



## **A NEW LAW – THE END OF SPARE PARTS PROTECTION IN GERMANY?**

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### **I. Introduction**

The protection of designs in the EU is quite easy, very fast and nearly fully harmonized throughout all Member States of the EU. The EU design system is a growing success story and the number of filings are constantly increasing. However, the protection (and in particular the enforcement) of designs in the area of spare parts has been a topic that has not been harmonized so far and which is handled quite different throughout the Member States of the EU.

In Germany for instance, all visible components of a car have so far been protected from being copied, if covered by a registered design. This aspect is particularly important for consumers when it comes to shape-related (so-called “must-match”) parts of complex products. These are parts which are fitted into a complex product, e. g. doors or mudguards of a car. “Must-match” means that the spare part must have the same shape as the original part. This is quite obvious as regards doors or mudguards, because a major part of the consumers would not accept a spare part that differs from the original part. If there is no exception from design protection for such spare parts, consumers would have to rely on the original manufacturer in case of damage, since they could only buy a matching spare part from the manufacturer. But it is different, for example, when it comes to wheel rims, which are generally not considered as “must-match”, because consumers accept numerous shapes that are offered on the market.

On September 10, 2020, the “Act on the Promotion of Fair Competition” was adopted in Germany and finally passed the German Federal Parliament (Deutscher Bundestag) on December 2, 2020. The main purpose of this new Act is to minimize the misuse of warning letters and to liberalize competition on the spare parts market, in particular in the field of the automotive industry. The “Act on the Promotion of Fair Competition” is an independent Act containing regulations that have direct impact on several other national Acts (all dealing to some extent with competition of companies). The Act implements among others direct changes to the German Act of Unfair Competition, the German Copyright Act as well as the German Act on the Legal Protection of Designs. With respect to the Design Act the main change is the introduction of a so-called repair clause in Section 40a. .

This (new) repair clause in the Design Act became immediately effective on December 2, 2020 (when the “Act on the Promotion of Fair Competition” passed the Parliament) and its main purpose is to limit the design protection for visible spare parts, especially outer parts of automobile bodies, which are used for repair purposes. In particular, the repair clause is to open up the market for visible automobile spare parts for repair purposes. According to the grounds of the law, the introduction of the repair clause within the German Act on the Legal Protection of Designs and the resulting “opening of the market are expected to probably result in a slight reduction in consumer prices for visible automobile spare parts”. Harmonization throughout the EU is widely claimed, and although it may still take some time, it seems very likely that such measures will be implemented on an EU basis, also in view of recent developments in Germany in France.

## **II. Historical background**

There has been a discussion in Germany for several decades regarding the question whether and to what extent components of complex products can be protected by designs, and to what extent such design protection should be enforceable vis-à-vis third parties. Within the EU, in fact, there have been and still are different views on how to deal with design protection of components. Especially EU Member States with a strong automotive industry (such as France or Germany) this question has so far been handled for the benefit of major automotive companies, i. e. it has been possible to protect spare parts as designs, and to enforce the respective rights.

In this context, please note that German legislation decided against the introduction of a repair clause when the Design Directive was implemented in 2003, with reference to automotive manufacturers' assurance that they would not impair competition in spare parts commerce, and not interfere with the market shares of independent workshops and spare parts dealers by enforcing their protective rights, and would thus not affect the co-existence of market players.

Therefore, due to the different interests, it is no wonder that a binding repair clause for all Member States has not yet been implemented on a European level, in view of resistance of individual countries like Germany and France. Thus, Art. 14 of the EU Design Directive (98/71/EG) leaves it to the Member States' discretion to introduce such exceptions for spare parts. As a consequence, the European Community Design Regulation, which entered into force in 2002, contains a repair clause in Art. 110 para. 1, but this has only been implemented on a national level by a few countries. As a result, national design applications in countries without a repair clause (such as Germany or France) have been clearly more attractive for automotive manufacturers than Community Designs, because the national designs have not only provided protection, but also unproblematic enforcement of registered design rights.

## **III. The "new" repair clause in Germany**

For clarification purposes, it has to be stated that in the future protection can still be claimed for individual components according to German and European design laws, if – when used as intended - they remain visible in complex products, and the visible characteristics meet the requirements as to novelty and individual character.

The repair clauses will only become relevant when it comes to enforcement of design rights. The repair clause introduced in Section 40a Para. 1 Sentence 1 of the German Act on the Legal Protection of Designs provides that there shall be

“no design protection for a component fitted into or attached to a product, if said component is part of a complex product and is used only for the purpose of being able to repair this complex product, in order to restore its original appearance”.

In this context, please note that there is an exception to the exception, namely Section 40a Para. 1 Sentence 2 of the German Act on the Legal Protection of Designs. According thereto, the exception shall not be valid

“if the respective component is put on the market for a main purpose other than repairing a complex product”.

According to the grounds of the law, this wording is to clarify that the exception in Para. 1 Sentence 1 can only be applied to “must-match” spare parts, i. e. to such spare parts whose individual character is pre-defined by the shape of the original.

In addition, there is another limitation of the repair clause: According to Section 40a Para. 2 of the German Act on the Legal Protection of Designs, the exception according to Section 1 will only be applied

“if the consumers are properly informed about the origin of the product used for repair, by respective labelling or other suitable means, so that consumers are well-informed of all fact and can choose between competing products for repair purposes.”

On the one hand, Paragraph 2 is to protect consumers from deception and misleading offers, and on the other hand it enables design owners to take action against third parties who sell products that are not only intended for repair purposes. Moreover, Paragraph 2 might also be due to a Decision of the European Court of Justice, according to which – within the framework of the repair clause - a manufacturer may only produce and sell a component if it is indeed used for repair purposes, and the component must include clear and visible information that it has not been produced by the original manufacturer (European Court of Justice, *Acacia vs. Audi and Porsche*, EU:C:2017:992). This information must be attached in a clear and visible manner, either to the component itself or its packaging, or must be apparent from catalogues or sales documents. Shortly after this European Decision, Germany's Federal Supreme Court also had to deal with labelling requirements of spare part manufacturers (July 26, 2018 (I ZR 226/14)). In this case, the spare parts manufacturer had only indicated its own company name and the English-language note "Not O.E.M." However, according to the German Federal Supreme Court, this information was not regarded as sufficient. Instead, the information regarding spare parts must be given in those languages that are generally spoken by consumers in the countries where the parts are offered. In Germany, it is not sufficient to indicate in English on the German-language website that the products are non-original or similarly-built products. In any case, the spare parts manufacturer would have had the obligation to indicate this information in German.

#### **IV. Reference Date**

According to the transition rule in Section 73 Para. 2 of the German Act on the Legal Protection of Designs, the exception provided by Section 40a will not apply to rights arising from registered designs with an application date before January 1, 2020. According to the grounds of the law, this is to ensure that original manufacturers have sufficient time to prepare for the new regulations, and especially to calculate their prices in such a way that they can reach an amortization of their development costs on the primary market.

Initially, there had been claims to also directly include designs that have already been registered into the regulation of Section 40a of the German Act on the Legal Protection of Designs. However, this would have led to a conflict with basic law, which would have been impossible or at least difficult to solve, because the existing design law – being an intellectual property right – falls under the protection of property guarantee according to Article 14 I of the German Constitution. Article 14 of the German Constitution also protects legal positions which a legal person already has and which can be regarded as secure legal positions. Designs that have already been registered establish a secure legal position. This is valid for the overall period of protection of 25 years that is granted by law (Section 27 II of the German Act on the Legal Protection of Designs), irrespective of the fact that the maintenance of protection is subject to payment of a fee by the owner at five-year intervals. This is because the maintenance of protection solely depends on the owner's intention.

#### **V. Criticism from the business world and consumer associations**

Understandably, the recently introduced amendment to the law does not only meet with approval. Former privileges are being lost and other interest groups take the view that the new regulations do not go far enough.

1. One main argument against the amendment in general is that it contradicts the meaning and purpose of intellectual property rights. It should, however, be noted that the repair clause is also compatible with Art. 26 II of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Pursuant to this Agreement, limited exceptions to the protection of industrial designs may be provided for, in case such exceptions do not inappropriately contradict the normal exploitation of protected industrial designs and in case the legitimate interests of the owner of the protected design are not inappropriately affected, whereby the legitimate interests of third parties have also to be taken into account. The interests of the rights holders are not inadequately affected by the introduction of the repair clause. As already explained above, original manufacturers will continue to be able to amortise their design development costs on the primary market. But also on the spare parts market, original equipment manufacturers are likely to be subject to quite more favourable conditions compared to independent spare parts manufacturers, as they already have all the necessary infrastructure to offer their spare parts on the market. The only thing they are deprived of is the possibility of high returns due to the competitive

pressure exerted by their competitors in fixing prices. In addition to the legitimate interests of spare parts manufacturers and dealers as well as independent workshops, which will benefit from the opening of the secondary market for spare parts, there are also the legitimate interests of consumers, who will be financially relieved by the expected price reductions for spare parts. Thus, the introduction of the repair clause serves a multitude of legitimate interests without unduly impairing the exploitation possibilities for original manufacturers.

2. A further argument that is increasingly being used against the repair clause is the aspect of safety of spare parts. However, a detrimental effect on the safety of spare parts as a consequence of the introduction of the repair clause is probably not to be expected. The field exemption covers in particular those parts which concern the external design of the complex product but have no relevance for the safety of the vehicle. As far as such spare parts should still be relevant to safety in individual cases, the design law is not a suitable instrument from the outset to ensure the quality of such components. This is because the protection of design rights is linked to the circumstance of whether the external appearance of the component in question is new and has individual character. Safety aspects are not relevant in this connection. For product safety, there are standards and testing methods independent of design law, the validity of which are not affected by the introduction of the repair clause and which equally apply to spare parts of the original manufacturers and spare parts of other manufacturers. Moreover, it is not comprehensible why it should be the sole concern of the original manufacturers or design right holders to guarantee the safety of the spare parts they offer on the market. Other manufacturers and dealers cannot be generally denied that they want to produce not only inexpensive but also safe spare parts. This applies all the more if they want to be able to compete with the original manufacturers in the long term. This is even more true when they want to be able to compete with the original manufacturers in the long term.

3. Consumer associations, on the other hand, complain about the reference date regulation (cf. item IV above). According to the associations, the regulation leads to unequal treatment of owners of older vehicles, for which the repair clause does not apply. This is because they cannot benefit from cheaper, competition-controlled prices for visible motor vehicle spare parts. At the same time, enormous new legal uncertainties as well as financial and administrative burdens would arise for the mostly small and medium-sized enterprises active in the independent motor vehicle spare parts and services markets. Even though this argument is quite understandable, there are important reasons against it. As already explained above, a full enforcement of the repair clause also on registered designs would interfere with a fundamental right protected by Article 14 of the German Constitution. Only legitimate general interests can justify such interference within the framework of proportionality. These must be weighed very carefully against the legitimate interests of the owners.

## **VI. Conclusion**

The present introduction of the repair clause is an important step towards further harmonising the existing patchwork of national design regulations within the EU. It is quite understandable that in a country like Germany - with a strong lobby of car manufacturers - it took many years until this provision was actually implemented. Both the developments at national levels in Germany and France as well as the reform preparations of the EU Commission suggest that the issue of the "repair clause" will be brought to an EU-wide and uniform solution in the foreseeable future, which will put an end to decades of discussion. At present, there are many signs that this will lead to free competition on the spare parts market throughout Europe, from which consumers can benefit through lower prices. However, this development also provides a leeway to discuss other questions concerning the need for reform of European design law and thus clears the way for a comprehensive modernisation of design law.