



Special Report Special Report Special Report Special Report

Intellectual Property:

Protecting Valuable Assets in a Global Market

Third Edition

Third Edition – Updates Include:

- PRO-IP Act of 2008
- New global counterfeiting statistics from the International Chamber of Commerce
- Expansion of trade show activities
- Guidelines to protect intellectual property

MEMA Brand Protection Council

June 2009

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 between \$600 - 650 billion per year while it is estimated that counterfeiting costs the global automotive parts industry \$12 billion a year. 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.

Key Legislative Victories

The Brand Protection Council and MEMA played a role in the passage of the Stop Counterfeiting in Manufactured Goods Act, which 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. Further, the Act makes it criminal to produce stickers, tags, boxes or other items used to traffic the counterfeit products. The Act also 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 2008, the Brand Protection Council and MEMA played a role in the passage of the “Prioritizing Resources and Organization for Intellectual Property (PRO-IP) Act of 2008,” signed into law by President George W. Bush in October 2008. Key points of the law include:

- Prevents an infringer from avoiding liability based on a harmless error in a registration by a rights holder.
- Provides copyright owners the same rights as trademark owners to impound records documenting infringement.
- Increases statutory damages in counterfeiting cases and the scope in which they can be applied.
- Improves and harmonizes the forfeiture laws governing IP rights violations and creates a new forfeiture section for both civil and criminal forfeiture.
- Increases the maximum statutory penalties for counterfeiting offenses that endanger public health and safety, and enhances penalties for recidivists in felony, criminal copyright cases.
- Creates an Intellectual Property Enforcement Coordinator within the Executive Office of the President who will chair an inter-agency committee that will produce a Joint Strategic Plan to combat piracy and counterfeiting.
- Provides much-needed resources to state and local law enforcement to battle IP theft by establishing a federal grant program.
- Ensures that there are at least 10 additional, trained agents of the FBI designated to work IP issues.
- Requires the Attorney General to develop a comprehensive plan to prosecute international organized crime.
- Authorizes additional funds to hire and train new FBI agents and new prosecutors to combat intellectual property theft.
- Requires annual reports by the Attorney General and the Director of the FBI, and requires GAO studies on how the federal government can better protect IP.

The Bush administration also established the StopFakes.gov Web site and the STOP! Hotline (866-999-HALT) to provide individuals and business the information they need to protect their intellectual property rights.

The efforts have paid off. According to a report from the Bush administration, its Departments of Homeland Security and Justice saw significant improvements in measures of IP enforcement increase during the last five years of the administration. The Department of Homeland security reported seizures totaling \$200 million in FY2007, a 27 percent increase over 2006. The Department of Justice reported a 33 percent increase of criminal cases involving IPR violations from 2006-2008.

Trade Show Policies

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. The trade show guidelines as recommended by the Brand Protection Council have also been implemented in the heavy duty industry including the Heavy Duty Aftermarket Week (HDAW), Mid-America Trucking Show (MATS), the American Trucking Association (ATA) and its Technology and Maintenance Council (TMC).

Crime of the 21st Century – Statistics

- According to a report by the Federal Trade Commission (FTC) counterfeiting is estimated to cost the global automotive parts industry \$12 billion a year in lost sales; \$3 billion of that total is in the United States.
- It is also estimated that U.S. auto parts industry 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.
- The U.S. Chamber of Commerce estimates that criminals have built a \$600 billion global criminal enterprise of counterfeiting and piracy that destroys jobs, undermines innovation, and endangers consumers.
- The International Chamber of Commerce estimates that 7 percent of the world trade is in counterfeit goods and that the counterfeit market was worth \$650 billion in 2006.
- 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.
- More than 80 percent of goods seized at U.S. Borders are produced in China.
- An estimated 30 percent of products sold in mainland China are counterfeit.

Developments in China (Source: *Business Week*, February 7, 2005)

- 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.

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

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

Guidelines to Protect Intellectual Property

- Registration – Register all copyrights and trademarks with the U.S. Patent and Trademark Office. Additionally, register with U.S. Customs and Border Protection.
- License Agreement – Even when giving permission for customers to use IP on their own Web sites, it is important and helpful to have them sign a license agreement to avoid problems down the road. It also helps keep track of legitimate use versus infringement.
- Terms of Use – Always add a “terms of use” clause to any cyber information (Web site, e-catalog, etc.) that must be accepted prior to any one having access to data, even if it is public. This helps defend and guard against possible misuse.
- Redirect – When illegal or infringing sites are shut down, many companies having found it beneficial to redirect Internet surfers to the official site location.
- Settlement – It is usually in companies’ best interest to reach a settlement especially with small infringers. Settling minimizes costs yet still gains publicity for the plaintiff company, and establishes it as a business which pursues infringers.
- Cease and Desist – This action is still the first step in contacting an infringer. More often than not, cease and desist orders produce results and saves expense of a law suit.
- Evidence of Confusion – In these cases, infringers use legitimate brand names and part numbers as cross reference, and confuse or mislead buyers into thinking they are buying the genuine part. Proof of this is important in any legal action and usually obtained from the infringer’s Web site.
- Obtain Rights in Foreign Markets – Companies which register trademarks and copyrights only filed in the United States put their IP at risk in global markets.
- Develop “Product Identification Training” - Recommended by the U.S. Customs and Border Protection including:
 - ◆ Company Information
 - ◆ Registration and Recordation Information
 - ◆ Product Information
 - ◆ Manufacturing and Distribution Information
 - ◆ Violation Information
 - ◆ Disclaimer

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.

Note: 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.

To Get Help or Report a Crime

- State and Local Law Enforcement
- Privately Retained Legal Counsel
- U.S. Customs and Border Protection (CBP)
 - ◆ Web site **www.cbp.gov**
 - ◆ e-mail **ipr.helpdesk@dhs.gov**
- U.S. Immigrations and Customs Enforcement (ICE)
 - ◆ Web site **www.ice.gov**
- Federal Bureau of Investigation (FBI)
 - ◆ Web site **www.usdoj.gov/criminal/cybercrime/reporting.htm**
- U.S. Department of Justice (DOJ)
 - ◆ Web site **www.cybercrime.gov**
- U.S. Department of Homeland Security
 - ◆ Web site **<http://stopfakes.gov>**
- U.S. Department of Chamber of Commerce – Global Intellectual Property Center
 - ◆ Web site **www.theglobalipcenter.com**

About The Brand Protection Council

To address the serious issue of counterfeiting and other IPR violations within the motor vehicle parts manufacturing industry, the Motor & Equipment Manufacturers Association (MEMA) created the Brand Protection Council to provide a forum for manufacturers to discuss counterfeiting and other IPR violations with a focus on North America. Its efforts include providing a best practices discussion forum for its members; working with elected officials and government agencies to stem the tide of counterfeit parts; and supporting legislative solutions improve enforcement actions against counterfeiters. For more information on the Brand Protection Council or for assistance in contacting automotive brand owners, contact Jack Cameron at 919-406- 8856 or e-mail **jcameron@mema.org**.

About MEMA

Suppliers manufacture the parts and technology used in the domestic production of millions of new cars and trucks produced each year, and the aftermarket products necessary to repair and maintain more than 247 million vehicles on the road today. MEMA supports its members through its three affiliate associations: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), and Original Equipment Suppliers Association (OESA). For more information on the motor vehicle parts supplier industry, please visit **www.mema.org**.

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*)

Diversification – 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. Diversification also occurs 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 manufacture 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, Federal Trade Commission (FTC), International Chamber of Commerce, U.S. Chamber of Commerce, BusinessWeek, U.S. Customs and Border Protection, Federal Bureau of Investigations, U.S. Department of Justice