

IP Issues for Thailand's Automotive Industry

Intellectual property rights infringement has spread to Thailand's automotive industry, which is adversely impacting the country's ability to attract research and development operations and foreign direct investment. Edward A Madden discusses the challenges.



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The Thai automotive sector, comprising automobiles, light trucks, motorcycles and parts, with the aid of the Thai government's Ministry of Industry and the Thai Automotive Institute (TAI), has gone to great lengths to develop the region's reputation as a motor vehicle and motorcycle manufacturing hub for Asia, sometimes referred to as the "Detroit of Asia."

TAI has invested over Bt8.7 billion baht to improve human resource development, upgrade manufacturing technology, establish research and development centers including test tracks, create an IT center to analyze industry trends, and develop an export promotion center to further promote free trade with countries such as the U.S., Japan, and Australia. Recently, in line with this policy, some positive progress has been made in the area of intellectual property protection.

Honda Motors and Yamaha, at the time of this writing, have number one and number two positions in market share, respectively, as top motorcycle producers in Thailand, with Honda's market share generally hovering close to 70%, and Yamaha occupying share in the mid-teens.

Japan is the leading source of foreign direct investment for Thailand, with the US as number two, and there is no doubt that Thailand is an

important element of both countries' growth strategies for Asia, despite the current failure of Thailand's government to conclude Free Trade Agreements with its two most important trading partners.

Rapid growth in exports over the past ten years through foreign investment also resulted in the development of an extensive base of automotive and motorcycle parts suppliers in the region estimated at nearly 4,000 companies.

The good news bodes well for the Thai Automotive Industry, but manufacturers still express reservations and concerns directed towards issues of counterfeiting and patent infringement that are endemic in parts of Asia, with Thailand occupying a position as a regional manufacturing and transshipment hub of fake goods.

Enforcement of IP laws

Counterfeit and low quality infringing products, particularly in the automotive and motorcycle sector, pose serious risks to consumers, owing to the lack of quality assurance. When a consumer sees a branded good in the market, the consumer expects intuitively that the branded product is backed by the brandowner's reputation for consistency, quality, and safety. Counterfeiting tends to destroy consumers' trust in brands because the notion of guaranteed quality and safety is destroyed. In the case of the automotive market, the failure of fake replacement parts that are passed off as legitimate parts affects the reputation of the manufacturers, dealers, and service centers.

Counterfeits truly present a lose-lose proposition: the customer is ultimately dissatisfied, and possibly faces threats to his/her personal safety, while brandowners' good will suffers and resources that could be directed towards R&D are instead consumed in prosecuting counterfeiters.

Relationship between counterfeits and product liability

With the coming introduction in Thailand of a new Product Liability Law, rights holders face the new threat of potential product liability (which allows for punitive damages and class actions) in the event that the rights holder is found to have been negligent in failing to police the market to eliminate/suppress counterfeit goods.

A new generation of Thai tort lawyers are aware of a 2001 California

Superior Court precedent case, *Lynn v. Serono, Inc.*, wherein Serono, Inc., a Swiss biotechnology company, was forced to settle with two American consumers after they sued the company for damages arising from ingestion of counterfeit Serostim®, a drug prescribed to ameliorate cachexia, a symptom of HIV/AIDS commonly referred to as "wasting." Thai lawyers see this case as presenting a new strategy for plaintiffs' lawyers in product liability tort actions. In their claim, the plaintiffs stated that Serono was or should have been aware of the presence of counterfeits in its distribution chain and should have taken more aggressive steps to investigate the source of the counterfeits and eliminate the fakes from the market.

One can intuitively see why Serono was targeted by the plaintiffs' lawyer. Faced with clients who had genuinely suffered damages as a result of ingestion of the fakes, who could the lawyer have sued? The counterfeiter? Since the counterfeiter could probably never have been identified with any confidence, operating out of some concealed laboratory in Asia, it was only logical for the lawyer to train sights on Serono, in the absence of any other viable defendant.

The application of the theory of the plaintiff's lawyer in Serono in cases involving defective auto or motorcycle parts seems obvious. The case for aircraft parts is alarmingly similar. For example, a plane belonging to Partnair, a Norwegian charter airline reportedly crashed in 1989 because of faulty counterfeit parts. The tail assembly broke off because the bolts connecting the section of the plane were substandard. Police in Europe recently raided three aviation parts manufacturers in Rome and seized over USD \$2 million in used parts that had been repackaged as new. In each of these cases, the hazards presented by the introduction of counterfeit parts presents unacceptable risks for consumers (in terms of safety) and for the genuine manufacturers (in terms of liability and risk to reputation).

A victimless crime?

Clearly, counterfeiting is not a victimless crime, despite the internal rationalization of the tourist shopper looking for that fake Louis Vuitton bag. Losses can be quantified in dollar terms and in social terms. The American Chamber of Commerce estimated losses from counterfeiting and piracy can be estimated in the range of US\$250 billion, and future estimates show the number keeps on rising.¹² In the automotive industry alone, the Automobile Manufacturers Association estimates counterfeit parts to be a US\$12 billion global problem.¹³ The U.S. Department of Commerce estimates that the US\$3 billion in losses to the U.S. economy equates to over 200,000 jobs that could have been created in the automotive sector.

As recently as June 7, 2006, U.S. Representative Joe Knollenberg of Michigan testified before the U.S.-China Economic and Security

Review Commission that the U.S. Customs Service estimated 750,000 jobs have been lost to counterfeiting, largely affecting small business owners in the U.S. Both manufacturers and U.S. Congressmen have made counterfeit automotive parts a priority as the number of infringers and parts continue to grow.

Delphi Corp., the largest automotive supplier in the U.S., stated that they are "working with our trade partners to get our arms around the problem," and U.S. Rep. Mike Rogers, (R) Brighton, even posts pictures of counterfeit parts on his congressional Web site.

Examples of fraud at the highest levels in China and Thailand

Some countries are more notorious than others for their infringement on intellectual property rights, particularly in the automotive industry. China, generally accepted as ground zero in the war on counterfeits, often evokes thoughts of fake consumer goods such as purses or watches, but fake parts also include brake pads and oil filters. Neal Zipser, vice president for the Motor and Equipment Manufacturers Association, a group representing suppliers, succinctly stated, "When people buy a fake Rolex or Gucci handbag, they know they aren't getting the real thing. But when people get an oil filter or brake pads, they don't want to take a chance on buying a knockoff."

Several foreign automotive manufacturers including General Motors, Toyota and Honda, filed well-publicized claims against unscrupulous Chinese competitors for alleged violations of intellectual property rights. For example, General Motors, owner of Korean Daewoo, filed a claim against China's Chery Automobile because Chery's QQ was alleged to be a slavish copy of the Chevrolet/Daewoo Matiz. It was no coincidence that many parts including the doors and hood were interchangeable between the models. Honda faces a similar problem with the CRV and the Shuanghuan Laibao SRV. Even luxury brands such as Rolls-Royce are not immune.

The issue of copying in the automotive sector has attracted significant attention in major media and in Committees of the World Trade Organization and other international business groups.

Thailand, a country obviously much smaller than China, nevertheless presents a disproportionately large challenge to IP rights owners because of its role as a manufacturing and export hub for fakes. Thai law enforcement and Customs have responded to the calls for more effective action against the trade in fake goods, particularly in the automotive sector.

For example, in October of 2005, an elite Thai law enforcement unit, the Department of Special Investigation, seized some 50,000 counterfeit automotive parts and accessories bearing unauthorized

trademarks of Mercedes Benz, Chevrolet, Honda, Saturn, and BMW. DSI officials estimated that the seizure of parts and equipment was valued at more than one billion Thai baht (over USD \$25 million). The raid was one of the largest of its kind in Thailand's history of intellectual property enforcement.

The rise of the DSI as a force in IP enforcement

The new Thai Department of Special Investigation (DSI) is a highly trained, elite, professional and specialized operating within the Ministry of Justice, and was established in October 2002 with responsibility for investigating "Special Criminal Cases" under essentially federal jurisdiction throughout Thailand (The DSI is roughly comparable in mission and outlook to the FBI in the US.) DSI established a specialized Bureau of IP Crime approximately two years, and this unit has come into its own with some major breakthrough cases in the last 10 months. The establishment of DSI was heralded as new recruits represented the highest performing civil servants and law enforcement officials from a number of diverse government agencies including public prosecutors from the Office of the Attorney General, Tax Department, Specialized Economic Crime Police, Customs, etc.

For IP enforcement matters, DSI is in charge of investigating criminal IP offences provided that the injured person is capable of demonstrating a prima-facie case of infringement valued at a threshold of more than five hundred thousand (500,000) Baht (approximately US\$12,500) calculated based on the value of the genuine original goods.

Seeking the assistance of DSI in significant IP cases is less problematic and hence rather effective as DSI has enhanced autonomy in investigating criminal cases. Moreover, at the time DSI investigates an IP infringement case, they will normally consider the criminal IP infringement case as a predicate offense, which will then provide the basis for an expanded inquiry of other related offences such as tax avoidance, labour, immigration violations, money laundering and other technically non-IP related criminal offenses.

In the October 2005 raid for DaimlerChrysler and others, DSI officials were said to be looking at potential terrorist financing related to the Madrid train bombings, owing partly from the shadowy business dealings of the owner of the counterfeiting operation, a Spanish national with contacts in Switzerland. As an example of DSI's ability and willingness to expand the inquiry beyond the initial offence, DSI worked closely with Ainsley Jong, a brand security specialist in house with Daimler Chrysler to uncover more than 50 operations using signage and trademarks of DaimlerChrysler in an effort to prevent customers from being fooled by a network of dealers and service centers who in fact had no commercial relationship

with the company. Similar issues of unauthorized signage have been experienced by Harley Davidson. The Thai Department of Intellectual Property, or "DIP", itself became quickly involved and expressly endorsed and sponsored a warning campaign to force these unauthorized dealers to stop using the trademarks and logos owned by DaimlerChrysler. This unauthorized use of trademarks was felt to present just as much risk to the consumer as the trade in counterfeit parts, because, again, there is no guarantee of quality in the provision of services by unauthorized dealers.

Another recent series of raids by DSI resulted in the seizure of nearly 1100 fully assembled motorcycles worth more than 45 million Baht from a Malaysian-owned and Thai Board of Investment promoted factory in southern Thailand in March 2006. The DSI raid team, led by Commander Yongyoot Srisattayachon (Director of DSI's Bureau of IP Crime) seized the motorcycles under the authority of the Thai Patent Act for the criminal infringement of Yamaha Motor's design patents. DSI was not deterred when the infringer retaliated by calling in so-called "influential persons" [corrupt politicians and military officials] to intimidate DSI in the carrying out of its duty. In years past, this type of "influence" would have wrecked a case, but DSI, to its credit, has stood firm despite the political muscle working against the unit. The standard of professionalism demonstrated by DSI's command and officers in this case clearly meets international standards for law enforcement officials, based on any objective evaluation.

DSI has established itself as the indispensable champion of consumer safety in Thailand, protecting consumers from defective products and from being deceived about the source and quality of infringing products. DSI's efforts in protecting intellectual property rights of inventors and will encourage inventors and designers to continue to invest in Thailand's development of innovative technology.

The motorcycles were seized under the authority of the Thai Patent Act because they were slavish copies of patented Yamaha designs and inventions. In fact, like the Chery QQ and GM Matiz, the motorcycles were virtually indistinguishable and many of the parts were completely interchangeable between them.

Copying and infringement on the scale of the DaimlerChrysler and Yamaha cases discussed above tends to adversely impact Thailand's ability to attract R&D operations and foreign direct investment. What investors seek, and what high tech ventures need, is a level of security and confidence that the resources devoted to innovation and creativity will be protected so that an adequate return on may face the same challenges.

Hope for the future

In this regard, Thailand's success as the "Detroit of Asia" will continue to depend, in part, on effective enforcement and protection of intellectual property rights. The Thai Automotive Institute's strategic plan to develop key areas of the industry will all be for naught if unscrupulous operators are permitted free reign to rip off innovative designs, brands and inventions. Because the automotive sector represents such an important component of Thailand's ability to compete on the world stage, more cooperation between government, industry, and the legal community is needed in the enforcement of intellectual property rights. With the right mix of skilled labour, R&D investment, technology transfer and a more secure environment for innovation, the branding of Thailand as the Detroit of Asia is well within reach.

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