

Opinion of the European Economic and Social Committee on the Proposal for a Directive of the European Parliament and of the Council amending Directive 98/71/EC on the legal protection of designs

(COM(2004) 582 final — 2004/0203 (COD))

(2005/C 286/03)

On 6 December 2004 the Council decided to consult the European Economic and Social Committee, under Article 95 of the Treaty establishing the European Community, on the abovementioned proposal.

The Committee Bureau instructed the Section for the Single Market, Production and Consumption to prepare the Committee's work on the subject. At its meeting of 20 April 2005, the Section for the Single Market, Production and Consumption rejected the draft opinion presented by Mr Ranocchiarì.

Given the urgent nature of the work, the European Economic and Social Committee appointed **Mr Ranocchiarì** as rapporteur-general at its 418th plenary session, held on 8 and 9 June 2005 (meeting of 8 June). The draft opinion was rejected in favour of the present counter-opinion tabled by Mr Pegado Liz and Mr Steffens. The counter-opinion was adopted by 107 votes to 71, with 22 abstentions.

1. Introduction — background to the question

1.1 The present proposal for a directive sets out to amend Directive 98/71/EC. The purpose of the amendment is to rule out the possibility of asserting design rights anywhere in the European Union relating to components of complex products vis-à-vis third party independent suppliers who manufacture, use and/or sell such components for the purpose of repairs in order to restore the original appearance of the complex products.

1.2 Among the sectors affected by the proposal (domestic electrical appliances, motorcycles, watches, etc.), the greatest impact would clearly be in the automotive sector.

1.3 Directive 98/71/EC ('the directive') was preceded by the publication, on the part of the Commission, of a Green Paper on the Legal protection of industrial designs which, as well as revealing the results of a wide-ranging study on the matter, also contained a preliminary draft proposal for a directive on the approximation of Member State legislation, together with a preliminary draft proposal for a regulation.

1.4 The green paper also discussed the eligibility or otherwise for protection of components of complex products, particularly those connecting one product to another. The green paper stated that components which fulfil in themselves the requirements for protection should be protected, specifying however that those essential features (known as 'interfaces' or 'interconnections') *'which would have to be reproduced necessarily in their exact form and dimensions in order for the component part to fit into the complex product for which it is intended'* should be excluded from protection.

1.5 The proposal for a directive formally presented by the Commission in December 1993⁽¹⁾ confirmed that a component of a complex product could also be protected if 'as such' it

fulfilled the requirements for protection, i.e. 'novelty' and 'individual character' (Article 3), while emphasising that 'interfaces' or 'interconnections' could not be protected (Article 7(2)).

1.6 The proposal contained another important provision, under which the exclusive rights to protected designs could not be exercised against third parties who, after three years from the first market placement of a 'complex' product incorporating the design, used (copied) the design, provided that the design was 'dependent' upon the 'appearance' of the complex product and that the purpose of the use was *'to permit the repair of the complex product so as to restore its original appearance'* (Article 14). In practice, this created an important exception from protection for designs for spare parts or repairs ('spare parts exception' or 'repair clause').

1.6.1 Regarding this aspect of the 1993 proposal for a directive, in its opinion IND/504 of 6 July 1994 (rapporteur: Mr Pardon) the EESC argued as follows:

1.6.1.1 Like all other industrial property rights, design protection results in exclusive rights (monopoly rights). However, the monopoly granted to the owner of a design pertains solely to the appearance (the 'design') of a product, not to the product itself.

1.6.1.2 Design rights therefore grant a monopoly of forms, but not a product monopoly. 'Protection of the design of a watch does not hamper competition in the watch market' (Explanatory Memorandum 9.2.).

1.6.1.3 With regard to spare parts (e.g. a fender or a front lamp of a car) covered by the repair clause, the situation is different. The appearance, the 'design' of such spare parts cannot be made different as compared with the original component to be replaced.

⁽¹⁾ OJ C 345 of 23.12.1993.

1.6.1.4 Thus product monopolies are created if design protection is extended to such spare parts; design rights in a spare fender or a spare lamp totally eliminate competition in this product area.

1.6.1.5 This falls foul of the essential purpose of design protection which the legislator is authorised to define in detail.

1.6.1.6 The repair clause contains such a definition: it does not affect the acquisition and the exercise of design rights where they operate as they should; it only stops the exercise of design rights where — as is the case in the repair sector — they cannot operate as they should. In this way the repair clause prevents monopolies from coming into existence, competitors from being driven from the market and consumers from being subjected to the dictate of pricing by a sole supplier.

1.6.1.7 At the same time it prevents the development of monopoly premiums, since the essential precondition for a design premium — that a market exists and consumers can exercise preferences — does not apply if design protection is extended to the spare parts covered by the repair clause.

1.6.1.8 The repair clause proposed by the Commission is therefore supported by the Economic and Social Committee.

1.7 This exception, or repair clause, went some way to meeting the demands of certain industrial sectors, including those imitating car parts, particularly manufacturers of 'crash parts'. These 'independent' suppliers had already sought a derogation from design protection arrangements under existing legislation, taking their case unsuccessfully to the Court of Justice (see the *CICRA v. Renault* ⁽²⁾ and *Volvo v. Veng* ⁽³⁾ cases).

1.8 The repair clause contained in the 1993 proposal for a directive was criticised by sectors of industry having interests differing from (or opposing) those of the independent parts producers — in other words, the vehicle manufacturers. The Commission therefore tried a new approach, with an amended proposal ⁽⁴⁾. In brief, the new proposal provided that third parties interested in copying the design of a given complex product for repair purposes could do so immediately (without waiting for three years from the first placing on the market of the complex product), provided they paid a 'fair and reasonable remuneration' (Article 14).

1.9 The 'fair and reasonable remuneration' solution was not however deemed acceptable by either the independent producers ⁽⁵⁾, or the vehicle manufacturers holding design rights ⁽⁶⁾.

⁽²⁾ Case 53/87, judgment of 5 October 1988.

⁽³⁾ Case 238/87, judgment of 5 October 1988.

⁽⁴⁾ OJ C 142 of 14.5.1996.

⁽⁵⁾ R. Hughes, Legal Counsel ECAR 'The legal protection of designs', 1996; and Briefing Notes (1 to 6) of the European Campaign for the Freedom of the Automotive Parts and Repair Market, 1996.

⁽⁶⁾ 'ACEA comments on the proposed directive regarding industrial design protection', ref. 97000622, and 'Key questions about design protection for car parts', ref. 97000517.

1.10 Strong disagreements also arose in the course of the Council and European Parliament's co-decision procedure: the conciliation procedure had to be invoked, concluding in 1998 with the attempt to harmonise relevant Member State legislation being effectively abandoned, a 'freeze-plus' (as it is known to specialists) being applied to existing national legislation, and resolution of the issue being postponed.

2. The provisions of Directive 98/71/EC ⁽⁷⁾ concerning components

2.1 Under the terms of the directive, the protectable design may relate to the appearance of the whole or to a part of a product (Article 1(a)).

2.2 Designs of component parts may also be protected, if they fulfil the requirements for protection laid down for each type of 'product': they must be 'new' and have 'individual character' (Article 3(2)). A component design will however only be recognised as protectable:

- a) if the component part, once it has been incorporated into the complex product, remains visible during normal use of the latter, and
- b) to the extent that those visible features of the component part fulfil in themselves the requirements as to novelty and individual character (Article 3(3)).

'Normal use' within the meaning of paragraph (3)(a) shall mean use by the end user, excluding maintenance, servicing or repair work (Article 3(4)).

In practice, the consequence of applying these provisions to the automobile sector is that none of the component parts 'under the bonnet', and therefore not visible during normal use of the vehicle (for example, the appearance of the engine's cylinder head), can be protected by design rights.

2.3 It is also provided, in relation to component designs, that those features of a product which are solely dictated by its technical function may not be protected (Article 7(1)). Similarly, those features of appearance (of a component) which must necessarily be reproduced in their exact form and dimensions in order to permit their connection or interconnection to another product (or component) cannot be protected (Article 7(2)). One of the consequences in the car sector is, for example, that while the shape of a bumper or rear-view mirror may be protected by a design right, the configuration of the attachments to fix the part to the vehicle may not.

⁽⁷⁾ OJ L 289 of 28.10.1998.

2.4 Lastly, it should be remembered that:

2.4.1 the directive lays down that three years after the implementation date (i.e. by October 2004) the Commission must submit an analysis of the directive's consequences for Community industry, particularly the manufacturers of complex products and component parts, for consumers, for competition and for the functioning of the internal market. At the latest one year after this date (i.e. October 2005), the Commission must propose to the European Parliament and the Council any changes to the directive needed to complete the internal market in respect of component parts of complex products, and any other changes considered necessary (Article 18);

2.4.2 until such time as these amendments are adopted, Member States must maintain in force their existing legal provisions relating to the use of protected designs of component parts used for the purpose of the repair of a complex product so as to restore its original appearance. The Member States may introduce changes to these provisions only if the purpose is to liberalise the market for such parts (Article 14 — Transitional provision, referred to earlier as 'freeze plus'). All the Member States have now implemented the directive. Of the EU-25, nine have introduced some form of repair clause, thereby effecting 'liberalisation' (Belgium, Hungary, Ireland, Italy, Latvia, Luxembourg, the Netherlands, Spain and the United Kingdom), but the majority (16 Member States) also extend protection to components for spare parts or repairs.

2.4.3 With regard to liberalisation of the secondary market, Article 110(1) of Regulation (EC) 6/2002 of 12 December 2001 already 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 the repair of that complex product so as to restore its original appearance'.

2.4.4 Commission Regulation (EC) 1400/2002 of 31 July 2002 on categories of vertical agreements and concerted practices in the motor vehicle sector works to similar effect, although without removing the need for the present Commission proposal.

3. The content of the proposal for a directive

3.1 The 'mandatory' content of the proposal is quite straightforward. It provides that Article 14 (Transitional provision) of Directive 98/71/EC is to be amended, in effect establishing that protection cannot exist for designs for component parts of a complex product which are used to repair the complex part so as to restore its original appearance. In essence, this is the 'free repair clause from day one' which some of the interested parties had long been calling for, as seen above.

3.2 The recitals in the proposal's preamble describe the fundamental reasons for a regime of complete, immediate and free 'liberalisation':

- the sole purpose of design protection is said to be to grant exclusive rights to the appearance of a product, but not 'a monopoly over the product as such';

- protecting designs for which there is no practical alternative would lead to a *de facto* product monopoly; such protection 'would come close to an abuse of the design regime';
- if third parties are allowed to produce and distribute spare parts, competition is maintained;
- if, on the other hand, protection is extended to spare parts, then third parties become guilty of infringing design rights, *competition is eliminated and the holder of the design right is given a de facto product monopoly.*

3.3 It is also emphasised that, at present, the Member States' legal regimes concerning designs differ, jeopardising the operation of the internal market and possibly distorting competition.

3.4 Additional, more detailed reasons are contained in the explanatory memorandum, substantially repeating or encapsulating the conclusions of the EIA and, in part only, of the EPEC report. In brief, among the various options reviewed only 'liberalisation' would seem to offer a range of benefits without any serious disadvantages. It would 'improve the functioning of the Internal Market, allow for more competition in the aftermarket, bring down prices for consumers and create opportunities and jobs for SMEs' (point 2.2, page 7).

3.5 In contrast, the other options would not be advisable, mainly because:

- maintaining the status quo, with the existing disparities between the different national laws, would hamper completion of the internal market;
- protection of short duration could allow right holders to raise prices during this period (no specific information is provided to back this up);
- a system of authorisation for third parties to use designs held by others, against 'remuneration', would raise problems in verifying ownership of rights, adequacy of remuneration and, lastly, the willingness of third parties to pay;
- a combination of the two preceding systems, i.e. a short period of protection and a system of remuneration for the ensuing period, would entail relatively high costs, and probably few independent producers would make the necessary investment (cf. Legislative financial statement, point 5.1.2, page 17).

4. Comments on technical aspects

4.1 The EPEC report, mentioned several times above, accepts that non-original spare parts are not guaranteed to be of the same standards as originals (point 3.7). This is because IS frequently lack the specific manufacturing, quality and technological expertise of the VMs.

4.2 Modern cars are the complex result of an assembly of independent highly technological components (for example, high-resistance steels) whose specifications include not only shape and size, but also quality of assembly (soldering and adhesive techniques used) and materials. It is therefore possible that non-original parts may diverge from the original specifications.

4.3 Vehicles awaiting type-approval are subjected to a series of frontal or lateral crash tests to check that they comply with the requirements laid down by the specific directives on the protection of occupants in the event of collision. These are supplemented by the recent directive on the protection of pedestrians, the purpose of which is to reduce the consequences of vehicle impact on pedestrians. This latter obliges car manufacturers to design the front of the car according to given safety requirements and to perform specific crash tests.

4.4 In contrast, independent spare parts suppliers are not subject to any prior technical tests on the parts they place on the market, insofar as there is no provision for a type-approval system for individual car components, with the particular exception of 'separate technical units'. Where car parts are concerned, these are the windows, rear view mirrors, headlights and rear lights. For other parts (bonnet, bumpers etc.) there are no technical test requirements prior to placing them on the market and, in consequence, no certainty that they have the same characteristics as those produced for the original equipment. Independent suppliers are only subject to general product safety standards and are liable for losses caused by product defects.

4.5 The proposal also seems to contradict the important directive on 'End of Life Vehicles' (ELV), which obliges manufacturers to remove heavy metals from vehicle components and to indicate what substances they contain in order to facilitate recycling. Manufacturers are also required to design vehicles in such a way as to facilitate dismantling at the end of their life and subsequent recycling. Since such obligations of course do not apply to independent suppliers, where there are components (such as bumpers) the composition of which is unknown, there is a potential risk of jeopardising the end-of-life processing cycle, with possible repercussions for the environment and further cost increases.

4.6 The Commission is right to say that design protection is meant to reward the intellectual effort of the creator of a design, and not to safeguard its technical functions or quality (see Explanatory Memorandum, page 9 of the proposal). It follows that it is right to describe design protection and safety as being on two different conceptual levels. However, it is evident that in practice, the liberalisation proposed by the Commission could lead to more components on the market which have not been properly tested under the procedures mentioned in point 4.3 above and which do not meet the requirements of the ELV Directive. Consequently, the advantages to consumers which the Commission claims will flow from liberalisation should be balanced against the greater risks which the same consumers may possibly run.

Brussels, 8 June 2005.

5. Final comments and recommendations

5.1 The Committee restates its position, expressed in previous opinions, in favour of recognising the growing importance of intellectual property rights in commercial transactions, including legal protection of industrial designs as a fundamental element in technical innovation and the ensuing need to combat counterfeiting.

5.2 The Committee however reaffirms its understanding that the monopoly conferred on the owner of the design applies only to the external form of the product, not the product itself.

5.3 The Committee thus confirms its view, expressed in previous opinions, that to subject the spare parts covered by the repair clause to the design protection regime would be to establish a product monopoly on the secondary market, contrary to the fundamental nature of legal protection of designs.

5.4 Moreover, the regime introduced under Directive 98/71/EC has permitted differing and even opposing national regimes to survive and, with recent EU enlargement, to multiply in a crucial area of a sector of enormous economic weight in the European market.

5.5 The Commission's proposal therefore seeks to achieve an internal market in this field by aligning national systems, based on liberalisation of use of protected designs for the purpose of repair of a complex product so as to restore its original appearance (secondary market).

5.6 The Committee supports the Commission's proposal, which comes in the wake of earlier legislative initiatives welcomed by the Committee and which may contribute to greater competition, lower prices and the creation of new jobs, particularly in SMEs.

5.7 However, the Committee considers that the proposal would benefit from being better grounded in terms of a clear demonstration of its compatibility with the TRIPS Agreement, from more illustration of its effects on employment and, in particular, from a guarantee that consumers — quite apart from the right to information which seems to have been secured — will not be affected in their choices, either directly in terms of the safety and reliability of products used by independent suppliers, or indirectly by the consequences of the use of such parts in the repair of complex products for which they are intended (basically, motor vehicles) on either their residual market value or on indirect costs (e.g. insurance).

The President
of the European Economic and Social Committee
Anne-Marie SIGMUND