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## Intellectual Property:

*Protecting Valuable Assets in a Global Market*

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**MEMA Brand Protection Council**  
January 2008

Intellectual property can be a manufacturer's most valuable asset. Intellectual property rights (IPR) violations can come in a variety of forms including counterfeiting, trademark infringement, gray market, diversion, country of origin or non-compliant parts. It is a serious issue and in a global market, a company may never know its rights are being violated.

Counterfeit products are at the forefront of these IPR issues. Any recognizable brand is at risk of being counterfeited, from clothing and handbags, music, pharmaceuticals and even automotive parts. Numerous government agencies and industry sources estimate the global counterfeit problem at \$600 billion per year while it is estimated that counterfeiting costs the global automotive parts industry \$12 billion a year –some projections put the losses as high as \$44.74 billion by 2011. As a result, the FBI has labeled counterfeiting as the “Crime of the 21st Century”.

Realize that counterfeiting is not a victimless crime. Consider that:

- Counterfeit auto parts pose safety risks to unsuspecting consumers and technicians.
- Counterfeiting steals good manufacturing jobs.
- Counterfeiting destroys brand reputation of legitimate companies and poses product liability claims.
- Counterfeit auto parts have been linked to organized crime and terrorist organizations.

The majority of counterfeit auto parts in North America are imported. A large percentage is produced in China, accounting for more 80 percent of the goods seized at U.S. borders. However, other countries such as Taiwan, Hong Kong, Russia, India, Pakistan and Uruguay also have been reported as major producers and exporters of counterfeit goods.

Once produced, most counterfeit auto parts are redistributed from key trans-shipment points such as Dubai, United Arab Emirates. While no parts are immune, counterfeited parts tend to be the most frequently replaced parts (brake pads, oil filters, spark plugs, etc.) and are often safety-related.

Even though the industry estimates millions of counterfeit auto parts enter the United States every year, only a fraction of them are ever detected by U.S. customs. This is no surprise when you consider nearly 2 million entries per month are logged at 302 different U.S. ports.

Previously, the heavy duty market did not attract counterfeiters due to its narrow distribution channel and inaccessibility. Truck manufacturers, independent truck dealers and their customers maintain closer communication than in light-duty automotive parts market through fleet maintenance and supply relationships. However, with the increased presence of industrialization overseas, both light and heavy duty markets are experiencing a spike in trademark, copyright and intellectual property rights violations.

With estimated global supplier industry losses of \$12 billion in annual auto parts sales due to counterfeiting, a conservative estimate for the United States alone is \$3 billion. The physical dangers and risks involved in using or installing counterfeit or non-compliant parts can be potentially the most costly damages of all. From the manufacturing perspective, counterfeiting is a crime that steals U.S. jobs. With the U.S. manufacturers experiencing approximately \$3 billion in lost sales annually, the impact on employment equals about 200,000 to 250,000 jobs, each paying about \$60,000 in wages and benefits annually.

Commerce via the World Wide Web or Internet has accelerated the pace. Online auctions and other sites that link sellers to buyers have made counterfeit parts trade an international problem of potentially epic proportions.

The Internet poses many threats, including:

- Pure counterfeit product or direct knock-offs;
- IPR violations related to proprietary or patented designs related to the manufacturing of the product;
- Trademark infringement of not only the product itself but also related products such as apparel, decals or anything with a logo;
- Violations of supplier agreements by contract manufacturers selling around the owner of proprietary or second party-owned tooling known as diversion;
- Adherence, or lack there of, to distributor agreements which limit sales by geographical or territory boundaries, known as “gray market”.

The U.S. Immigration and Customs Enforcement (ICE), the largest investigative arm of the Department of Homeland Security (DHS), is responsible for the enforcement of border, economic, infrastructure and transportation security laws. ICE has comprehensive authorities to enforce federal statutes related to counterfeiting and intellectual property rights violations. However, there is only so much they can do.

To address the serious issue of counterfeiting and other IPR violations within the automotive manufacturing community, the Motor & Equipment Manufacturers Association (MEMA) – in conjunction with its market segment associations: the Automotive Aftermarket Suppliers Association (AASA), the Heavy Duty Manufacturers Association (HDMA) and the Original Equipment Suppliers Association (OESA) – created the Brand Protection Council in 2004 to provide a forum for manufacturers to discuss counterfeiting and other IPR violations with a focus on North America.

The Brand Protection Council and MEMA played a role in the passage of the “Stop Counterfeiting in Manufactured Goods Act,” signed into law by President George W. Bush in 2005. It extends the authority of federal seizures to include the tooling, equipment and supplies used to produce and traffic counterfeit goods, in addition to the goods themselves. The law also makes it criminal to produce stickers, tags, boxes or other items used to traffic the counterfeit products. It expands the current definition of trafficking to include the import and export counterfeit goods and it strengthens penalties for counterfeiters. 18 USCA § 2320 (2006).

In addition to the formation of the Brand Protection Council, MEMA and AASA have instituted proactive anti-counterfeiting efforts in conjunction with the Automotive Aftermarket Products Expo (AAPEX), held annually in Las Vegas. Activities include hosting an annual Webinar on protecting intellectual property rights at the show; onsite security; and legal teams to deal quickly and efficiently with infringers and violations.

### **Crime of the 21st Century – Statistics**

- According to the Federal Trade Commission (FTC), the World Customs Organization in Interpol, and Frost & Sullivan, counterfeiting costs the global automotive parts industry \$12 billion a year in lost sales; \$3 billion of that total is in the United States.
- A Frost & Sullivan report released in June 2006 forecasts that global automotive industry losses will increase to \$44.74 billion by 2011.
- The FTC also estimates that U.S. auto parts industry estimated lost sales correlates to potentially 200,000 – 250,000 fewer manufacturing jobs / unemployment.
- The International Anti-Counterfeiting Coalition puts revenue loss to U.S. trademark holders at \$200 billion per year.
- A National Council of Applied Economic Research (NCAER) study, commissioned by the Automotive Component Manufacturers Association of India (ACMA), said counterfeit auto parts constitute over 37 percent of the total market size of Indian aftermarket parts.
- The International Chamber of Commerce estimates that 7 percent of the world trade is in counterfeit goods and that the counterfeit market is worth \$350 billion.
- Counterfeit parts are sold at 50-85% of Genuine pricing and are estimated to deliver at only 20-30% of their value (performance, wear, system integration). (Source: Business Week, February 7, 2005 and June 5, 2000)
- Estimated 30% of products in mainland China are counterfeit; China's weak rule of law makes it difficult for Beijing to enforce policies, especially in disobedient local jurisdictions. (Source: Business Week, February 7, 2005 and June 5, 2000)

### **Developments in China** (Source: Business Week, February 7, 2005 and June 5, 2000)

- Local police and courts are hesitant to pursue counterfeiters, particularly when powerful state-owned enterprises are involved or a local economy may be negatively impacted
- As state-owned factories saw legitimate sales of their own goods fall, they began copying foreign brands to use excess production capacities
- Fake goods are often mixed into legitimate product shipments
- Chinese counterfeiters have become highly sophisticated in copying packaging, at times indistinguishable from the original.

<b>Most Commonly Counterfeited Parts and Accessories</b>				
<b>Parts</b>			<b>Accessories</b>	
<b>Maintenance</b>	<b>Collision/Repair</b>	<b>Suspension</b>	<b>Automotive</b>	<b>Collection/Vintage</b>
<ul style="list-style-type: none"> <li>• Oil Filter</li> <li>• Air Filter</li> <li>• Brakes</li> <li>• Brake linings</li> <li>• Seals</li> <li>• Rotors</li> <li>• Flex disks</li> </ul>	<ul style="list-style-type: none"> <li>• Bumpers</li> <li>• Covers</li> <li>• Head lamps</li> <li>• Tail lamps</li> <li>• Sheet metal</li> <li>• Oil pumps</li> <li>• Water pumps</li> <li>• Mercedes Star</li> <li>• Windshields</li> </ul>	<ul style="list-style-type: none"> <li>• Steering arms</li> <li>• Tie rods</li> </ul>	<ul style="list-style-type: none"> <li>• Alloy Wheels</li> <li>• Body striping</li> <li>• Decals</li> <li>• Trim</li> <li>• Plates</li> <li>• Logos</li> </ul>	<ul style="list-style-type: none"> <li>• Key Rings</li> <li>• Caps</li> <li>• Lighters</li> <li>• Toys</li> <li>• Model cars</li> <li>• Clothing</li> </ul>

When counterfeit parts are used: (as noted by vehicle testing experts)

- Counterfeit oil filters can cause sudden engine failure
- Counterfeit suspension parts and wheels break when made of substandard material
- Vehicle hoods without crumple zones penetrate the passenger compartment
- Counterfeit brake pads, made of grass clippings and saw dust, have caused fatal accidents
- Counterfeit windshields without safety shatterproof glass, cause injury or death

What can you do to protect your intellectual property rights?

- Join MEMA's Brand Protection Council.
- Pursue proper registration and records of your patents and trademarks with the U.S. Patent and Trademark Office and their foreign counterparts.
- Gain upper management buy-in, making them aware of the financial, legal and safety risks.
- Know the difference between IPR terms – what can and cannot be prosecuted.
- Know which states have counterfeiting and piracy laws.

How can you advise your customers to avoid counterfeits?

- Consider the Source: Only buy brand name products directly from the original manufacturer or an authorized distributor.
- Money Talks: As the old adage goes, if it seems too good to be true, it probably is. An extremely low cost should be a tip off to do a thorough investigation.
- Details, Details, Details: Distributors, retailers, jobbers and service professionals should always take a close look at the products they sell or install. Minor markings on a product can be differentiators between real and fake parts. Also, check the packaging for spelling, color variations, lettering and accurate part numbering. All may be telltale signs of counterfeit product.

What should you do if you suspect counterfeiting or other IPR violation?

- Report violations to your manufacturing supplier and/or local, state, or federal enforcement agency.
- Contact an attorney.
- Initiate and enforce cease and desist orders.
- Report IP issues to local customs and border protection officials.
- Coordinate intelligence efforts with your trade association and authorized supplier.

Remember: Any state, local or government agency can only investigate the offenses they know about. Nobody knows their products and trade dress better than the intellectual property owner. Know your rights and report any suspected violations.

If you find or suspect counterfeit auto parts, or for more information on the Brand Protection Council or for assistance in contacting automotive brand owners, please contact Jack Cameron/AASA at 919-406- 8856 or e-mail [jcameron@mema.org](mailto:jcameron@mema.org). (<http://www.aftermarketsuppliers.org/issues/counterfeiting.php>)

### **Frequently Used Terms:**

Country of Origin – Represents the actual country where a product is manufactured, not assembled, regardless of where or by whom it is sold. The United States is one of the few countries that require country of origin to be displayed on products sold – either on the part, package or both. In the event a product is comprised of multiple components, country of origin may be determined by the area of greatest content.

Copyright – A protected work of authorship, such as writings, music and works of art that have been tangibly expressed. Failure to clearly identify in a statement that a work is copyrighted could result in loss of copyright protection for the entire work.

Counterfeit – Something made to imitate another thing with a view to defraud. Counterfeits can be exact replicas without brand and/or similar products with unofficial use of trademarked brand. (see Trademark)

Diversions – The act of contract manufacturers which produce products on behalf of another supplier (usually containing proprietary design, supplier-paid tooling, trademark, exclusive numbering and/or other forms of intellectual property), selling around the channel in an inappropriate or illegal manner. Diversions also occur when the contract manufacturer overproduces and/or produces non-conforming products then sells directly or indirectly into the aftermarket. The irony is that the trademark holder ends up competing against their own product produced from their engineering and/or tooling, as well as the possibility or risk of product liability for non-compliant parts.

Gray Market – Occurs when legitimate product is traded outside a specified geographically-based distribution agreement. Frequently these transactions include discounted prices or other geographically-based pricing structures which causes unfair competition. While gray trading is not new, it has been precipitated by the advent of e-commerce and the internet making it extremely easy to do business on a global basis.

Intellectual Property – Creations of the mind; creative works or ideas embodied in a form that can be shared or can enable others to recreate, emulate or manufacturer them. There are four ways to protect intellectual property – patents, trademarks, copyrights and trade secrets.

Non-compliant Parts – Simply put are any products produced that do not meet or perform to the originally specified design or specifications. They may also include performance enhancement modifications which may cause a product to become illegal or unlawful on a state, local or national level. Examples may include emission altering, exhaust, lighting or any number of other products.

Patent – A property right granted by the U.S. Government to an inventor, to "exclude others from making, using, offering for sale or selling the invention throughout the United States or importing the invention into the U.S" for a limited period of time in exchange for public disclosure of the invention when the patent is granted.

Patent Infringement – Unauthorized making, using, offering to sell, selling or importing into the United States of any patented invention.

Trade Secret – Any information that companies keep secret to give them an advantage over competitors.

Trademark – Protects words, names, symbols, sounds or colors that distinguish goods and services from those manufactured or sold by others and to indicate the source of the goods. Trademarks, unlike patents, can be renewed forever as long as they are being used in commerce.

Resources:

MEMA Brand Protection Council; U.S. Immigrations & Customs Enforcement (ICE); U.S. Patent & Trademark Office (USPTO); International Trademark Association; U.S. Department of Justice; National Intellectual Property Rights Coordination Center; The World Customs Organization in Interpol; Frost & Sullivan

**MEMA Brand Protection Council**  
***Membership as of January 2008***

***COMPANIES***

ABRO Industries Inc.  
Affinia Group Inc.  
Akebono Corp.  
Arent Fox LLP  
ArvinMeritor Inc.  
Automotive Aftermarket Suppliers Association  
Bendix Commercial Vehicle Systems LLC  
Chrysler Corp./Mopar Parts Division  
Cummins Inc.  
Dayco Products LLC  
Delphi Corp.  
DENSO Sales California Inc.  
Federal-Mogul Corp.  
Ford Customer Service Division  
Ford Motor Co.  
Four Seasons Division Standard Motor Products Inc.  
Gates Corp.  
General Motors Corp.  
GM Service & Parts Operations/AC Delco  
Haldex Brake Systems Inc.  
Hella Inc.  
Horton Inc.  
Mark IV Automotive  
MeritorWABCO Vehicle Control Systems  
Parker Hannifin Corp.  
Permatex Inc.  
Remy International Inc.  
Schaeffler Group USA Inc.  
Tenneco Inc.  
The Timken Corp.  
TI Automotive  
TRW Automotive  
United Components Inc.  
Webb Wheel Products Inc.  
ZF Sales & Service North America

***AGENCIES***

U.S. Department of Homeland Security  
U.S. Immigration and Customs Enforcement/Office of Investigations  
U.S. Department of Justice  
U.S. Attorney's Office, Criminal Division, Eastern District of Michigan  
Federal Bureau of Investigation