

Make sure your IT is legal or face the consequences in the US

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A recent seminar held in Bangkok, "Shifting Sands in International Trade _ Opportunities for Southeast Asian Manufacturers", received extensive coverage in the national press. Co-hosted by the Department of Intellectual Property, the Association of Thai Software Industry and Tilleke & Gibbins, the seminar focused on IT challenges and opportunities for Thai manufacturers.

Much of the press interest in the event, including the Bangkok Post's coverage ("US laws challenge exporters", Oct 6), centred on new Unfair Competition Acts that have been passed at the state level in the United States. In this article, we review the legislation and consider its potential impact on Thai manufacturers.

The new law in Washington state, effective from July 22, 2011, holds manufacturers of products that are sold, or offered for sale, in Washington state civilly liable if the products use IT that is either stolen or misappropriated. Proceedings can be brought by competing manufacturers or the Washington state attorney general if such IT is used in the manufacture, distribution, marketing or sale of such products.

This legislation may become a trend in the US _ a similar law has already been passed in Louisiana, and other states are likely to follow.

The new laws seek to level the playing field so that users of illegal or unauthorised IT no longer enjoy the competitive advantage of being able to use such IT for free, thus competing unfairly against competitors in the marketplace who choose to use only legal and legitimate IT to conduct their business. Moreover, those manufacturers who elect to use stolen IT run the risk of having to pay damages, having their goods seized and losing access to desirable US markets.

Under the Washington state law, a competing manufacturer, whether it resides in the US or abroad, can bring the action by proving that it:

- manufactures products sold in the state in direct competition with the products alleged to have been created using stolen or misappropriated IT;
- did not manufacture its products using stolen or misappropriated IT;
- suffered economic harm, established by showing a stolen IT retail price of at least US\$20,000.

A key factor here is that the location of the manufacturer does not affect liability. If a manufacturer based in Thailand uses stolen IT in its production process and those goods are sold in Washington state, then the Thai-based manufacturer may face a suit under the law.

Not only are manufacturers liable in suit, but so are third parties, such as retailers or distributors, who offer goods produced with stolen IT. A manufacturer may also be found guilty as a third party if its supplier produced a component equal to 30% or more of the end product that incorporated unlicensed materials.

Following a successful action against the manufacturer, a plaintiff may bring an action against third parties that, among other criteria, have a direct contractual relationship with the manufacturer that uses unauthorised IT. Such an action may be brought if the third party was not subject to the original proceedings, if the manufacturer has no attachable assets to satisfy the judgement, or if certain other criteria are fulfilled.

Before an action can begin, IT owners must notify the potential defendant manufacturer in writing of the allegation and allow the potential defendant 90 days to respond. A further 90-day period may be granted if the manufacturer needs more time for the legalisation process.

Defendants who fail to stop using stolen IT after the commencement of the court action may be subject to court injunctions preventing the sale of their goods in the state, or the plaintiff could be awarded the greater of either the actual damages suffered or statutory damages not exceeding the retail price of the IT. Wilful infringers run the risk of having damages tripled.

There are several limitations, however. Actions may not be brought against manufacturers who produce food, beverages and medical products regulated by the US FDA, nor against companies with end products that are protected by copyright law, such as books, movies and music. Promotional products related to copyrightable works and theme parks are also excluded from the law.

The impact of the law: Manufacturers and third parties, regardless of whether they have a legal presence in the US, should examine these new laws closely and monitor which states are considering similar laws. With the current and likely future laws intended to disadvantage users of stolen IT, now may be a good time for such companies to conduct internal audits of their business units and supply chains globally to ensure internal policies and procedures are being followed and to determine whether additional safeguards need implementing.

In conducting these audits, how can Thai companies ensure legal compliance? At the "Shifting Sands" seminar, Pajchima Tanasanti, director-general of the Department of Intellectual Property, told the audience that compliance with the Thai Copyright Act will be sufficient to ensure that Thai companies don't run afoul of the US laws. That is, if companies can confirm that they meet their obligations under Thai law, both in the manufacturing process and throughout the supply chain, they will then be in compliance with the Unfair Competition Acts abroad.

The benefits of using legal IT are clear: Compliance with legal IT can be a competitive differentiator in the global marketplace. Successful global companies are increasingly focused on implementing high standards of legal and ethical compliance throughout their supply chains and in their relationships with other businesses. Organisations that can certify their use of legal IT will enhance their global reputation, safeguard their business and have a distinct competitive advantage, particularly over the likes of China, whose protection of IP rights trails behind Thailand's.