

# A nice little earner

## ⚙️ The after sales market in the automotive industry

The spare parts market is a lucrative one for the car manufacturing industry. **Nigel Stoaite and Camilla Smith, Taylor Wessing, examine the design right and the proposals to harmonise the approach to protecting spare parts in Europe**

The design and overall appearance of the exterior and interior dashboard etc of a motor vehicle is one of the key criteria for consumers when they are looking to make a purchase. A successful and popular design can lead to excellent profitability for the manufacturer of vehicles. Excellent profitability is defined, along with other factors, by the return on investment. One of the major investments for car manufacturers is of time and money in the design chain process. It is not just important that the vehicle looks good but that it is safe, durable and performs its desired function with maximum effectiveness.

Intellectual property rights in general, but design rights in particular, are essential to protect the overall look of the finished vehicle, to prevent others coming close to the design and eating into the profit available for the particular product. Such design rights are available in the UK and throughout Europe.

As well as the profit available from the initial sale, vehicles require parts when they are damaged in accidents and for regular service and maintenance. This “after sales” market can also be extremely lucrative. Just as the consumer has the choice of which vehicle manufacturer to choose when they make their initial purchase it seems logical (to some but not all) that consumers should be able to make a similar choice when they repair their car. They can choose to return to the original manufacturer or to use a different manufacturer who might be able to offer the parts required at decreased cost.

Across Europe there is divided opinion in relation to whether or not this after sales market should be restricted to original vehicle manufacturers (by the availability of design right in respect of the spare parts) or whether independent manufacturers of spare parts should be able to compete legitimately (without fear of infringement of a design right in the part in question). The differences in opinion rely on arguments relating to competition, consumer choice and safety in the after sales market in vehicles. Spare parts account for a market with a turnover of €16 million in the UK and elsewhere in Europe the

### In summary

- ⚙️ The “after sales” market for spare parts in the automotive industry is a lucrative one, but a different approach is taken across Europe to the scope of protection offered to the original manufacturer
- ⚙️ This article looks at the position regards design rights in the UK and compares it to that taken in other European countries, finishing with a review of the harmonisation debate



market is measured as being much larger. Clarification on the law and ensuring a consistency of approach in relation to spare parts across Europe is important to the industry and consumers alike.

In this article we will focus on the position in relation to design rights in the UK and in particular the scope of protection available for spare parts, how this compares in general with other European countries and the status of the debate on the issues of the scope of protection which should be available across the whole of Europe in spare parts.

The law on design rights, in the UK and Europe, has been evolving over the past couple of centuries and continues to do so. The different rights which exist under the design rights “umbrella” and a lack of a consistent definition for those items which might attract design right in its various forms, can be confusing.

In the UK, design right has its origins in the law of copyright which in the 1700’s was developing quite rapidly and was extended to cover not just literary works but also works of art. The first design right was included into the law in the UK in 1787 with the Designs Act. The main purpose of this Act was to give protection to those who were involved in the printing and design of materials for mass production. Since then registration and protection of unregistered design rights has developed. Design rights fit somewhere between copyright and patents protecting industrial, mass produced articles which whilst they are not a “work of art” or “inventive” have entailed investment and design on the part of the originator and therefore should be rewarded with a time limited monopoly.

The development of design right legislation in the UK led to the possibility of registered and unregistered designs and protection for certain aspects of designs under the law of copyright. Each of these three rights protects slightly different aspects of designs for different lengths of time. Elsewhere in Europe similar concepts of design rights have evolved but needless to say they are not consistent.

### The unresolved issue

As with other intellectual property rights, it is considered important that to enable competition and a free market in the European Union (EU)

intellectual property rights are harmonised across the EU. This concept is simple in theory but much more complex in its practical implementation and the requirements of the markets in the various countries can vary massively, making it very difficult for the European Commission to please everyone. The Designs Directive<sup>1</sup> together with the Community Designs Regulation<sup>2</sup> sought to harmonise national design rights across Europe. Amendments to national design rights had to be made in accordance with the Directive and the Regulation created Community Design Rights, both registered and unregistered.

One notable exception to the harmonisation relates to spare parts of complex products, such as motor vehicles, and whether or not design protection should be available. During the legislative process for the Directive an agreement could not be reached on the correct approach to take and a standstill was put in place<sup>3</sup>. This allowed national laws on spare parts to subsist and any amendments to national legislation could only be towards liberalisation of the spare parts market and not towards giving the original parts manufacturer more rights to protect design. That was put in place in 1998.

In an attempt to resolve the outstanding issues relating to spare parts, in September 2004 the European Commission published a proposal on an amendment to the spare parts provisions in the Directive. The proposal was based on extensive consultation and research into the spare parts market, in particular in the automotive industry. Since publication of the consultation, the UK have prepared and consulted its own members of markets for spare parts, mostly in the automotive industry. That consultation closed in September 2005 and the results of that consultation will be provided to the government to assist in the future discussions relating to the proposed changes to the Directive<sup>4</sup>.

As we explore below, the proposal will not actually lead to a direct change of the law in this area in the UK but as UK manufacturers operate in the European market, changes in other countries will have an impact. Ultimately the changes in this area of law will lead original vehicle manufacturers to consider which rights and in which countries it may be best to register and where it may be more appropriate to rely upon unregistered design rights. It will also affect marketing and planning for independent spare parts manufacturers. A harmonised European law for this area may make independent spare parts manufacturers lives easier from an intellectual property perspective but may lead original manufacturers to change strategies and think

of new ways of keeping the independent spare parts manufacturers off the market.

### The UK law

UK unregistered design<sup>5</sup> covers: *"the design of any aspect of the shape or configuration (whether internal or external), of the whole or any part of the article"*.

It does not include surface decoration and includes only three dimensional features. In relation to spare parts there are two notable exemptions to this protection, the "must fit" and "must match" exemptions.

**Must fit:** The "must fit" exclusion denies protection for aspects of design which are purely for the purposes of allowing a mechanical connection or for a product to fit with another product to allow the original product to perform its function. This does not mean that an item containing such features will not be entitled to

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protection per se, but simply that those functional aspects of any product which appear at an interface with another product will not be covered. A design containing the same functional features but which has a different design to the original product will not infringe.

The concept of the must fit exemption was originally derived in the *British Leyland v Armstrong Patents Co Limited*<sup>6</sup> case relating to exhaust pipes for motor vehicles. British Leyland claimed that the rights in their design drawings for exhausts had been infringed by the production of exhausts by Armstrong<sup>7</sup>. This triggered the realisation by the courts that design rights were being used against the manufacturers of spare parts to prevent competition in the after sales market. It was recognised that the owner of a product should be entitled to keep that product in working order and in doing so have the freedom to obtain spare parts from whomever they would like. It was considered unfair to limit the choice of the consumer to going back to the original manufacturer who would inevitably charge an inflated price as the only player on the market.

Two years later the must fit exclusion was included directly into UK legislation by virtue of the Copyright Designs and Patents Act 1988.

**Must match:** Also, originally derived from the *British Leyland* case<sup>8</sup> is the so called "must match" exemption. This specifically denies

protection to articles whose shape and configuration is dependent on the shape and configuration of another article. This does not rely on the functionality of spare parts but more on their appearance. To use a classic example, a car door which is damaged in an accident has to be replaced with something containing the same shape and lines otherwise the vehicle will not have the aesthetic appearance required.

**Dyson v Qualtex**<sup>9</sup>: The recent Dyson case explored (amongst other areas) both the must fit and must match exceptions for unregistered designs in the UK. The court decided that the definition of must fit was held to include the situation where the functional element of the interface was not the only way of making something "fit". In other words, so long as the interface is functional design right does not exist in that aspect of the design. This leaves a narrow scope for design rights in such parts.



Similarly, the must match exclusion was interpreted so as to confer narrow protection to replacement parts. It was held that design protection will only exist if the spare part can be made without changing the appearance of the product as a whole ie, if spare parts can only be made which change the overall look of the total product then design right will not exist and if a variety of parts can be made which will not change the overall look of the product then design right will exist in the original.

As the interpretation of the must match exclusion is largely subjective, the judge in the case suggested that whether or not the spare part would sell could be a useful guide to the existence of design right in the original ie, if a non-identical spare part would sell then design right is likely to exist in the original.

**UK Registered and Community Registered and Unregistered Designs:** The UK Registered Designs legislation is contained within the Registered Designs Act 1949. This has however been amended several times, most recently as a result of the implementation of the Designs Directive and changes made to the UK legislation which became necessary as a result of the Community Design Regulation<sup>10</sup>.

UK registered design covers: *"the appearance of the whole or a part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture and/ or materials of the*

*product itself and/ or its ornamentation.*"

A product is defined as: "an industrial or handicraft item, including, *inter alia* parts intended to be assembled into a complex product, packaging, get up, graphic symbols and typographic typefaces, but excluding computer programs".

A complex product is: "a product which is composed of at least two replaceable component parts permitting disassembly and reassembly of the product".

Accordingly registered designs cover many aspects of motor vehicles from the overall car to the construction of the parts, for example to make up the assembly of the lights on the exterior of the car.

Exclusions from the registration of designs in the UK include:

- Anything dictated solely by function – arguably if there is more than one way of achieving the functionality though the features of the product will be entitled to be registered.
- Anything which has to be reproduced to enable an interface with another product – so called, "must fit" (as above).
- Internal parts which are not visible in normal use – normal use does not include maintenance service or repair.

In addition, it is not an infringement of a registered design in a product, which may be used for repair of a complex product eg, a car, to use the design for the purpose of repair of the complex product. Use for any other purpose ie, possibly the development of a new complex product rather than repairing the original would be an infringement: this is the so-called "repair" clause.

The exclusions relating to spare parts and repair for the Community Registered Design and Community Unregistered design rights are identical to the UK registered design right<sup>11</sup>.

## The rest of Europe

We have discussed, so far, the position today in the UK and also for Community Design. In the UK the spare parts market is quite liberated and independent spare parts manufacturers can generally operate without fear of infringement of design rights. In having the repair clause as part of national legislation, the UK have taken a much more pro-consumer approach to the issue of spare parts.

In many countries in Europe no such exclusion exists in national legislation and the original producers of the complex products, such as cars, have the monopoly on spare parts as well as the original product. In particular this is the case in countries with much larger manufacturing markets than the UK such as France and Germany. It is the relative importance of the markets in such countries which gave rise to the failure to reach an agreement in the 1998 Directive and the consequential standstill clause.

The background to the Commission proposal to try to resolve this differential makes for interesting reading. They considered five options:

- 1) Preserving the status quo in Europe and doing nothing.
- 2) Liberalisation of the spare part market by removal of design rights for component parts of complex products which are used for the purpose of repair of that complex product.
- 3) Introduction of short term design protection for the aftermarket for spare parts.
- 4) Introduction of a remuneration scheme for independent spare parts manufacturers.
- 5) Introduction of a combination of 3 and 4.

Ultimately the Commission have concluded that the only way through this issue is to follow option 2. All other options considered were thought to have more negative aspects on harmonisation across Europe and options 3 to 5 were considered to be likely to introduce a high level of administrative bureaucracy which might undo any benefit which the proposed harmonisation is meant to have.

The wording of the proposal mirrors that which is already applicable to Community Designs and that which is included in the UK registered designs legislation: ie, the repairs clause. The European Commission proposes that the amendments to the Directive should be implemented by January 2008.

Matters relating to intellectual property rights and revision of legislation often come down to similar factors: promoting the investments of companies to ensure increased consumer choice by offering monopolies for new and original products, whilst ensuring consumer value by not extending that monopoly so far that prices become unjustifiably inflated. The theory is that designers of cars benefit already from the design right for the whole product and original visible parts. This should be sufficient to protect and encourage investment. Design rights stop others entering the market with the same overall design and will have the financial reward of high sales (provided, of course, it is a good design). Cars last for well in excess of ten years and to enable an effective extension of the benefit of the design such that the customer has to come back to them for spare parts seems disproportionate.

The achievement of harmonisation in design

rights both nationally and more recently in Europe has been difficult and has led to several revisions of the law and essentially a complex group of possible rights which may be relied upon. Spare parts in the automotive industry (but also in other industries involving complex products) have proved to be a particularly tricky area. One of the main reasons for this is the dichotomy of the relative importance of this industry in the countries which make up the EU. This reflects the manufacturing capabilities of the various countries.

Some issues were addressed in the recent Block Exemption Regulation<sup>12</sup> which specifically related to vertical agreements and concerted practices in the motor vehicle industry. This went some way towards improving choice for consumers in relation to repair and maintenance services relating to motor vehicles. However, the Block Exemption will not take full effect whilst design rights in certain countries hinder competition, as people are allowed to claim legitimate monopoly rights on the spare parts elements of such maintenance or repair. ☹

## Notes

- 1 Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs.
- 2 Regulation 6/2002 on Community Designs.
- 3 See article 14 of the Directive.
- 4 The actual consultation, questions and responses are available at [www.patent.gov.uk](http://www.patent.gov.uk).
- 5 The legislation for this is contained in the Copyright Designs and Patent Act 1988 s213 to s245.
- 6 [1986] RPC 279.
- 7 Preceding the Copyrights Designs and Patents Act 1988 this type of 2 dimensional to 3 dimensional copying of design drawings was considered infringement of copyright in the design drawing. For the current law in this area please see s51 of the CDPA 1988.
- 8 This was subsequently incorporated into UK legislation in the so called "must match" exemption – s213 CDPA 1988.
- 9 [2005] RPC 19.
- 10 See endnotes 1 and 2 above. NB there is no official consolidated text of all these amendments but there is an unofficial consolidation at [www.patent.gov.uk](http://www.patent.gov.uk).
- 11 It is beyond the scope of this article to explore the lengths and further requirements for obtaining such rights, how long they exist for and what constitutes infringement.
- 12 EC 1400/2002.

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