

Chapter 1

Introduction

Use of complex manufactured products commonly results in wear or breakage of some of their component parts. Auto parts, razor blades, printer cartridges and others all need to be replaced periodically. For consumers, replacement of a part is usually more advantageous than acquisition of a new product.¹ This makes production of replacement parts (spare parts) a lucrative business and gives rise to competition in the market. Producers of complex products feel entitled to supply spare parts on a continued basis by virtue of having created the product which originally incorporated the part in the first place.² New companies, which specialize solely in the production of spare parts seek market entry in order to take advantage of the opportunities offered by spare parts markets.³

In the early days of *en masse* industrial production of durable goods, replacement parts were usually produced by the original manufacturer of the complex product. Having developed the product, including its parts, the original manufacturer possessed the requisite know-how, the production capabilities, as well as the relationship with the purchaser. As a result, a product's original manufacturer was also typically the source of all replacement parts compatible with the original complex products. An automotive manufacturer would, for instance, routinely

¹Except for some relatively low cost common usage items, for which part replacement is overall not economically justified.

²Original manufacturers of complex products use a variety of means to maintain control of the aftermarket, such as technical means (e.g. computer codes for printer cartridges), advertising, sales and marketing techniques, part numbering systems, contractual arrangements with the distribution chain.

³In some industries producers of original products resort to business models of setting artificially low prices for original products, while pricing component parts high. This strategy works particularly well in products which require regular “refills” such as printer cartridges (see e.g. Berns 2013, note 9, with reference to Gerber 2005), electric toothbrushes and coffee makers. The success of this strategy was proven early on by Standard Oil's introduction of a safe and long burning kerosene lamp, the *Mei-Foo* lamp in China. The lamp itself was sold for almost nothing and even often given away for free with the purchase of kerosene. The profits came from the ensuing sales of kerosene, which opened up the Chinese market for Standard Oil; see Berns 2013, p. 1.

produce the replacement parts for its vehicles. This paradigm changed in the 1970–1980s, as a result of several developments, including less costly manufacturing technologies, growth of overseas production and the emergence of container shipping. The overall cost of replicating, manufacturing and distributing replacement parts dropped dramatically and gave rise to opportunities for new players to enter the market.⁴ This in turn prompted original manufacturers to seek to protect their market positions with respect to spare parts, among other things, by use of IP protection to prevent imitation of their spare parts by unauthorized parties. Spare parts manufacturers responded by lobbying for liberalization of the spare parts market, specifically by seeking legislation to eliminate IP protection. These efforts have been successful in some jurisdictions, but not in others. The dispute is still ongoing.⁵

From a legal perspective, the spare parts debate revolves to a large extent around IP laws. These laws were conceived to incentivize innovation and protect original manufacturers against imitation and counterfeits. The following discussion will focus on the subset of IP laws referred to as industrial design or, simply, design law, which applies *inter alia* to spare parts. Design law covers a product's shape, design or other outer appearance,⁶ by providing protection to component parts that are integral to its appearance and are visible to the user during normal use.⁷ Because, in general, replacements for visible parts must constitute an exact match to the original parts in order not to alter the product's overall appearance, the spare parts at issue are also referred to as “must match” parts.

⁴These new entrants were perceived, to some extent, as unfairly competing by free-riding on the primary producers' efforts. Increased assertion of trademarks by primary producers led to a terminological division of the market into “original” and “non-original” equipment (see Berns 2013, p. 8).

⁵Contributing to the lack of progress is the absence of recent comprehensive data that would verify the stakeholders' contentions and allow a more accurate assessment of the situation. The European Commission's 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)), had gathered a certain amount of data upon which it based its findings, but by its own admission, these data were often not sufficient to be conclusive. Other position papers following it (e.g. Europe Economics The Economic Review of Industrial Rights in Europe – Final Report, MARKT/2013/064/D2ST/OP, January 2015, commissioned by the European Commission), added some new data, but partly relied on prior data, as did various position papers following it. See ECTA, Design Committee, Position Paper Designs and Spare Parts, 2016. The French Competition Authority's report of 2012 (Autorité de la concurrence, Avis n° 12-A-21 du 8 octobre 2012 relatif au fonctionnement concurrentiel des secteurs de la réparation et de l'entretien de véhicules et de la fabrication et de la distribution de pièces de rechange) has assembled information up the years 2010–2011. Yet other data sets are promoted by lobby associations. Overall, however, given the speed of technological development, data which are several years old, must be considered with caution.

⁶See *infra* chapter 3.

⁷Cf. Kur 2016, p. 21: For instance, parts of cars which are not visible, are brakes and couplings. In contrast, the visible parts are mainly those parts that are affected in case of a crash (“crash parts”). For component parts, see in particular *infra* section 3.3.

To what extent must match parts should be protected by design law has been debated for years, but the issue remains unresolved. More recently, the conflict has heated up, evidenced by increased legislative and judicial action relating to spare parts, primarily in the automotive field.

This book will discuss various aspects surrounding this conflict and will suggest considerations for compromise. The first chapter provides an overview over some of the business aspects in order to illuminate the source of tension in the spare parts debate. It is followed by a detailed examination of the provisions of the applicable design laws on a comparative basis in the EU and the U.S., with reference to a few other relevant jurisdictions. Next, the discussion focuses on legislative efforts to enact a “repair clause”, i.e. legislation to exempt from design protection those visible spare parts which are used for repairs to restore the original appearance of the product, followed by judicial developments on the topic. Finally, we will list and assess a few considerations that may contribute to a possible compromise solution and conclude with a look at how future technological developments might impact the spare parts debate.

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