% of the wealth is outside of the U.S. If you are looking to grow your business there is tremendous opportunity out there. As a bank, we get concerned when someone is overly concentrated in one customer, and they can also can be overly concentrated in one country. If the economy of that country weakens, they may have a problem. So we look for them to diversify risk. We had a company in road construction that if they didn't sell into foreign countries, they might not have survived the last recession. Polaris started as a snowmobile company and now they do watercraft. That is one way to diversify. Another is if you make a winter product and it's summer here, go to the southern hemisphere and it's winter there. In North Carolina, one of our biggest products was tobacco. But markets changed domestically and regulations increased so did they stop producing tobacco? No they started selling more overseas. Lumber 20 years ago was primarily sold to domestic furniture makers. Now 50% to 60% of that product goes overseas. Say that you have a product and every year you put new bells and whistles on it. That may be great for the U.S. but less developed markets may not be able to afford the newest product but they will look at the older models. By going global you can continue a line longer in other markets.

McCullough: How do companies get started and what services are available?

Weaver: Most companies start exporting by accident. They get a hit on their website or they get one contract but there's no game play. To really get started you need to have a proactive plan. In the international baking community we talk about the four Cs: Commitment by management with the time and resources needed; the longer sales Cycle, Capacity if you land a new contract and the Competitive advantage of your product. Where are you going to sell, and are you going to sell on price or is it a better product? You have got to do your homework on markets. There are a lot of groups and agencies that are there to help. The Small Business Development Center is where I would start. They will make sure from a financial standpoint that the company is ready to go international. The Economic Development Partnership can help with tradeshows, and there are also grants for going to trade shows. Most companies that are starting don't know what to ask. I had one customer who upfits heavy pickup trucks for specific industries including the forest products industry. I asked 'have you thought about selling to Canada? If you can sell in the United States, — the most competitive market in the world — why can't you sell in Canada? What would an additional 5% to 10% to your bottom line mean to you by adding a new market?

McCullough: Companies have sometimes invested with lawyers to draft various sales and other commercial contracts. Will those contracts suffice for doing business globally?

Conaway: In North Carolina the textile and furniture industries are the poster children for industries that were domestic and became international over a truncated period time. A lot of companies use their domestic contracts as square pegs into a round hole of a foreign contract. When a dispute arises, there's a question of whether that contract will protect the company's rights in an international setting. Often the answer is no. The problem is that companies have sunk money into very good contracts for domestic use, but they don't stop to think if that contract will work in foreign countries or if they need to make adjustments to the contract. In the U.S., commercial sales contracts are based on the Uniform Commercial Code so there's a lot of certainty. By contrast, every country has its own laws and they are very different. The United Nations implemented the Convention for the International Sale of Goods ("CISG") and 84 countries signed this treaty and it represents 80% of the world's trade. Ideally, a company will come up with an international contract template and then if they have a material concentration of customers in a particular country or region, they develop a specialized contract. Some countries are more like the U.S., and then there are others that are vastly different in terms of their court system and their view of the value of a contract. If you are doing business in Asia or Mexico, for example, you need to focus on the differences.

McCullough: When do U.S.-based companies need to think about protecting IP abroad?

Horne: Companies should think about protecting their intellectual property as soon as possible. If you are already doing business in a foreign country, I recommend having conversations about IP — both to identify and mitigate risk but also to protect proprietary property. One reason to file patents early in foreign countries is there is an absolute novelty rule, which requires a patent filing before any public disclosure of an invention. The priority application can be filed in any jurisdiction, and the applicant must file all foreign applications within a year. In the U.S., there is a grace period, but this is tricky for companies that want to expand internationally. A company may print a white paper describing their innovation or go to a trade show either of which starts the one year grace period in the U.S.. Unfortunately, when they print that paper or go to that trade show without a priority filing, they may have destroyed their international rights.
On the trademark side, the general rule applies. Companies should think about trademark filings as soon as they have a new brand or desire to go global. Most foreign IP systems are first to file for both patents and trademarks. So it's a race to file. A Chinese manufacturer can file a trademark in China before the U.S. owner, and they are going to have superior rights.
There are upfront costs when protecting patents and trademarks. You have to prepare a priority application and get it filed. After that, the cost for going into any country is between $5,000 and $10,000 with government fees and associated counsel. Trademarks are less — around $2,000 — $5,000 per country. It's important to know what a patent really does. It gives a company the right to exclude others from practicing what's claimed in the patent. When a company gets in a market first with a patent, they might prevent others from entering that market. A patent grants a limited monopoly for 20 years from filing. The patent provides a written description of the invention. That subject matter enters the public domain after 20 years.

Smith: Often these early stage companies aren't generating a lot of money, but they shouldn't overlook that there are incentives in certain locations to conduct R&D activities. These incentives can take to form of tax credits, accelerated deductions, and property tax breaks. Longer term, once companies have a view of where they want to hold their IP, they need to be aware that transferring IP to a new jurisdiction can generate unexpected tax liabilities owed to the IRS. We encourage companies to give tax a call as part of their IP development process.

McCullough: What can a U.S. company do if someone is selling products similar to its products in another country, using its brand or importing into the U.S. products similar to its products?

Horne: If a company has a U.S. patent they can prevent others from making, using, selling or importing infringing products. So, if competitors internationally are infringing and importing products into the U.S., the patent law prohibits it. If a company does not have an issued patent in a particular jurisdiction, it's important to have discussions with a lawyer about seeking IP protection and identifying IP risks. In most countries patents and trademarks are governed by a first-to-file legal system. There may be intrusion by a competitor that has filed an IP application covering the property of a U.S. company. It's risky for a company who has international aspirations not to think about protecting their innovations and clearing their products for infringement early.
On the patent side, there is a mechanism for a placeholder. You can file a Patent Cooperation Treaty (PCT) application. It kicks the can down the road. A PCT application stretches it out to 30 or 31 months from the initial filing date to enter a foreign jurisdiction where a company intends to conduct business. While most foreign countries, such as China, have a first-to-file trademark system, there are ways to challenge trademark registrations if you are its true owner

McCullough: Are there key terms that companies should focus on when doing business with suppliers or customers abroad?

Conaway: Yes, absolutely. A contract has two purposes, to define key terms about what goods are being sold, the price and when they are to be delivered, and then it defines what happens if you have to enforce that contract to protect your rights. We see companies focus on number one and only when the second arises do they realize the importance of what the contract says or doesn't say.

An important issue is choice of law, based on many factors. In the Uniform Commercial Code, a common issue is the battle of the forms, where courts may eliminate conflicting material terms which are valuable to the parties. What ends up happening is a gaming of the system to get your terms to stick. Under the CISG, if you have a purchase order that says XYZ and the order acknowledgement says ABC then it's considered a counter-offer. If the parties perform, the seller's acknowledgement will control.

Another issue is dispute resolution. If a company in North Carolina has a contract to sell to any European country and they don't pay, how do you enforce your rights? You hire a Charlotte lawyer, go file complaint and get no answer and get nothing. Because there is no multilateral treaty on the enforcement of foreign judgments, it's nearly impossible to enforce a domestic judgement overseas. However, the New York Convention on Arbitration has been adopted by 156 countries. Arbitration may be the way to go. The

Arbitration tribunal and the place of arbitration is important. For example, China won't recognize awards, unless issued by arbitration tribunals in China, Hong Kong or Singapore. The truly international companies have embraced this.

Another issue is the cost of the disputes. The American rule is that every party bears its own legal expenses, which can be shifted by contract. The English rule is the loser pays. We had a case for a textile company in upstate South Carolina that had a dispute with a major retailer in London. We filed a lawsuit and were confronted the English rule. If we did not prevail, we paid both sides' legal fees. This promoted compromise. The ability to shift risk by contract is a growing trend globally, which companies should consider.

McCullough: What type of tax issues do U.S. businesses and employees encounter when conducting business outside the United States?

Smith: Upfront planning is essential to avoiding adverse tax issues. When it comes to tax issues inside the U.S. or outside the U.S. there are some common themes. Business income taxation applies in almost every jurisdiction. That's very often driven by whether company has a fixed place of business or physical presence in the country. Individual taxation in a foreign country oftentimes focuses on the number of days spent working in such country, and 180 days is a common threshold. The differences lie in how taxes are administered. When you step foot in a foreign country, you ask whether you are subject to the local laws or if you have the benefit of a treaty. Treaty countries are the UK, France, Germany and most of Europe. The one thing that makes the U.S. unique compared to other countries is the system of state taxes. The UK for example has federal level of taxation. Here in the U.S. you have 50 states and 50 sets of tax rules for income, property, sales and use tax. That's where our clients have the most amount of anxiety. What's driving a lot of recent anxiety is the way states are applying their sales tax laws. In many cases under the "old economy" a business needed a physical presence to be subject to [state sales] taxation. Last year the U.S. Supreme Court handed down the Wayfair case which essentially nullified the physical presence [state sales tax nexus] test. Going forward, many states likely will apply economic nexus standards, and what that means varies from state to state. We'll see where this takes us, but this is a key area of tax planning. Inbound clients coming here must understand that whatever treaty system applies at the federal level doesn't apply at the state level.

McCullough: Are there any special tax issues related to conducting business in different countries over the internet?

Smith: Historically, tax treaties worked well with so-called old economy, brick-and-mortar businesses in that tax authorities sought to tax income derived from a taxpayer's permanent establishment situated within a given country. What ecommerce has done is motivate countries to take aggressive positions with respect to existing, outdated tax treaties, resulting in an increase in cross-border tax disputes. In fact, many countries are working to update their tax treaties to better fit the ecommerce economy, although the U.S. is not inclined to update its tax treaties like many other OECD countries are trying to do. What we find is that in the EU there is more clear guidance. When you get outside the tax treaty network it becomes even more important to drill down on how you will be taxed.

McCullough: What are the risks — product, political, commercial and financial?

Weaver: You must look at the political situation. Is there a stable government there? In the '90s we had had companies invested in Venezuela and had to write down their investments. I had another client with a customer in Russia. He was getting money coming in and then one month it stopped. It was being held up because of new regulations prohibited the payment. You have to understand the political environment, and you don't want to go into an unstable environment.

Then the question is how am I going to sell internationally? You can be a direct exporter selling to an individual end user, or you can be an indirect exporter by piggy-backing by selling to a larger company and they sell to an international market. Or you could go through a broker. By going that route you can mitigate some risks but you reduce profitability. Cut out the middle man and you can improve your margin.

McCullough: Is Intellectual Property governed by any international treaties or rules? Do such treaties provide for international protection of IP rights?

Horne: Yes. The Patent Cooperation Treaty has been adopted by 152 countries. But there is no such thing as an international patent. At 30-31 months, a company can use the PCT to enter national and regional phases in desired countries and must conduct jurisdiction-specific prosecution in each jurisdiction.

For designs, which protect ornamental appearance of an article, there is the Hague Agreement that provides an international registration. The Madrid Protocol provides for an international trademark registration, but I recommend filing trademarks directly in important markets.

McCullough: If a customer doesn't pay invoices, how do I get paid?

Conaway: There are countries that are safer from a legal perspective. In broad strokes if you are doing business in Europe and Canada they are more similar. Those countries tend to be safer with more predictability in outcomes. In Mexico it's a very different legal system. We represented a company that was owed quite a bit of money in Mexico. The claim was based on a U.S. contract that was not easily enforceable under Mexican law. To benefit from Mexico's executive proceedings, the Mexican legal document, pagare, is required. Otherwise, the process is 6 to 8 years. It's the ultimate dot your Is and cross your Ts process. If a client comes to me with a contract without the proper documentation, and it's in Mexico, it may not be worth it to pursue the claim. Clearly, getting the proper documentation in place upfront is advisable.

McCullough: Did the Tax Cuts & Jobs Act of 2017 reduce the cost of doing business in the United States? If so, what types of tax incentives are being offered to businesses to expand in the United States?

Smith: It's a qualified yes. The 2017 tax bill grants substantial tax benefits to businesses doing business in the U.S.. There are repatriation benefits. The corporate tax rate was reduced from 35% to 21%, which put the U.S. in line with average worldwide corporate income tax rates. On the incentive side, if companies are willing to move operations to the U.S., they will be permitted to take advantage of certain export tax breaks. But there are a couple of things that are preventing companies from taking advantage of the tax breaks. We are hearing from clients that they are having a hard time finding skilled labor in the U.S. and the President's immigration policies are making it challenging to relocate foreign workers to the U.S.. Likewise, the tariff situation and trade policies are murky so that's leading companies to pull back how aggressively they want to expand in the U.S..

McCullough: How do you make sure your company gets paid?

Weaver: Typically companies will start with cash in advance. I will not give you my product until you pay me first. You are limiting yourself by doing that. From a competitive standpoint, you may have to provide terms. The next step is to secured the sale with a letter of credit with the buyer bearing the cost of that. That's a negotiation. The other option is credit insurance with the cost borne by the seller. The final step is an open account. You have to be comfortable with who the counter-party is because if you don't get paid you will be involved in litigation. Then you have to ask if you are going to price your contract in local currency or U.S. dollars. Why would you want to price the contract in local currency? There is always a currency risk and one side or the other takes that risk. The side taking the risk dictates the terms of the contract. If you are offered a contract and it's only in Euros and you say no, you could be turning down a major new source of business. Another thing is how quickly you get paid. Being paid in USD could delay the payment. It's not necessarily the risk but how much is it costing me to mitigate that risk. Those are negotiation tools that you can use to increase your profit margin.