

DOJ Prosecutes Fashion Company For Skirting Customs Tariffs — Could This Be The Hot New Trend?

Fashion industry beware: the eye of the law is on you, and we are not talking about the runway. Last week, a Los Angeles fashion company pled guilty to customs fraud and money laundering charges. The plea follows a federal investigation that revealed evidence that the company avoided customs tariffs by creating fake invoices for clothes shipped from its Asian suppliers.¹

Ambiance Apparel, along with owner Sang Bum “Ed” Noh, confessed to under-invoicing clothing imports to avoid paying customs tariffs. After tariffs were assessed at the reduced values, Ambiance Apparel then paid its suppliers the difference in cost.² The scheme lasted four years and resulted in a profit to the company of \$17.1 million in unpaid tariffs. Under the plea agreement, the company stipulated to a five-year probationary sentence and will pay \$118 million in restitution and forfeiture. It also agreed to implement an effective anti-money laundering compliance and ethics program, and to engage an independent corporate monitor for up to three years. Noh faces a potential prison sentence of eight years, both for his involvement in the scheme and for his related failure to pay taxes on millions of dollars from the cash transactions.

The Department of Justice (DOJ) said that the search warrants against Ambiance Apparel were executed as part of a broader investigation into money laundering and related crimes in the LA Fashion District.³ Although this investigation was focused on Los Angeles, it would be foolish to think the government does not have its eye on the fashion industry as a whole. This is especially true given the increasingly hostile trade war between the United States and China, with tariffs in place on about \$370 billion in Chinese goods bound for the United States.⁴ The UK and EU are also adding fashion industry taxes — beginning September 1, a 25 percent tariff will be applied to several categories of UK and EU goods, including tailoring, wool, cashmere, and linen homewares.⁵

Between the increase in tariffs and the large amount of money at stake, it stands to reason that a big government enforcement case like that brought against Ambiance Apparel — and the collection of such substantial penalties — will lead to an increase in government efforts to enforce customs tariffs and trade regulations and to prosecute violations of tax and anti-money laundering regulations on textile importers.

Fashion companies and their executives looking to avoid paying millions in penalties and increased government monitoring, not to mention prison time, should heed Ambiance Apparel and Noh’s prosecutions as a cautionary tale signaling DOJ’s current focus.



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¹ <https://www.justice.gov/usao-cdca/pr/fashion-district-outfit-and-company-owner-agree-plead-guilty-customs-violations-tax>

² Ambiance Apparel is the operating name for two corporations, Ambiance U.S.A. Inc. and Apparel Line U.S.A., Inc.

³ *Id.*

⁴ <https://carnegieendowment.org/2020/06/24/in-u.s.-china-trade-war-new-supply-chains-rattle-markets-pub-82145>

⁵ <https://fashionunited.uk/news/business/u-s-imposes-retaliatory-tariffs-on-uk-and-eu-products-including-luxury-brands/2020081450345>