European Communities Trade Mark Association

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ECTA Position Paper
Designs and Spare Parts

ECTA Design Committee

I. INTRODUCTION

The issue of spare parts lays on the long time discussion regarding its harmonization and the way Europe keeps playing “hide and seek” with the group of interest involved, running away from finding a solution. The truth is that not everybody can be pleased with the answer that needs to be found and there are very strong economic groups and political interests at stake.

However, enough time has passed.

Generally, the issue involves notably, on the one hand, the car industry, which desires a full protection model for the design of its spare parts and on the other hand, the secondary market and SME’s whishing a full liberalization of the market (i.e. a repairs clause and no design protection for spare parts) in order to compete with the car industry.

Europe seems in favor of the second viewpoint, affirming that competition law requires the full liberalization of the market to avoid abuses of any dominant position, and for all sorts of competition law reasons. Nevertheless, a final decision or solution was never found, and nowadays there is a general feeling that this is a long dead issue.

ECTA believes that this matter should be re-evaluated in order to try to find a solution for this complex problem notably by trying to conciliate the balance of the interests at stake and the aimed legislative harmonization on spare parts.

Hence, this position paper aims to pose the European Commission a born-again challenge: bring the issue back to the EU agenda and join ideas, brainstorm, in order to trigger the topic again and try to find a solution.

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II. THE SPARE PARTS ISSUE – THE PAST, THE PRESENT AND THE FUTURE – ECTA'S PROPOSAL

a) The Past

The question on whether spare parts and design rights can be seen as an anti-competitive or an abuse of dominant position through a design right was raised in early days (Case C-238/87 (Volvo), [1988] and Case 53/87 (Maxicar/Renault), [1988]).

It should be noted that the ECJ marked that the preliminary ruling was given in the absence of Community legislation in the field.

Today, such legislation partly exists, but the spare part issues that have created such obstacles in the history of the Directive 98/71/EC are still not solved, nor there is a linked unitary right under a regulation.

Article 14 of the Directive provides that Member States maintain existing legal protection as to the use of spare parts for repair with the possibility of modifying this protection only if the modifications lead to the liberalization of the market for such parts. It also provides that the European Commission reserved the right to make a new proposal within four years after the entry into force of the Directive that is, from October 2005.

In 2004, the Commission released a proposal to introduce into Directive 98/71 a "repairs clause", so that visible car parts can be freely reproduced by independent parts manufacturers and marketed throughout the EU for repair purposes and to restore the original appearance of the product. Under the proposal, car manufacturers would retain exclusive rights covering the use of designs for the production and sale of new vehicles. That is sufficient to reward their investment in design and to maintain a strong incentive to innovate. Manufacturers will continue to produce the best-looking vehicles they can, as car buyers are influenced by appearance in making purchasing decisions. Along with the proposal, the Commission released an extended impact assessment to explain its findings.

b) The Present

The 2004 proposal aimed to complete the internal market through the process of liberalization which has begun and was partially achieved in the Directive 98/71/EC, so as to increase competition and offer consumers greater choice as to the source of spare parts used for repair purposes. At the same time it aimed to maintain the overall incentive for investment in design as it does not affect design protection for new parts incorporated at the manufacturing stage of a complex product.

The current situation is the existence of different opposed regimes of design protection for spare parts, where 9 Member States have liberalized and 16 Member States extend design protection to spare parts.

From the European Commission viewpoint, design protection for spare parts is totally unsatisfactory from an internal market point of view.

In the automotive sector, which is the sector most affected, there is a single market for new cars but no single market for their spare parts. Automotive spare parts currently cannot be freely produced and traded within the Community. Due to this fragmentation and the uncertainty about the evolution of the Community's design regime citizens are insecure as to whether or not and in which Member State the purchase of certain spare parts is lawful, and they are deprived in parts of the Community of choosing between competing spare parts. For the same reason, parts producers, especially SMEs, cannot use the economies of scale offered by a single market and they are discouraged from generating investment and employment, which they might otherwise do.

Despite the fact that the spare parts issue is generally associated to the automotive spare parts, the Directive 98/71/EC, as well as the Proposal for amending it launched by the Commission in 2004, refer to component parts of any kind of complex products, not only to components parts of cars. Actually this should be noted since the "spare parts clause" is also relevant for other important industries, for instance, the telecommunications industry.

The economic impact of design protection on the prices of spare parts has been disputed by interest groups from both sides (for and against liberalization). However,

price comparisons provided by industry associations and other stakeholders are based on anecdotal evidence or at best on simple averages over some parts and some countries. To obtain better data the Commission carried out an in depth and systematic analysis to assess whether there is a systematic difference in the prices of original spare parts in Member States with design protection and Member States without. The findings of the study, which are described in the Extended Impact Assessment, support the conclusion that markets are systematically distorted.

The analysis of a sample of prices for 11 spare parts for 20 car models in 9 Member States and Norway, of which 6 countries grant design protection for these parts and 4 do not, reveals that prices for 10 of these parts are significantly higher in Member States with design protection than in Member States without. The only part for which the price is not significantly higher is the radiator – but that part does not benefit from design protection as it is not part of the outward skin of a car. For the other parts, bumpers, doors, wings, lamps, lids and bonnets, prices were between 6.4% and 10.3% higher in Member States granting design protection. These results show that vehicle manufacturers as the right holders exercise considerable market power in these Member States to the detriment of consumers.

In sum, the current situation with a mixed protection regime is creating trade distortions in the internal market: resources and production are not allocated on the basis of competitiveness and production is not determined by market mechanisms. This leads to distortion of prices and obstacles to trade. It can be expected that in a liberalized internal market prices would decrease. In addition, business opportunities and jobs would be created for independent SMEs, who have thus far only been able to obtain a modest share of the market, also in Member States without design protection.

The current proposal should be placed in the context of a debate with a long history. Directive 98/71/EC on the legal protection of designs was adopted on 13 October 1998. It aimed to ensure coherence between national provisions of design law, which most directly affect the functioning of the internal market, ensuring a high level of protection for industrial property and encouraging investment in manufacturing. Under the Directive the appearance of a product may be protected against use by third parties if the respective design has novelty and individual character. However, at the

time, it was not possible to harmonize the design regime in relation to the aftermarket in spare parts.

The primary market for component parts concerns their incorporation at the initial manufacturing and production stage of a complex product. Once that complex product is sold to a consumer and used, it can suffer accidents, breakdowns or damages and parts may have to be replaced or repaired. This constitutes the secondary market or aftermarket for spare parts. The same part might enter the market as an initial component (new part) in the primary market or as a spare part in the secondary market. Nevertheless it is only the secondary market (aftermarket), which is affected by the current proposal.

Not all the spare parts on the market will be affected by this proposal. The spare parts concerned are defined as “a component part used for the purpose of the repair of a complex product so as to restore its original appearance”. A complex product is a product composed of different components or parts that can be replaced or repaired in case of damage with a spare part. There are spare parts for which it is not imperative that the original design feature is used to restore the original appearance of the product, for example because it has a standard shape or function. There are other spare parts for which the design is necessary to restore the original function or appearance of the product, in other words, the part or component of the complex product can only be replaced by a spare part identical to the original part. These are often called “must match” spare parts and only they are the subject matter of this proposal.

At present, the Directive does not exclude the protection of spare parts by a design right, in other words, the protection conferred on the design of the new part in the primary market can equally well apply to the spare part in the secondary market or aftermarket. However, in spite of the fact that Member States were not able to agree on harmonization in the aftermarket, Article 14 of the Directive did stipulate that Member States shall maintain their existing laws in this regard and may change those provisions only in a way that liberalizes the spare parts market (the “freeze plus” solution). What is more, Article 18 of the Directive provides for the Commission to analyse the consequences of the Directive and to come forward with any changes to the Directive to complete the market in spare parts. As the Directive did not change the status quo for existing spare parts regimes in the Member States, except to allow

for liberalization, an analysis of the consequences of the Directive itself at this stage would not assist in deciding what further changes are necessary. Instead, the Commission focused its study on the specific issue of design protection in the aftermarket.

Now that all Member States have transposed Directive 98/71/EC into their national legislation the situation is the following:

(i) some countries still have effectively design protection for spare parts (e.g. Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Lithuania, Malta, Poland, Portugal, Slovakia, Slovenia and Sweden)

(ii) some countries have a repairs clause, allowing design protection on new products but leaving the possibility for alternative parts in repair or replacement in the aftermarket (e.g. Belgium, Hungary, Ireland, Italy, Latvia, Luxembourg, The Netherlands, Spain and United Kingdom)

(iii) Greece provides for a repairs clause combined with a term of protection of 5 years and a fair and reasonable remuneration. This system of remuneration has not yet been put into practice.

An important parallel development is that legislation on the unitary Community Design administered by OHIM went a stage further towards liberalization of the secondary market with Article 110(1) of Council Regulation (EC) No 6/2002 on Community Designs. This provides that *"protection as a Community design shall not exist for a design which constitutes a component part of a complex product used ... for the purpose of repair of that complex product so as to restore its original appearance"*. In other words there is no protection available under the Community Design regime (as opposed to national design rights) for "must-match" spare parts in the aftermarket. That text has been taken as a basis for the current proposal addressing national regimes.

Since the adoption of the Directive on the legal protection of designs, the Commission has adopted a new Regulation (EC) No 1400/2002 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle industry. This new regulatory regime has resolved some practical issues regarding the distribution of spare parts, in particular the objective to protect effective competition on the market for repair and maintenance services, inter alia by

allowing users to choose between competing spare parts. However, it does not deal directly with the crucial question of the protection or not of spare parts by an industrial property right. Thus, Regulation 1400/2002 does not preclude the need for greater approximation and liberalization of national laws in relation to spare parts. On the contrary, the liberalization on the secondary market is indispensable to release the full benefits of this Regulation.

The Commission Staff Working Document Proposal for the Directive of the European Parliament and of the Council Amending Directive 98/71/EC on the Legal Protection of Designs – *Extended Impact Assessment* proposed 4 options for the future harmonization and amendment of the Directive:

- "Full liberalization", i.e. no design protection of spare parts: this option assumes a revision of Directive 98/71/EC that would remove design protection for must-match parts across the European Union.
- A system seeking a short term of design protection: under this alternative, design protection for spare parts shall be effective for only a limited period of time. After this period, the spare parts could no longer be covered by design protection and any third party would be free to produce and/or market them. The rationale for this option would be to allow the industry a certain time to recover their costs and appropriate profit from their "intellectual effort".
- A remuneration system for the use of protected designs, including the appropriate level for remuneration. In the context of this option, independent producers could produce spare parts in exchange for a reasonable remuneration to be paid to the holder of the design right.
- A combination of both the systems previously mentioned: a short term of design protection and a remuneration system.

In this Memo, the Commission made a huge assessment on the impact and the positive and negative impacts of all the 4 options above:

- Environmental impacts
- Impact on Competition
- Impact on the consumer and prices
- Impact on Innovation
- Impact on Employment

- Impact on Safety
- Market structure
- Legal certainty
- Administrative costs

Based on such assessment there were considerable stakeholders in favour of the full liberalization model to be implemented in Europe.

However, since, 2004, no further developments were truly registered. The situation remains unanswered and harmonization unachieved.

Nevertheless it should be noted that the procedure for amending Directive 98/71/EC (Procedure 2004/0203/COD) included the above mentioned initial Proposal of the Commission (2004), as well as the subsequent Opinion of the European Economic and Social Committee opinion (2005) and the Opinion of the European Parliament in 1st reading (2007).

The truth is that the procedure ended in 2014 with the final withdrawal of the Proposal by the European Commission.

ECTA believes that a solution for the impasse should be newly addressed.

c) The Future – ECTA's Proposal

In this scenario, what is the future? Is full protection seriously hindering the market and competition? Maybe, it is. But is total liberalization really in accordance with the European protectionist model of IPRs? Maybe, it is not. Up to this point, two things can be affirmed with certainty:

1) Europe fell in 2 extreme positions: full protection on the one hand, for the majority of the countries (inspired of the mentioned protectionist system embraced by Europe regarding IPRs) and full liberalization for the rest of the countries (with the exception of Greece with its particular system).
2) Harmonization is far from being achieved.

The discussion can go every way possible. However, it seems commonly understood that every extreme option turns out to be an inappropriate option.

Hence, ECTA understands that a reasonable answer to this issue can be found somewhere in the middle, by finding a compromise, a balance of interests, an equilibrium.

Taking all the above into consideration ECTA's proposal is to reduce the term of spare parts design protection to 5 years (with no possibility of extension) and open the market for competition after such protection period.

This will allow to compensate the designer's investment and to stimulate its intellectual creation (the true goal of IP) and simultaneously to allow the competitors to enter the market and be compensated for that.

Believing in the report, cars design survives in average for 7 years. Allowing SME's to enter the secondary market 5 years after the launch of the cars design could be enough to stimulate competition and trigger all the social and economic advantages mentioned above.

At the same time, the automotive industry can feel rewarded to have its monopoly ensured for, at least, a time frame.

ECTA fully understands Europe's concern with an alternative like the one which is proposed here, namely that it is anyway a *protection* model. However, it is believed that this is a fair compromise between the mentioned two very legitimate groups of economic interests. In this matter ECTA fears that there are no perfect solutions but this is a suggestion aiming a balance of interests.

III. CONCLUSIONS

The following questions still need to be asked: how to balance the exclusive rights protection and the idea of effective and free trade? when should a replacement part be protected and when should it not?

There are no straight, objective or obvious answers to such questions. Intellectual property rights serve innovation, the intellectual creation, the research and the investment. However, the longtime established internal market of the EU and its 4 freedoms both need to be reflected as well. So, the goal is to try to achieve the perfect balance between exclusive intellectual property rights with national and international trade and economic policy. In the

end, the result should be an optimal inspiration to competition and, at the same time, the same optimal dissemination and investments in creativity.

It seems more or less impossible to the EU legislator to formulate such rules without some group of interest feel deceived and left by Europe. Moreover, it is undeniable that the car industry and the influence it obviously entails can impose a lot of pressure in the final decision on whether to fully protect or fully liberalize the market. However, even with the huge lobby behind this issue, something seems unquestionable: harmonization is needed for the certainty and safety of the markets.

Nonetheless, it seems that the flexibility and the balance with competition law and the internal market is not necessarily a synonym of full liberalization. Europe is characterized notably as being the bastion of the protection of the IPRs. In fact, it is well established that the intellectual creation, the endeavor, the creativity, the little bit of themselves (or even all of themselves) creators leave in their works is much more worthy than just money or economic compensation. Creators deserve moral rights (apart from economic rights); deserve to be part of each of their works. This is the essence behind all the IPRs in Europe, specially the ones that involves creativity, originality and the “creators themselves”.

This way, ECTA believes that the proposed system of full liberalization can be somehow contradictory to the essence and the nature of a proud protectionist system embraced by Europe. Of course there can be no apathy or passivity towards all the advantages largely enumerated in the EU 2004 Memorandum. Competition has to be evaluated, no doubts on that. The social impact, the employment, the investment in SME’s eager to enter into the market and provide the consumer with better prices and better conditions shall all be taken into account. But ever since intellectual property law was borne, a thin line divides when the monopoly these rights provide the authors and the inventors ends and competition begins. There is a long time tension between these two areas and it is when the light of one dazzles the other, when tension swells and the coexistence is stirred once again. However, history tells that one-way or the other, a compromise was always found. Both need to give away something in order to have something back, like a gentleman’s agreement.

Overall, the issue is not dead and the challenge here is to resuscitate it, by stirring the stakeholders and Europe to find a solution, regardless the lobbies, interests and political pressure it undeniably involves. There is still a lot more to do, but IP deserves that commitment and hard work in order to continue to fight for harmonization in this (still seen as a) national field of law so hard to combine forces and European *mind-sets*.

In this sense ECTA presents the above mentioned proposal for the EU harmonization on the spare parts issue.

Thank you for your consideration.

ECTA, which was formed in 1980, is an organisation concerned primarily with trade marks and designs. ECTA has approximately 1,500 members, coming from all the Member States of the EU, with associate Members from more than 50 other countries throughout the world. ECTA brings together those practising in the field of IP, in particular trade marks, designs and related matters. These professionals are lawyers, trade mark and patent attorneys, in-house lawyers concerned with IP matters, and other specialists in these fields. ECTA does not have any direct or indirect links to, and is not funded by, any section of the tobacco industry.

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The extensive work carried out by the Association, following the above guidelines, combined with the high degree of professionalism and recognised technical capabilities of its members, has established ECTA at the highest level and has allowed the Association to achieve the status of a recognised expert spokesman on all questions related to the protection and use of trade marks, designs and domain names in and throughout the European Union, and for example, in the following areas :

- Harmonization of the national laws of the EU member countries;
- Community Trade Mark Regulation and Directive;
- Community Design Regulation and Directive;
- Organisation and practice of the OHIM.

In addition to having close links with the European Commission and the Office for Harmonization in the Internal Market (Trade Marks and Designs) (OHIM), ECTA is recognised by WIPO as a non-Government Organisation (NGO).

ECTA does also take into consideration all questions arising from the new framework affecting trade marks, including the globalization of markets, the explosion of the Internet and the changes in the world economy.