



MEMA INFORMATION SERVICES COUNCIL



Brand Protection  
Council

# Special Report Special Report Special Report Special Report

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## **What Are Your Products Doing Online? *A Guide to Internet Brand Violations for Parts Suppliers and Distributors***

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**MEMA Brand Protection Council  
MEMA Information Services Council**

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# What Are Your Products Doing Online?

*Presented by*  
*The Motor & Equipment Manufacturers Association (MEMA)*  
*MEMA Brand Protection Council*  
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## **PART I: SUPPLIERS AT RISK**

The World Wide Web has opened a new world of marketing possibilities – but it also has created new risks for counterfeiting and intellectual property rights violations.

Left unchecked, these risks can threaten not only an automotive aftermarket company's good name and brand equity – it threatens the public safety through the spread of unsafe, counterfeit parts.

### **Section A: What Rights Are Implicated?**

Automotive parts suppliers should be aware that the Internet, with all its many benefits, also offers counterfeiters and unscrupulous business operators' unique opportunities to reach unsuspecting consumers.

Most obvious is the sale of counterfeit goods. The myriad sites that host online auctions can be a marketplace for the trade of fake products.

However, the unique properties of the electronic medium also pose the potential of risk to your company in several additional areas.

#### ***Copyright Rights and Protection Strategy***

The Internet provides the potential for copyright violations. The Internet's electronic format can make it easier to duplicate important documents and images than in print format.

At risk are:

- Web site designs
- Advertisements
- Product packaging
- Catalogs and pricing sheets

Copyright of your product's "dress" includes all elements that are original, non-functional and creative. These parts of your product dress are protectable – whether it appears on Web sites, in ads or in packaging.

Catalogs and product sheets are areas that also should be protected. These contain original elements that are arranged in a distinct manner. Watch for unauthorized use of:

- Photograph arrangement
- Original descriptions
- Use of logos
- Design elements

## ***Trademark Rights***

The Internet also can put trademark rights at risk. Your corporate logos and product names, parts numbers and even the shape and design of your product, can be copied by the counterfeiters.

Parts numbers deserve special consideration. In order to be protected, it must be an original part number that is only used to identify parts from your company. When developing parts numbers, avoid numbers that incorporate aspects commonly used in the industry.

## **Section B: Enforcement – Practical Strategies for Taking Action**

The proper enforcement strategy can protect automotive parts suppliers from counterfeiters via the Internet. Recent cases have ranged from unauthorized sales at online auction sites to unauthorized use of company logos and parts numbers at Web sites.

### ***Protecting Your Trademarks***

The first step is to prioritize your concerns. The Internet is vast, and the priorities must be clear in order to make the most effective use of resources and address the most egregious violations first.

There are several different resources that a manufacturer may use to monitor and police the Internet. For example, on eBay, one may use the “favorites” option to save up to 100 terms and eBay will notify the user when that term appears in a new listing.

A user also could rely upon Copernic Inc., which offers two different searching tools to monitor the Internet. The first is a “tracker” software tool that will watch specified Web sites for changes. This software is downloaded onto your system and will notify you when specific sites are updated. Copernic’s second tool by is a powerful search engine, Copernic Agent, that filters out irrelevant hits typically displayed on search engines. This search engine allows the user to personalize and target the searches to provide better results.

Another option would be to set a Google “Alert” on a particular product. Google then notifies you when the identified product is advertised on a web site. A user could personalize the notifications to receive them on a weekly or monthly basis.

Finally, there are several search engines that a manufacturer can use, other than Google, such as dogpile.com, draze.com, and turboscout.com.

Once you have targeted the infringement, there are several options that a manufacturer could consider when taking action:

- **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.

### ***Protecting Your Copyright***

Suppliers also should take steps to protect copyrights on the Internet. These can include:

- Making sure you have a “Terms of Use” on your Web site
- Registering your copyrights
- Utilizing password protection software to secure your site
- Tracking unauthorized use of your site content and contacting the owner of the site with a “Cease and Desist” letter
- Contacting the host to have them disable the Web site if the letter is ignored
- Filing a lawsuit if egregious enough

## ***Combating Internet Trade of Counterfeit Goods***

Trade of counterfeit parts on the Internet can be stemmed through these steps:

- Monitor auction sites and develop a strategy that allows for shutting down auctions on a weekly or bi-weekly basis – for example, the eBay Vero Program has been effective at this.
- Make a purchase of the product to determine where the seller is located to establish jurisdiction for lawsuit.
- Register your marks with U.S. Customs.
- Seek assistance from federal agencies – but it is important to report to only one agency. U.S. agencies which can assist in case of Internet trade of counterfeit good include the Federal Bureau of Investigation’s cybercrimes division or the Department of Justice; in Canada, reports should be made to the Royal Canadian Mounted Police. A list of agencies and links to their Web sites is available online at the AASA Web site, **[www.aftermarketsuppliers.org/issues/counterfeitingLinks.php](http://www.aftermarketsuppliers.org/issues/counterfeitingLinks.php)**.
- Work with authorities to undertake a factory raid.
- Bring suit and make a name in the industry as a company that vigorously protects its products.
- Attempt to settle with smaller infringers and gain publicity both for the counterfeiting problem and for your company. Seek advice from your legal counsel about the benefits of settlements in these Internet counterfeit trade incidents – counsel should advise you about the possibility of taking a settlement and then publicizing the case.

## ***Combating Deceptive Marketing***

The Internet can be a prime location for deceptive marketing for many of the reasons listed above. Fighting it requires different strategies but always begins with the first step: You must demonstrate that the action was deceptive, false or misleading.

Some ways of accomplishing this are: expert opinions, consumer surveys or actual evidence of confusion.

Once the action is determined to be deceptive marketing, suppliers should:

- Send a “Cease and Desist” letter
- Consider contacting the host of the Web site if you can assemble a claim based on copyright
- File a law suit

## **Section C: Consider Your Marketing**

### ***The Risk of Viral Marketing***

User generated content campaigns creates brand loyalty and a community environment and can be an inexpensive way to create advertisements and viral marketing. But suppliers should be aware there is potential liability for allowing users to post third party content.

### ***Enforcement Strategy***

- Create a Terms of Use on your site that allows you to remove content that is infringing, disparaging or otherwise objectionable
- Prohibit the use of third party logos, trademarks or other comparisons
- Take down content immediately after receiving notice.

## **Section D: What about Gray Market Goods?**

Gray market goods – legitimate products sold in an unauthorized market – present a different challenge to automotive parts suppliers. It is difficult to monitor the Internet for Gray Markets goods, as you actually have to make a purchase of the product in order to determine whether it is gray market. Thus, the first challenge would be determining who is actually selling your product. To make this determination, you could employ a Google Alert on a particular product so that you are notified when the product appears on any web site. This will allow you to target potential problem web sites. Once you target these sites, you should make an anonymous purchase to learn the distribution point for the product.

### ***How Can You Tell It's Gray Market?***

- Contact the retailer and find out how they got the product
- Make anonymous inquiries or just call and ask
- Hire an investigator
- Make a purchase to determine the origin of shipment

### ***Enforcement Strategy***

A corporate enforcement strategy is key to gray markets, too. Steps should include:

- Putting the seller on notice
- Developing a contractual strategy for enforcement by
  - Ensuring you have appropriate protection in end-user agreements which:
    - Restrict territory
    - Require contract for resale
  - Re-examining your international price points to make it more difficult
  - Considering the adoption of territorial branding
  - Contemplating a sell-off



## Section E: Offshore Options

Automotive suppliers that use offshore manufacturing facilities or joint ventures should take care to protect brands and intellectual properties in areas outside the jurisdiction of U.S. trademark and copyright enforcement. Licensing agreements are invaluable tools in these cases.

### *Licensing Strategy: Why Do It?*

A corporate licensing strategy offers

- Quality control
- Revenue stream
- Rights in a foreign market

It is vital to ensure the license protects your rights:

- Never allow the licensee to register your trademark
- Make the licensee acknowledge your rights
- Make the licensee assist in protecting the mark



## **PART II: WHO'S TO BLAME IN CASES OF INTERNET BRAND VIOLATIONS?**

### ***THE RISK OF DISTRIBUTOR LIABILITY***

Distributors that are directly importing goods may face liability for trademark and counterfeiting and additional liability for parts that are found to be defective.

The distributor risks exposure to claims that a product infringes on the patent rights, trademarks or other intellectual property rights that may be owned by the original manufacturer because the offshore manufacturer may be beyond the reach of U.S. courts. In such cases the distributor or seller of the product may be ultimately responsible for damages caused by intellectual property rights infringement.

Distributors also may face additional liability for defective parts that are imported directly. U.S. tort laws provide that any seller of a product, not just the manufacturer, is liable for losses, injury or damage caused by a defective part. An injured party may file suit against the distributor of the product without naming the manufacturer. When the manufacturer does not have a legal presence in the United States, or has not agreed by contract to be subject to jurisdiction of the U.S. courts, then the distributor stands alone in the case.

When considering the role of distributors in these cases, the U.S. courts have made a distinction between active participation versus willful blindness.

#### **Section A: Active Participation**

Active participation is defined as a case in which the distributor willingly participated in the scheme.

Two recent court cases exemplify active participation:

- Interstate Battery case – the distributor actually applied stickers to the batteries and co-mingled the product
- Microsoft case – the distributor was found liable for failing to act to remove counterfeit goods after receiving notice.

#### **Section B: Willful Blindness**

In cases of willful blindness, courts have found that the distributor involved either should have known about the counterfeit goods or failed to inquire.

The courts consider several factors in willful blindness:

- Where the goods were purchased
- Whether the goods were sold with the authenticating documentation
- Whether the quality differs from the quality expected by consumers
- The pricing of the goods
- Evidence on billing slips

These cases show willful blindness:

*Tiffany & Co. Inc. v. eBay Inc. (2008)*

Tiffany & Co. alleged that eBay is liable for contributory trademark infringement because it:

- has general knowledge that trademark infringement occurs on its site because Tiffany & Co. has notified eBay repeatedly of the presence of counterfeit items
- has the right and ability to control the items sold on the site because it regularly prohibits the selling of certain items, including liquor and firearms.

eBay has denied liability by asserting that:

- it did not know of specific listings of counterfeit Tiffany products which eBay did not act to remove from its site; and
- because it had only a general idea that counterfeiting was otherwise occurring.

This case was recently decided in eBay's favor. The Court's decision appeared to hinge on the fact that eBay continued to remove the infringing content when put on notice.

*Louis Vuitton Malletier v. Richard E. Carroll, et al. (2005)*

Arent Fox LLP successfully alleged that the landlord of numerous stores selling counterfeit luxury leather goods was liable for contributory trademark infringement because it had continued to allow the stores to operate after learning that counterfeit goods were being sold at the stores.

The firm obtained a preliminary injunction and negotiated a later agreement with the landlord to evict tenants who were selling counterfeit goods, monitor the stores premises, and post signs making buyers aware that Louis Vuitton goods sold in the stores were counterfeit.

## **Section C: Protecting Yourself from this Liability**

Distributors should take the following action to protect against liability:

Pay attention to the details:

- Packaging slips – do they look tampered with, altered or raise red flags for other reasons?
- Quality – is the product of the quality that you expected?
- Safety standards – does the product include the safety specifications?
- Country of origin – was the product manufactured in the country that you expected?
- Trademarks and logos – do they look authentic?

**Contractual protection:**

- Have an agreement with the manufacturer that asks them to indemnify you for any claim of infringement.
- Obtain a warranty provision from the manufacturer attesting to the legitimacy of the product.
- Be vigilant! Look for the red flags and then take action when you come across them.
- Require the licensee to notify you when there is a counterfeit goods problem.

## **PART III: CONCLUSION**

### **Counterfeiting: The Crime of the 21st Century**

Whether via the Internet or traditional channels, counterfeiting is *not* a victimless crime. The FBI has labeled it the “Crime of the 21st Century.”

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.

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.

The partners in the automotive aftermarket supply chain and their corporate counsels can help stem the tide of counterfeit parts by working together in traditional channels and on the Internet.

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