MILLER CANFIELD

GLOBAL AUTOMOTIVE NEWSLETTER

The Law Firm for the Industry's **Next Generation Vehicles** **NOVEMBER 2011**

Headquartered in Detroit, the birthplace of the global automotive industry, Miller Canfield counsels and represents companies that are active in all segments of the automotive industry - including next generation vehicle manufacturers and innovators worldwide.

The following articles contain important information for owners and directors of both established and growing automotive companies.

Russia Set to Join WTO

Russia has completed accession negotiations with the World Trade Organization (WTO), and now expects to join the WTO in the first half of 2012. The global auto component industry has long anticipated this development. A big stumbling block that needed to be overcome related to "Decree 166" – a set of rules governing the auto industry in Russia which provides preferential import duties to certain carmakers that agreed to assemble vehicles in Russia and use local parts. Agreement was reached on this and the other issues.

Effect on Automotive Suppliers

Analysts estimate the current Russian market to be at approximately $45 billion, including approximately $12 billion in OE component and $27 billion in aftermarket sales. By 2015, the Russian OE supply market is expected to triple in size, to approximately $35 billion. Car production in Russia is expected to reach over 3.25 million by 2015, with international brand products expected to be in excess of 2.5 million of that amount. Once Russia joins the WTO, and thereby commits to opening its markets to foreign companies and investors, these numbers are expected to grow even more rapidly.

Currently, there are a limited number of foreign auto component manufacturers in Russia, mostly confined to larger companies. This has been the result of not only the relatively closed market for foreign automotive components, but also to the difficulties and risks inherent in doing business in Russia. Accordingly, many components and systems have been either locally sourced (with mixed results) or imported (at higher costs). But as a result of the WTO's imposed market liberalization, analysts expect many opportunities in Russia to open up to foreign suppliers who could either import products more freely, especially from East European production centers, or establish local manufacturing operations or JVs directly in Russia.

Russia's WTO Accession Package

As with other countries who join the WTO, Russia has agreed to a draft "Protocol of Accession" with the WTO, which outlines Russia's commitments to providing and opening market access for specific goods and services over a prescribed timetable. During this timeframe, Russia will be given a "transition" period for certain products, during which it would be able to protect domestic producers.

Russia's overall bound tariff rate on industrial and consumer products will average around 7.8 percent, as compared to 10% currently. The vehicle manufacturers currently producing in Russia which were granted preferential status will be given a period of years to transition out of such status. As for export duties, Russia will enter into specific commitments with regard to the level of its export duties.

Russia also committed to eliminate quantitative restrictions on imports or other similar restrictions. In its customs valuation practice, Russia will follow the provisions of the WTO Customs Valuation Agreement, relating to the methods that should be followed to set value of goods, transfer pricing principles and the elimination of the current practices of using minimum or fixed valuation schedules to establish the value of imported goods. Russia is also required to abandon subsidies related to the exportation of goods.

In addition, Russia pledged to follow the WTO Agreement on Technical Barriers to Trade. This Agreement ensures that regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade, by requiring that Russia apply a non-discrimination and a national treatment regime with regard to technical regulations. It will also harmonize technical regulations and conformity assessment procedures with relevant international standards.

Things to be Done

There are still a few hurdles to be overcome before Russia becomes a full member of the WTO. First, the WTO Ministerial Conference is scheduled to meet in mid-December to approve Russia's accession package. Then, after receiving a formal invitation from WTO Ministerial Conference, membership in the WTO becomes official 30 days after the Russian authorities ratify acceptance. This is all expected to be completed by mid 2012.

However, due to Russia's inclusion in the list of countries covered by the "Jackson-Vanik Amendment," enacted by the U.S. Congress in 1974, the benefits provided by Russia's accession to the WTO may still be withheld from the U.S. market unless the U.S. Congress votes to remove Russia from the list of countries covered by the law. Negotiations on Capitol Hill are underway with respect to this issue.

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Significant Changes to U.S. Patent Law

The "Leahy-Smith America Invents Act" (H.R. 1249), which was signed in to law by President Obama on September 16, 2011, marks the first significant changes to the U.S. patent system since 1952. More on highlights of the Act.

First Inventor to File

The most anticipated provision of the Act moves the U.S. patent system from the present "first-to-invent" system to a "first-to-file" system.

Correspondingly, the novelty provisions of Section 102 of the Patent Act are extensively amended. In general, disclosures that bar a patent will include public use, sales, publications, and other disclosures available to the public prior to the filing date of the application or by earlier filed applications that result in published applications or patents.

The Act retains a one-year grace period for inventors to file an application after certain disclosures of the claimed invention, but only for the inventor's own disclosures and disclosures by another who obtained the subject matter disclosed from the inventor.

The Act eliminates geographical limitations that previously permitted patenting of inventions publicly known or used in foreign countries.

Interference proceedings used to resolve disputes regarding the first inventor are replaced with "derivation proceedings" where a later applicant can allege that an earlier applicant derived the claimed invention from the later applicant.

The provisions relating to the "first-to-file" system go into effect 18 months after enactment.

Inventor's Oath or Declaration

The Act makes it easier for a party to whom an inventor has assigned or is under an obligation to assign to make an application for patent.

The provisions relating to the inventor's oath go into effect 1 year after enactment.

Defense to Infringement Based On Prior Commercial Use

The scope of prior user rights are expanded to encompass commercial use of all inventions, not just "method" claims. The defense is applicable if an alleged infringer can establish either an internal commercial use or arm's length sale of an end result of such commercial use more than one year before either the effective filing date of the claimed invention or the date on which the claimed invention was publicly disclosed in a manner that qualifies for the one-year grace period.

The provisions relating to the prior commercial use defense will apply to any patent issued on or after the date of enactment.

Post-Grant Review Proceedings

A new "post-grant review" proceeding is established in which a person who is not the patent owner may request cancellation of one or more claims on any ground that could be raised under specified provisions relating to invalidity of the patent or any claim.

- must be filed within 9 months after the grant of patent
- petition must present information which, if not rebutted, would demonstrate that it is "more likely than not" that at least one of the claims challenged is unpatentable, or raises a novel or unsettled legal question important to other patents or applications
- may not be instituted if petitioner has filed a civil action challenging the validity of a claim of the patent

A new "inter partes review" proceeding is established replacing inter partes reexamination, in which a person who is not the patent owner may request cancellation of one or more claims only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.

- must be filed after the later of 9 months after the grant of patent or termination of post-grant review
- petition must show a "reasonable likelihood" that the petitioner would prevail with respect to at least one of the claims challenged
- may not be instituted if petitioner has filed a civil action challenging the validity of a claim of the patent, or if filed more than one year after the petitioner is served with a complaint alleging infringement of the patent

The provisions relating to post-grant review and inter partes review go into effect 1 year after enactment.

Pre-Issuance Submissions by Third-Parties

The Act allows any third party to submit any printed publication along with a description of the relevance to the PTO before the earlier of (i) the date a notice of allowance is mailed, or (ii) the later of either 6 months after the application's publication, or the date of the first rejection.

The provisions relating to pre-issuance submissions go into effect 1 year after enactment.

Fee Setting Authority

Upon enactment, the Act allows the PTO to set or adjust its fees to recover its “aggregate estimated costs.” In addition, a new “micro entity” is established which qualifies for a 75% reduction of fees.

Effective 60 days after enactment, there will be an additional fee of $400 for each patent application, except for a design, plant, or provisional application that is not filed electronically.

Fees

The Act establishes a fee of $4,800 in addition to the usual fees for prioritized examination of an application. In addition, a 15% increase in most fees, including maintenance fees.

These fee provisions take effect 10 days after enactment.

Supplemental Examination

A new section is established permitting a patent owner to request a “supplemental examination” to consider, reconsider, and correct information believed to be relevant to the patent. Requires the Director to order reexamination if a substantial new question of patentability is raised by at least one item of information in the request.

The provisions relating to supplemental examination go into effect 1 year after enactment.

Tax Strategies Deemed Within Prior Art

Upon enactment, the Act provides that inventions for reducing, avoiding, or deferring tax liability cannot be differentiated from the prior art, but adds express exclusions for inventions that are used solely for preparing a tax return; or used solely for financial management, to the extent that it is severable from, or does not limit the use of, any tax strategy.

Best Mode Requirement

The Act retains the requirement to set forth the best mode for accomplishing the invention, but failure to disclose the best mode is excluded as a basis for invalidating an issued patent.

The provisions relating to best mode go into effect upon enactment.

Marking

The Act allows virtual markings (markings that direct the public to a freely-accessible website where a patented article is associated with its patent number) to provide public notice that an article is patented. Only the United States may bring an action for false marking. A person who has suffered competitive injury may file a civil action for recovery of damages adequate to compensate for the injury.

Virtual markings with matter relating to a patent that covered that product but has expired are exempt from false marking liability.

The provisions relating to marking go into effect upon enactment and apply to pending cases.

Advice of Counsel

The Act bars using an accused infringer’s failure to obtain the advice of counsel or failure to present such advice to a court or jury to prove that any infringement was willful or induced.

Transitional Program for Covered Business Method Patents

Establishes an 8 year transitional post-grant review proceeding under which the validity of certain defined business-method patents may be reviewed.

The provisions relating to this program go into effect 1 year after enactment and will apply to any business method patent regardless of when it issued.

Jurisdiction and Procedural Matters

The Act clarifies federal court jurisdiction over patent and copyright actions.

Joinder of accused patent infringers is restricted to cases arising out of common facts and transactions. This provision applies to any civil action commenced on or after the date of enactment.

Patent and Trademark Office Funding

Effective October 1, 2011, a Patent and Trademark Fee Reserve Fund will be established into which any fee collections for a fiscal year in excess of the amount appropriated for that fiscal year must be deposited. Amounts in the Fund will only be available for obligation and expenditure by the PTO.

Limitation on Issuance of Patents

Upon enactment, patents on "a claim directed to or encompassing a human organism" are prohibited.

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New Export Control Law for Mexico

In order to comply with its obligations under UN Resolutions 64/40 and 1540, on June 16, 2011 the Mexican Secretary of Economy issued an "Accord" (Acuerdo por el que se sujeta al requisito previo por parte de la Secretaría de Economía la exportación de armas convencionales, sus partes y componentes, bienes de uso dual, software y tecnologías susceptibles de desvío para la fabricación y proliferación de armas convencionales y de destrucción masiva) establishing a system of export controls for arms, parts, and dual-use goods, software, technology and goods that could be used in the manufacture and proliferation of conventional weapons and weapons of mass destruction. In addition, Mexico also requested accession to the Wassenaar Arrangement, one of the most important international regimes on export control for conventional arms and dual-use goods and technologies. The Accord will enter into force on October 21, 2011.

The new Accord follows some concepts under the US export control regime.

Under the Accord, the following items listed on the Accord's annexes require an export permit from the Secretary of the Economy before they may be exported:

- Dual-use goods listed on Annex I;
- Conventional arms, parts and components listed on Annex II; and
- Software and technology listed on Annex III

Dual-use

"Dual-use" is defined broadly to include any product, regardless of how small or innocuous, that could be incorporated in both military and civil products or put to military use. Examples include computers and software, drawings, bearings, electric/integrated circuits and cellular phones having a potential for dual use. Thus all dual-use software, technology and goods leaving Mexico, including by electronic means, are considered "exported" and, therefore, may be subject to obtaining an export permit from the Secretary of Economy prior to their export.

Exemptions from Export Permit Requirement

The following persons and transactions are exempt from obtaining an export permit:

- The Mexican Government;
- If the final customer is located in the United States, Canada, or a member state with similar export controls;
- Any other entity or person exempted by the Secretary of the Economy.

Obtaining an Export Permit

In order to obtain an export permit, the exporter must submit to the Secretary of the Economy a "Declaration of Final Use" that must contain the following information:

- Exporter's name and address;
- Foreign importer's name and address;
- Industry or business activity of foreign importer;
- Description of goods to be exported; and
- Description of the operations or activities related to end use of the goods to be exported.

The export permit will be valid for one year, which can be extended for one more year as long as the circumstances remain the same. The Secretary of the Economy may refuse or cancel the exporter's authorization if the above requirements are not met, if false information is presented, if the exporter cannot provide sufficient evidence of accurate export controls or if the Secretary of the Economy knows or suspects involvement by the exporter activities controlled by the Accord.

How Can My Company Be Affected?

The Accord contains three annexes listing the specific goods and tariff codes of the goods that are subject to the export permit requirement. These lists will be reviewed and updated at least once a year. There are nine categories of dual-use goods in Annex I, which are comprised of the following broad categories:

I. Special materials and related equipment
II. Material Processing
III. Electronics
IV. Computing
V. Part I Telecommunications
V. Part II Information Security
VI. Sensors and Lasers
VII. Navigation and Avionics
VIII. Marine
IX. Aerospace and Propulsion

The Accord contains a fourth annex. Annex IV is a list of exempted destination countries. This annex has no listings at present.

The main industries affected by the new export controls are:

- Aerospace
- Aeronautic
- Electronic and electric components
- Machinery and equipment
- Nanotechnology
- Robotics
- Software

Sanctions for Non-Compliance

Failure to comply with the Accord will be sanctioned according to the Foreign Trade, the Customs and/or any other applicable regulations, and may include tax and criminal penalties.

Companies doing business in Mexico need to carefully evaluate both the products listed as requiring an export permit, and also whether the ultimate customer is located in one of those countries that is exempt from the export permit requirement.

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Collective Bargaining Strategies and Pitfalls

In light of the recent Big Three and UAW negotiations for new collective bargaining agreements, it is a good reminder that you can never start preparing too early for your own negotiations. Following are some basic tips to place your company in the best position possible when bargaining new or successor collective bargaining agreements.

Strategies

Be Prepared!

The most important thing that you can do when faced with upcoming concession bargaining is to be prepared. Each member of the bargaining team should have a thorough understanding of the current collective bargaining agreement, and if possible, the changes that have been made in the recent past. The team should review grievances that have been filed since the last agreement and have information on health care costs, as well as data to support whatever changes the employer may be requesting from the union. It is very likely that health care will be an important part of bargaining, and its complex nature requires a thorough understanding and preparation for bargaining.

Know the Bargaining Unit

It is helpful to have a good sense of what is important to the bargaining unit. Is the union comprised mainly of older workers nearing retirement? Is the union comprised of younger members whose focus is more on salary issues? This basic information will help the team prepare its proposals and can help target proposals that are more likely to be accepted by the union.

Have the Data to Support Your Positions

All of the preparation does no good without the proper data to support your positions. Have copies of past bargaining agreements, copies of financial documents, and any other source of information needed to support your positions.

Pitfalls

Not Being Prepared

Nothing can delay negotiations and frustrate the parties more than not being prepared. The union will not take your proposals seriously, and the meetings will be meaningless if you are not prepared. In reality, the company should be in constant preparation for negotiations.

Not Providing Information to the Union

The duty to provide information is a part of the employer's duty to bargain in good faith. The NLRB has consistently broadly applied this duty to employers (and unions).

Not Providing Accurate Information to the Union

This should go without saying, but it is crucial that the information and data provided to the union is complete and accurate. If the union catches the employer using information that is incomplete or inaccurate, it will immediately taint the bargaining relationship

Allowing the Union to Stall

Finally, it is important to keep bargaining moving and avoid unnecessary delays. Most of this will be prevented by following the tips above, being prepared, and providing information in a timely manner to the union.

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Office of Foreign Assets Control (OFAC) Compliance

When conducting international business, you can avoid unexpected and potentially severe legal problems by being aware of the general requirements of U.S. export control laws.

Common export control laws include:

- The International Traffic in Arms Regulations (ITAR) administered by the U.S. Department of State Directorate of Defense Trade Controls (DDTC);

- The Export Administration Regulations (EAR) administered by the U.S. Department of Commerce Bureau of Industry and Security (BIS); and

- The Office of Foreign Assets Control Regulations administered by the U.S. Department of Treasury Office of Foreign Assets Control (OFAC).

This article provides an introduction to the role of OFAC under US export control laws.

OFAC "administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy or economy of the United States.

OFAC acts under Presidential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under US jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments." (http://www.treasury.gov/about/organizational-structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx)

OFAC's sanction programs involve:

- Specially Designated Nationals List (SDN List);
- Counter Terrorism Sanctions;
- Counter Narcotics Trafficking Sanctions;
- Non-proliferation Sanctions;
- Cuba Sanctions;
- Iran Sanctions; and
- certain other OFAC sanctions programs involving select countries and activities.

OFAC administers comprehensive sanctions programs for:

- Burma (Myanmar);
- Cuba;
- Iran; and
- Sudan

OFAC administers limited sanctions programs for:

- Western Balkans
- Belarus
- Cote d'Ivoire
- Democratic Republic of the Congo
- Iraq
- Liberia (Former Regime of Charles Taylor)
- Persons Undermining the Sovereignty of Lebanon or Its Democratic Processes and Institutions;
- North Korea;
- Sierra Leone;
- Syria; and
- Zimbabwe

OFAC also administers other programs targeting individuals or entities that could be located anywhere. These programs involve:

- foreign narcotics traffickers;
- foreign terrorists; and
- Weapons of Mass Destruction (WMD) proliferators.

To keep track of these individuals or entities, OFAC maintains a list of Specially Designated Nationals and Blocked Persons (SDN list).

General and specific licenses are available for persons seeking to engage in transactions that would otherwise be prohibited by OFAC. These licenses are governed by regulations found at 31 CFR Section 501.801. General licenses automatically permit certain types of transactions. A person relying upon a general license to conduct business may, however, be required to file reports and statements according to the terms and conditions of the general license. Specific licenses can be obtained from OFAC to undertake prohibited transactions that are not covered by a general license. Applications for specific license are submitted to OFAC in Washington, DC.

Substantial criminal and civil penalties result from an OFAC violation. Criminal penalties can include fines ranging from $50,000 to $10,000,000 and imprisonment ranging from 10 to 30 years for willful violations. Depending on the program, civil penalties range from $250,000 or twice the amount of each underlying transaction to $1,075,000 for each violation. (http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/answer.aspx#11)

Here are some suggestions to help your business avoid an OFAC violation:

1. When conducting international business, check the SDN list and consider any other sanction programs administered by OFAC or other governments that could apply. Avoid conducting business with a prohibited person or entity, which could lead to the blocking of funds, and other civil and criminal penalties. Many financial institutions use compliance software to avoid doing business with people or entities on the SDN list. If the software is unavailable, anyone can access the SDN list sorted in different ways on the OFAC website. (http://www.treasury.gov/resource-center/sanctions/SDN-List/Pages/default.aspx)

2. If your transaction appears to be prohibited, check and see whether a general license applies. If not, consider applying for specific license.

3. If you regularly conduct business internationally, consider developing expertise in-house in cooperation with a compliance professional to ensure that you do not run afoul of OFAC or any export control or other trade restrictions.

4. If you plan on developing expertise in-house, OFAC offers training events throughout the year in different parts of the country. Further information can be found in the Resource Center of the OFAC website. (http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/events-index.aspx)

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Contact us if you'd like assistance with your global automotive initiatives. We can discuss the challenges, identify the obstacles, and lead you to solutions.

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