COUNTERFEIT PARTS: Buyer Beware

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Fleet Owner, Mar 1, 2004

Fake Gucci handbags being sold on the streets of New York are getting a lot of press and police attention recently. While the economic damage to high-end fashion designers may be painful, the potential threat to public safety and welfare is small, making the entire issue of counterfeiting name-brand goods seem more like a consumer game than a real crime.

But what about a counterfeit air brake valve or engine main bearing that isn't up to the rigorous requirements of heavy-duty truck operations? Angry customers who don't get their freight, or damage caused by a runaway truck are not the same as a zipper that doesn't work.

Unfortunately, counterfeit truck parts haven't gotten a great deal of attention from either law enforcement or their ultimate target, those that operate heavy-duty trucks. There are no reliable ballpark estimates of the size of the problem, or even general agreement on what makes a replacement part counterfeit. What is clear, though, is that substandard heavy-duty replacement parts do get into the U.S. aftermarket in significant numbers and the problem is likely to get worse.

There is no question that parts counterfeiting is already big business in the passenger car market. The Federal Trade Commission (FTC) estimates that counterfeiting accounts for $12 billion a year in lost auto parts sales globally and about $3 billion in the U.S. alone. According to *Wards Automotive Reports,* FBI officials now put automotive parts at the top of counterfeiting activities, along with computers and apparel.

IS IT OR ISN'T IT?

Initially counterfeiters focused on cosmetic items like car accessories and body parts, but in recent years they have moved into safety related components like brake pads and suspension components. It's now possible to assemble a complete car or motorcycle from illegally copied and produced parts, according to a spokesperson for the International Anti-Counterfeiting Organization.

The FTC numbers only account for parts that are clearly counterfeits, parts that illegally copy the originals right down to brand logos and even packaging in an effort to pass as genuine OEM replacement parts. The picture gets murkier and much harder to quantify when you consider “knockoffs,” parts reverse-engineered to look like the originals and often even carrying OEM parts numbers, but skirting patent and trademark infringement laws by avoiding actual brand names.

In countries where such knockoffs are produced, China in particular, weak or non-existent patent laws offer little protection to the original designer. For example, General Motors has been unable to stop production of a Chevy look-alike in China under the name Chery. Though tougher U.S. laws apply when such parts are imported, it can be hard to prove infringements or pirating. And for the most part, the law cannot address questions of quality.

Operating completely within the law are what are sometimes called “will-fit” parts makers. These companies often operate under their own brand names and make no attempt to represent goods as OEM parts, instead generally offering lower-cost alternatives and leaving quality decisions up to the end user.

Illegal parts activity has been largely confined to the passenger car market in this country for a number of reasons. The car parts market is far larger than the heavy-duty market, offering much more attractive volumes to counterfeiters.

Channels for distributing parts are also much narrower in the heavy-duty market with truck builders and original component makers maintaining strong relationships with their dealers. Independent parts dealers are also closely aligned with genuine parts distribution, relying on engine, drivetrain and other component producers, as well as truck OEMs for the ready access to parts and technical support fleets require.

“There has to be volume and a channel to dump them to make a market attractive to counterfeiters,” says Josette Russell, manager of aftermarket marketing and business development for Eaton Corp.

Fleets are also more sophisticated about total lifecycle costs and have far more at stake than a consumer buying parts for their car. “With a truck, you're dealing with a piece of capital equipment, so you're selling uptime,” says Harry Howard, vp and GM for ArvinMeritor's worldwide commercial vehicle aftermarket activities. “The risk is far lower with a personal vehicle.”

LOOKING AT TRUCKS

Conditions now, however, are ripe for illegal parts producers looking at the U.S. heavy-duty market for new business. With industrialization of huge economies like India and China, it has become easier and cheaper to reverse engineer and manufacturer parts, making lower volume items like heavy-duty parts more economically attractive to pirates.

“Today reverse engineering products is far easier and requires less [technical] sophistication and investment, making it much easier to exploit [counterfeiting] opportunities,” says John Flad, vp of Aftermarket Sales for Bendix Commercial Vehicle Systems LLC.

Saturation of markets closer to production sites also increases pressure to move on to the U.S. Some estimates have counterfeit automotive parts of all types accounting for 30% of the market in the Middle East. No estimates exist for Asia, but there is plenty of anecdotal evidence that counterfeit or knockoff truck parts are widely available there as well.

“We've seen main bearings in Cummins boxes carrying Cummins parts numbers on the aftermarket in India,” says Dave Porter, director of marketing and product management. “If you looked at them closely, it was easy to see the substandard quality, but they were represented as Cummins products.”

“A chemicals supplier told us they were offered a choice of original or ‘fake’ versions of their product in Asia,” says Michelle Calbi, GM for parts, sales and marketing at Freightliner LLC. “They looked identical right down to the packaging.”

And pirating activity isn't confined to less sophisticated developing markets. “We've had some cases in Europe where even the packaging was copied so closely that it was only identified [as a counterfeit] by the placement of the [three-arrow] recycling symbol,” says Howard.

With most pirated parts coming from offshore, the U.S. Customs Dept. has been an effective barrier to goods that clearly violate patent and trademark laws, with the Federal Bureau of Investigation providing the prosecuting muscle. National security, however, has become the top priority for both organizations, pushing counterfeiting of all types of goods into the background. For example, the public information officer for the Detroit area FBI office told FLEET OWNER that the most of the agency's resources were focused on security issues now rather than patent or trademark infringement.

“For whatever reasons, we're hearing more and more about counterfeit truck parts,” says Jim Conner, managing director of the Heavy Duty Manufacturers Assn. “It's not just counterfeit parts. It's just as much outright copying and theft of technology, and it's not subtle.

“The only place we have much chance of effectively stopping it is at our own borders,” he says. “The [federal agencies] sympathize with us, but they have other stuff to do no. Security is their main focus now.”

While the numbers may still be low compared to the passenger car market, counterfeit heavy-duty parts are here already.

Last year a Cummins dealer in the Southeast was offered remanufactured short blocks from the company's plant in China. “Cummins doesn't have a plant in China,” says Loretta Evan, director of marketing and product management.

“We had the dealer buy one for us and analyzed it,” she says. “The quality was so bad that we dismissed it as a threat, and we haven't seen any further activity or reports about that particular counterfeit. We think [the counterfeiters] probably bombed because of the quality.”

HARD TARGETS

Complex components like a complete engine aren't likely targets for more sophisticated counterfeiters. “When we have seen it, it's been things like simple gears, simple ‘hard parts’ that can be replicated by anyone with a good grinding machine or laser cutter,” says Russell. “They target high failure parts like gears used to rebuild

transmissions. It's a very small problem for Eaton right now because it's so hard for a counterfeiter to find a part that combines that simplicity with high enough demand to make it pay."

Other industry suppliers, however, already see counterfeiting growing, especially in the area of air-brake system components. The reason for that growth is probably tied to volume. Effectively, there are only two air-brake performance standards for the world, the U.S. FMVSS standard, which has also been adapted by Mexico, Central America and Asia Pacific, and the European standard, which is also the law in large parts of South America and Eastern Europe, according to Howard.

"Counterfeiters follow the volume, which is why we've seen most of the activity in brake areas — foundation brake components, as well as valving and air dryer systems," he says.

One of the most active companies in attacking heavy-duty counterfeiters has been brake component manufacturer Bendix. Late last year, it filed a patent and trademark infringement lawsuit in U.S. District Court in Chicago against Midwest Truck and Auto Parts, a distributor of heavy-duty parts. The suit, which is still ongoing at presstime, charges that Midwest sold parts that violate Bendix patents and used the companies trademarks illegally.

While legal actions against true counterfeits are important, Bendix feels knockoff parts are an even more serious problem in the heavy-duty market, because they occupy a grey area when it comes to both the law and performance.

"While counterfeits exist, we see a lot more activity with knockoffs and it's been growing in the last few years," says John Flad. "Even without our logo, [knockoffs] create confusion in the marketplace because they use our parts numbers and nomenclature. In our view, there are genuine parts that we know meet our specifications and then there's everything else."

"Sometimes customers assume they're buying a Bendix brand product because the invoice uses a Bendix part number to describe the part," says Dave Schultz, marketing manager for valves. "We know because we get those parts returned to us for warranty. Brake valves and air dryers are the most common."

While a poorer quality air dryer may simply have a shorter than expected life, a knockoff valve "could degrade brake system performance," says Flad. "We work with truck builders to ensure brake systems meet Federal performance standards. We know what our part performance needs to be."

"And sometimes it's a subtle thing that can't be captured by reverse engineering." he says. "For example, we have an exact spec for the kind of grease used on a valve. In warm weather, it isn't an issue, but get a real cold spell, and it becomes very significant."

If trucking thinks safety concerns over counterfeit or knockoff parts are overblown by suppliers, it need only look to the aviation industry for proof that such problems can be serious and widespread. Between 1973 and 1993, the Federal Aviation Administration attributed 166 aircraft accidents to what it calls "unapproved parts," that is, counterfeit or knockoff parts identified as substandard.

In one instance, "unapproved" bolts and bushings in a charter airliner were identified as the reason it disintegrated over the North Sea, killing all 55 people aboard. In another case, counterfeit parts installed during routine maintenance were the cause of a helicopter crash over New York's Hudson River, killing a traffic reporter and the flight crew.

The FAA became so concerned about the problem that in 1995 it established the "Suspected Unapproved Parts Program Office" to deal with it.

Even if the replacement part isn't critical to a truck's safety systems, the business risk of using a "non-genuine part" is getting higher, says Russell.

"We don't like to get copied, but we understand that business model," she says. "True counterfeiters should go to jail, but [makers of non-genuine parts] are often legitimate businesses with competent skills in some small area, and they go to the market representing themselves as their own company. If you know you're buying a non-genuine copy of an Eaton gear, for example, we don't have a problem with that."

However, the growing complexity of truck components and the interaction of electronic controls make that non-genuine part a bigger gamble than ever. "Eaton doesn't design a gear; it designs a system that that gear operates in," says Russell. "We understand at the system level what that gear needs to be. But [the non-genuine

producer] can only copy the gear. And with all the new smart systems, transmissions and other components are not just a collection of hard parts anymore."

COST EQUATION

While the genuine part may cost more initially, that's because it represents the design and testing that went into it, as well as the technical and warranty support that follows it, Russell adds.

Economic pressures will certainly tempt some fleets to try no-brand or counterfeit parts, "but you're playing Russian Roulette with imitation parts because you just can't predict how they'll impact a vehicle's lifecycle cost or even residual value," says David Danforth, national sales manager for Paccar Parts.

With most predicting that the problem is getting worse, how does a fleet protect itself against the safety and business dangers posed by heavy-duty parts counterfeiting?

Prices for brand-name parts that sound too good to be true have always been a tipoff for buyers to beware, but such caution alone isn't going to be enough. In the automotive aftermarket, there have already been reports of savvy counterfeiters raising prices to just below OEM levels in order to avoid such concerns.

More importantly, and more likely, counterfeit or substandard knockoff parts used to assemble or rebuild components are virtually undetectable at the fleet shop level.

"There are four different rectifier assemblies that I can use to rebuild one particular alternator," says Paul Sailon, the president of Sailon Auto Electric, a supplier of heavy-duty rebuilt electrical components in New York. "They all have the same fit and function, but the rectifier is that unit's weak point and the cheaper ones don't stand up. Our customers are fleets with revenue producing equipment. They need that quality even if it does cost a bit more."

"I advise fleets to develop a close relationship with a major parts supplier or dealer who will provide them with the right pricing, service and, above all, right quality," says Darry Stuart, an objective source who's managed both private and for-hire fleets, as well as owned and operated a heavy-duty parts business. These days Stuart runs DWS Fleet Management Systems, offering executive services to smaller fleets.

"You still have to monitor them and be cautious about those deals that are too good to be true. But don't waste your time searching to save 20 cents on a brake shoe because in the end what's really important is the service, support and integrity of that parts supplier."

In other words, simply buy from someone you know and trust, whether it's the dealer who sells you your trucks, a heavy-duty specialist or an authorized distributor for an all-makes component manufacturer.

Additional research for this article was provided by Larry Kahaner and Sean Kilcarr.