

## Complex Products' Spare Parts: The End Of Design Rights?

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In 1998, a European Directive (the 'Design Directive') partially harmonized the EU Member States' laws protecting from copy the design of complex products' visible parts. By way of clarification, the Directive defines complex products as products made up of multiple components which can be replaced, permitting disassembly and reassembly of the product. These range from cars, bicycles and motorcycles to watches and electrical household appliances. Visible parts are defined as those components that are visible during normal use of the product.

Under the Design Directive, manufacturers of complex products are able to register anywhere in the EU the design of their products' original equipment parts, provided this design is new and has individual character. However, the Directive did not harmonize the law with regards to design rights for replacement parts. Consequently, while sixteen EU countries<sup>1</sup> still allow complex products manufacturers to register the design of replacement visible parts, the remaining nine (including the UK) do not. Last September, the European Commission announced a proposal to amend the Design Directive which, if adopted by the European Parliament and the European Council of Ministers, will limit design protection for visible parts to OEM parts and thus open the EU's market for replacement parts to competition by independents. In the motor vehicle sector alone, the value of this market is estimated at approximately £7 billion.

The Commission's market analysis

has revealed that the prices of replacement visible parts tend to be higher in EU countries that have retained design rights for such parts. It expects that increased competition between complex products manufacturers and independent parts manufacturers will lower prices to the benefit of consumers. However, most manufacturers of complex products are opposed to the proposed amendment of the Design Directive, which they perceive as an interference with their intellectual property rights. They argue that the revenues derived from selling spares are an essential financial incentive for continued investments into design innovation and R&D. The Commission retorts that manufacturers will retain the right to protect the design of OEM visible parts. Given that the design of a new product often plays a significant role in a consumer's decision to choose one model over another, the Commission considers that the proposal preserves the main incentive for complex products manufacturers to invest in innovative designs. It relies on the same argument to explain why it decided not to include in its proposal a plan for compensating these manufacturers financially for the use of their designs by independent spare parts manufacturers. The Commission further takes the view that there is no way to objectively determine fair compensation for the use of a design. Moreover, in order to assert a claim to compensation, manufacturers would have to rely on the registration of their designs. This would go against the very purpose of the Design Directive and the current proposal to amend it which is to abolish design rights for spare visible parts.

Many manufacturers of complex parts also object to the Commission's plans to liberalise the spare parts market on safety grounds. They submit that independently manufactured spare parts may not meet the same quality and safety standards as those produced by car manufacturers. The Commission has dismissed these claims, stating that safety and design rights are quite distinct issues and that independent spare parts manufacturers are subject to the same safety requirements as the manufacturers. The EU has legislated heavily in the field of product safety.

In a variety of industrial sectors, the reverse engineering of must-match parts poses ever-growing technological challenges to independent parts manufacturers. In addition, the latter are aware of the fact that for some complex products it is necessary to achieve a good fit in order to meet the demands of insurers. Some insurance companies are reluctant to cover the cost of independently-manufactured spare parts if they feel they compromise the product's integrity. This raises the question of whether independent parts manufacturers can become equal competitors to original equipment manufacturers on the visible spares market without access to the blue print of the most advanced parts. If the Commission were to suggest that complex products manufacturers give access to their blue prints for the sake of competition, it would face an uproar. Yet this type of measure is not without precedent. Under the EU's Motor Vehicle Block Exemption Regulation, car manufacturers are under a duty to supply independent

<sup>1</sup>Austria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Lithuania, Malta, Poland, Portugal, Slovakia, Slovenia, Sweden.

repairers with the same critical technical information they provide to authorized repairers. In October, the Commission, relying on the findings of an independent study, strongly criticized car manufacturers for failing to comply with this obligation. This illustrates the Commission's determination when it comes to injecting fierce competition into the market.

Nevertheless, options remain open to complex products designers and manufacturers to protect the value of their significant investments in new designs. First of all, so long as the Commission's proposal to amend the Design Directive has not been adopted, they have an opportunity to make their voices heard in opposition. The EU legislative process is very open to input by the industry. Furthermore, some Member States' national champions (in particular major car manufacturers) fear that they will be adversely affected by the reform. Therefore, officials and elected representatives originating from these Member States who have a role to play in the next steps before adoption of the new Design Directive will be interested in listening to the industry's concerns with the proposed legislation. In addition, even if the Commission's proposal is adopted in its present form, the design of certain visible parts may be protected by other intellectual property rights. In some Member States, the design of certain parts may be protected by copyright. Patent protection may also be available to parts the design of which serves a technical and patentable use.

The Internal Market Commissioner, Mr. Charlie McCreevy, is expected to press the European Council of Ministers and Parliament to adopt the proposal to abolish design rights for spare visible parts in the coming months.

Proposed further reading:

- *Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs* - Official Journal of the European Communities, L 289 , 28/10/1998 P. 0028 – 0035.
- *Proposal for a directive amending Directive 98/71/EC* - COM(2004)582 - available from the Directory of Commission Proposals on <http://europa.eu.int/eur-lex/en/com/index.html>
- *Extended Impact Assessment of the Proposal for a Directive amending Directive 98/71/EC*, a European Commission staff working document available at [http://www.europa.eu.int/comm/internal\\_market/en/indprop/design/sec-2004-1097\\_en.pdf](http://www.europa.eu.int/comm/internal_market/en/indprop/design/sec-2004-1097_en.pdf)
- *Frequently Asked Questions on the Proposal*, a memorandum of the European Commission, 14 September 2004, MEMO/04/215 – available on *Rapid* at <http://www.europa.eu.int/rapid/>
- *Design Protection of Automotive Spare Parts? The Repairs Clause*, a brochure of ECAR (European Campaign for the Freedom of the Automotive Parts and Repair Market), available at <http://www.ecar-eu.com>
- *ACEA (European Automobile Manufacturers Association) Comments regarding the Proposed Modification of Directive 98/71*, position paper available at <http://www.acea.be>

## Hogan & Hartson put Motor-Cars on the Radar

BRUSSELS, January 18, 2005 - Motor cars that will help prevent accidents by using radar to detect other vehicles are to become a reality following a major breakthrough in the regulation of radio frequencies. The European Commission yesterday adopted a long-awaited decision allocating radio spectrum for a new generation of automotive radar dedicated to driving safety. This short range radar - or SRR - can be used to alert drivers to mitigate or avoid collisions at highway speeds as well as to aid parking and avoid blind spots.

This SRR technology is a key element of the Commission's eSafety programme, which has the goal of decreasing European traffic fatalities by 50% by 2010.

International Law firm Hogan & Hartson served as legal advisors in this project in both Brussels and Washington, DC, representing the Short range Automotive Radar frequency Allocation group, known as "SARA". Brussels-based Hogan partner Gerry Oberst said "SRR raised numerous complicated regulatory and policy issues, due to the innovative technology and spectrum bands needed." He continued, "with the strong support of the European Commission, SARA was able to convince national regulators that these systems could operate without causing interference to other spectrum users."

The European Commission decision authorizes industry to start preparing production lines immediately. EU Member States are expected to implement national rules for SRR by mid-2005.