

# IN SEARCH OF A PROBLEM: THE INTERFACE OF CAR BODY PART DESIGN PROTECTION WITH ANTITRUST



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## I. THE PROBLEM IN A NUTSHELL

The interface of intellectual property with antitrust has many facets, and one that has surfaced in recent years is the acquisition of market power by the owners of designs (under patents, in the United States, or under certificates, in other countries) as regards vehicle (cars, trucks, farm tractors, etc.) body parts (hereinafter, this paper will refer to cars only). Such power results from the lock-in of car buyers who need to have their cars repaired after an accident, to whom the costs of changing the model is higher than paying the price for spare parts as high as their makers may decide.

The lock-in is the consequence of two factors: on the one hand, in the event a consumer needs to have one body part replaced, he/she will tend to prefer a part that is in conformity with the original design, so that his/her car keeps its original appearance. This is referred as *must match* designs, as opposed to *must fit* designs. The latter are those that may not be changed, otherwise the complex product, to which they belong, will not function properly. The former may have their shape changed, but at the price of changing the shape of the whole product. Some consumers do not mind this, and actually may engage voluntarily in *tuning* their cars.

On the other hand, patent (or certificate) design owners have the exclusive right of making and selling those designs. So, in the so-called aftermarket — the market of spare parts — intellectual property accords designers and their assignees (mostly, car makers) dominant market power, to the extent that exclusive rights in designs constitute an insurmountable barrier to entry of competitors in that market. Consequently, industrial design right holders' dominant position in the spare parts market gives rise to monopolistic prices, and consumers, locked in to their cars, have no possible way to defend themselves by seeking alternative, interchangeable products.

Enforcing design rights against independent makers and/or importers of car body parts on the aftermarket hurts competition and consumers, and naturally gives rise to an antitrust concern. This is how, in a nutshell, the problem is enunciated.

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## II. THE SIX “SOLUTIONS” AVAILABLE

Based on this sort of argument, the pressure caused by consumer organizations — seeking cheaper spare parts — and independent makers/importers of car body parts — eager to take a piece of the aftermarket pie — has led parliaments and courts in a number of countries to act, aiming to overcome the described barrier problem. Six different solutions have been proposed.

### ***A. Exclude Car Body Part Designs from Protection***

The first solution is to exclude car body part designs from protection altogether, on the grounds of an alleged inherent functionality. In those countries where designs must be ornamental in order to be registrable<sup>2</sup>, the fact that the shape of car body parts has to be in conformity with the overall shape of the entire body would take the arbitrariness of creation from it, thus making each part to be functionally dependent from the whole body. This fact would deprive car body designers of arbitrariness in shaping the different components, hence their creativity. Creativity being one fundamental condition for designs to be eligible for patentability/registrability, its necessary absence would make them ineligible for patent/registration.

This criterion was followed, e.g. a few years ago by a Brazilian federal court. However, on appeal, that decision was reversed, on the grounds that there is indeed creativity in designing body parts, otherwise all cars would look the same.<sup>3</sup>

### ***B. Body Part Designs Registrable and Enforceable only on the Primary Market***

The second solution is that car body part designs are registrable and enforceable, but only against other car makers — i.e. only on the primary market (or foremarket). In other words, rights in those designs are not enforceable against independent makers and/or importers of car body parts, provided those parts are purchased for repairing and restoring cars to their original shape.

This solution was adopted by the European Union (Council Regulation (EC) nr. 6/2002, of December 12, 2001, which set a community design system). It is also envisaged by H.R. 1057 and S. 560, *Promoting Automotive Repair, Trade and Sales Act*. If enacted, these bills would set two exceptions to design rights in the United States: first, design rights would not be enforceable against the making, selling and importing of car body parts by independent makers/importers provided they are purchased for the purpose of repairing cars so as to restore them to their original shape; and second, after a 30-month period, patented designs would be subject to international exhaustion, i.e. once sold abroad, car body parts could be imported into the U.S. without the need to obtain the patent owner authorization.

This solution was also followed by a preliminary decision of the Brazilian competition authority, in a case filed by an association of independent car body part makers and importers against Ford, Fiat and Volkswagen.<sup>4</sup>

### ***C. Unrestricted on Primary and Secondary Markets, but Abuses are Subject to Sanctions***

Third, designs of car body parts are patentable and their enforceability unrestricted on both primary and secondary markets, but abuses are subject to sanctions. Examples of abuses are “the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation,” as the European Court of Justice (“ECJ”) held in *Volvo v. Erik Veng (UK)*.<sup>5</sup>

This is the most traditional position, which prevails in the majority of countries that host an automotive industry that targets domestic consumers. By ensuring protection to creative designs, the law encourages the industry to focus on the taste and cultural values of national consumers. In this manner, the differentiating value of designs is acknowledged and protected, with the consequent gains in promoting free competition among car makers. The exclusion (during the term of design protection) of independent makers/importers is the price that society pays to promote and ensure differentiation. This is the rationale of all the fields of intellectual property — for

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<sup>2</sup> Such as the U.S. — see 35 U.S.C. 171.

<sup>3</sup> *Orgus Ind. e Com. v. Ford Motor Co. et alii*, judgment by Federal Judge Guilherme Bollorini Pereira, Federal Court, 2nd Region, May 23, 2012, *reversed*, Regional Federal Court, delivered by Appellate Judge Marcelo Pereira da Silva, 2nd Chamber, August 1, 2013.

<sup>4</sup> See *ANFAPE v. Volkswagen, Fiat and Ford*, Preliminary Investigation nr. 08012.002673/2007-51.

<sup>5</sup> Case 238/87, judgment of October 5, 1988. See also *CICRA v. Renault*, Case 53/87, judgment on the same day.

intellectual property to be differentiating it has to be exclusive.

In the case of abuses, sanctions will apply, the most common (albeit not frequent) being compulsory licenses. Compulsory licenses may be granted by courts, competition authorities or patent agencies, through formal *inter partes* proceedings, or by courts, when they refuse to issue injunctions against design infringers. In any event, compulsory licenses always trigger the payment of adequate compensation (except in the case of antitrust violations, when the remuneration may be reduced in proportion to the seriousness of the violation)<sup>6</sup> and must be granted on a case-by-case basis.

Examples of national statutes that provide for compulsory licenses against design right abuses are those of South Africa, Chile, Malaysia and New Zealand. In the course of the negotiations of the TRIPS Agreement, during the Uruguay Round, the U.S. and Hong Kong, China, also proposed to introduce compulsory licenses of industrial design rights in the event of abuses (Hong Kong was even specific about the automotive industry).

Recently, this was the path followed by the Competition Commission of India (“CCI”) after an investigation on the practices of the car industry in India as regards the sales and the pricing of car body parts.<sup>7</sup> The CCI concluded that some of those practices were abusive, and that car makers should not only refrain from opposing the making and selling of body parts by independent makers/importers but also provide them with the necessary technical information, except when the corresponding manuals and designs were protected by intellectual property rights (namely, trade secrets and design certificates). In such cases, independent makers would need to remunerate the IP holders.

#### ***D. Exclusive Rights are Subject to Exhaustion***

Fourth, the exclusive rights that stem from the registration of industrial designs of car body parts are subject either to exhaustion or to an implicit license as a result of the first sale of the vehicle of which they are components. Therefore, the purchaser of the car acquires the right to buy spare parts from independent suppliers provided his/her intent is to repair the car and restore it to its original shape.

This doctrine was first adopted by a deeply divided House of Lords, in *British Leyland Motor Co. v. Armstrong Patents Co. Ltd.*<sup>8</sup>

#### ***E. Designs are Protected by a Right of Exclusivity during an Initial Predetermined Term***

Fifth, designs are protected by a right of exclusivity during one initial predetermined term; once that term expires, during a subsequent period, the design owner loses the right to prohibit their making and selling by third parties, but he/she is entitled to remuneration by those third parties. This system is tantamount to a mechanism of automatic compulsory licenses. The European Commission proposed this system when it was discussing a Directive on the harmonization of the design laws of its Member States, but has since dropped it. One European country, however, has transposed such a system into its national law. Greece, whose law provides for a five-year period of exclusivity to registered designs, followed by four renewable, consecutive five-year periods (totaling 25 years of protection) during which third parties can use the designs provided they pay remuneration to the rights owner.

#### ***F. Design Rights Cannot Impede the Repair of Cars in Transit***

Sixth, exclusive design rights cannot be enforced in a way that impedes the repair of cars in transit or that accidentally entered national territory. This exception is found in a number of statutes on industrial designs such as those of South Africa, Andean Community (Bolivia, Colombia, Ecuador and Peru), Republic of Korea and Mexico. All these countries have extended to industrial designs of car body parts, by analogy, provisions that are found in the Paris Convention for the Protection of Industrial Property (on patents only) and the Convention on International Civil Aviation.

This sixth solution is not incompatible with the solutions above (except the first one, which denies protection to car body part designs altogether) and therefore can be (and has been actually) applied in conjunction with any of them.

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<sup>6</sup> See TRIPS Agreement, Article 31(k).

<sup>7</sup> See *Shri Shamsher Kataria Informant v. Honda Siel Cars India Ltd. et alii*, Case nr. 03/2011.

<sup>8</sup> Judgment of February 27, 1986.

### III. SOLUTIONS IN SEARCH OF A PROBLEM?

Actually, out of those six solutions, only two address real problems. One is the third solution, which reduces design rights in face of abuses only. This is not only a matter of law but of good sense as well: the uncontrolled enforcement of IP rights reduces competition and ultimately eliminates differentiation, thus destroying the very purposes of IP protection. The other is the sixth solution, which acknowledges a possible barrier imposed on international trade caused by the enforcement of legitimate rights. Whereas infringement has no impact on the national territory of a country or, if it has, such impact is *de minimus*, and, in addition, enforcement harms the legitimate interests of traders and consumers (just think of an aircraft that gets stalled at an airport for the lack of spare parts), there is no justification for keeping design rights enforceable.

But all the other four solutions are, in reality, seeking a problem that does not exist, unless we accept that the purchase of painless gains by new entrants to markets previously created by the efforts and creativity of others is legitimate. However, that is not legitimate, and there are at least four powerful reasons that show why.

First, when we refer to the aftermarket of spare parts, we actually refer to what one may call a *Horton market* — a market the size of a speck of dust. Indeed, most car body parts are not interchangeable, with the exception of a few ones, like the grids and headlights of a few models, which may be common to a number of models of the same car. Other than those exceptions, car body parts are not interchangeable even within the same model — the front left fender of car X, year Y, cannot be replaced by a part other than another left fender of the same model and year.

This means that the impact of overpricing permitted by design exclusivity is minimal as compared to the price of a new car.

Second, admitting the dominance over the tiny market of specific, non-interchangeable parts, that results from design exclusivity, such dominance is originated by the own efforts of the carmaker in question. As the law and good sense goes, no entrepreneur is obliged to make competitors' life easy.

Third, a number of car body parts become as much distinctive of cars and their makers as figurative trademarks. Actually, there are certain car part designs that are so distinctive that their makers could stop placing logos on the bonnets or the front grids, and consumers would still be able to recognize them. Here, again, the law and common sense teach that competitors should not be allowed to make and sell those parts, for they constitute the very DNA of the concerned models and their makers. Such parts have a significant distinctive strength and become signs of product identification. They are, therefore, more than industrial designs — they become genuine trademarks and are protectable as such as well as by the norms that repress unfair competition against acts of parasitism and confusion.

Fourth, the exception to rights in car body part designs, preventing their enforceability on the secondary market, is discriminatory and illegal, unless it also benefits the other car makers (which might be interested in entering the secondary market, thus competing with each other on supplying spare parts — an obviously absurd proposition).

Besides, denying enforceability to design rights without adequate compensation to creators is contrary to international law. Under Article 26.2 of the TRIPS Agreement (which is Annex 1C to the 1994 Agreement Establishing the World Trade Organization), WTO Members may set exceptions to design rights, but only provided those exceptions are limited, do not conflict unreasonably with the normal exploitation of designs and do not unreasonably prejudice the legitimate interests of design right holders. Of course, demonstrating the absence of limits in the rules that permit independent makers/importers to make and sell body parts for repairing does not take effort — there are simply no limits. Moreover, those exceptions come with a price, which is the prejudice of design right owners, who should be entitled to extract revenue from sales not only on the primary, but also on the secondary market.

Against these logical arguments, the lobbying for the independent makers/importers of car body parts keep trying to persuade authorities of their good cause with arguments that, although untrue, have gained popularity. Car makers, as the argument goes, are greedy monopolists in search of unjust and disproportionate profits in a heartless way. Consumers are the victims, poor citizens that inadvertently, when they buy a car, fall as prey into car makers' hands.

Nothing could be more wrong, and not only for the legal reasons given above. Actually, in most countries, the automotive industry may not engage in the sort of abusive acts mentioned by the ECJ, such as abusive pricing or failing to keep stock of parts for discontinued models, in the face of rules imposing certain behavior to car makers and importers (in some countries designated as “automotive regimes”).

The recognition of exclusive rights in car body parts that are designed for the national market ensures the creation and maintenance of jobs; the alternative (lack of protection) is an open door for cheap imports from countries where casting molds are manufactured in large scale and prices are unbeatable because of the lack of need for recouping the investment in design.

To permit the after-sale recouping of costs sunken in the research and design of body parts is socially fair and economically efficient. Not only are designers encouraged to continue developing new, prettier and more efficient designs, but also eventual overpricing imposes the burden on those who buy the parts, this meaning those who are involved in car accidents. In other words, allocating rights to car body designers does not only make social justice to creators, but also serves as a tool of social education, persuading buyers to cover their cars with insurance as well as to pay more attention to traffic safety.

Finally, the whole debate has been summarized by Kord Hoffmann, in *Canon K.K. v. Green Cartridge Co.*<sup>9</sup> in enlightening language:

Of course one has a right to repair one's car, as one has the right to cultivate one's garden and indulge in all kinds of harmless activities. But such a right is not usually treated as entitling one to invade the property rights of others; for example, by taking a neighbour's dahlias on the ground that this is the most economical way of going about it. It is hard to see why the appropriation of intellectual property rights should be any different. [...] It is hard to escape the conclusion that although Lord Bridge of Harwich [in *British Leyland*, cited above] felt driven to accept that Parliament had created intellectual property rights which covered the manufacture of three-dimensional parts by reverse engineering, he felt free to remedy what he saw as a legislative error by treating such rights as an inferior species of property which could be subordinated to the right to repair one's motor car. Such prepotency over statute has not yet been accorded in this country even to human rights such as free speech.

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<sup>9</sup> Privy Council [1977] AC 728, judgment of April 30, 1997.

