

BMW loses appeal on replacement parts

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On 18 September 2013, the Supreme Court of Appeal handed down its decision in the case of BMW vs Grandmark.



The case dealt with a very important issue - can a vehicle manufacturer use design registrations to stop third parties importing and selling so-called 'replacement parts', in other words parts that look like the originals but are in fact made by unauthorised manufacturers? Replacement parts generally cost far less than originals, so this judgment has huge implications for the vehicle and replacement parts industries.

The case caused a stir some time back when the North Gauteng High Court ruled that BMW could not stop Grandmark selling various replacement parts because the design registrations were invalid. There were four registrations involved, and these covered the following parts - a bonnet, a grill, a headlight assembly, and a front fender. Each part was registered as an Aesthetic Design.

Some background

A bit of background may be in order here. In terms of the South African Designs Act, it's possible to register two distinctly different types of design. The first is an Aesthetic Design, which is defined as 'any design applied to any article... having features which appeal to and are judged solely by the eye, irrespective of the aesthetic quality thereof.' The second is a Functional Design, which is defined to mean 'any design applied to any article... having features which are necessitated by the function which the article to which the design is applied is to perform.' Importantly, the act goes on to say (in rather awkward language it must be said) that a Functional Design cannot cover a spare part for a vehicle, machine or equipment. There is no such exclusion regarding an Aesthetic Design.

What the court had to decide

The Appeal Court said that it was common cause that Grandmark was importing and selling parts that were 'exact embodiments of the four designs'. What it had to decide, however, was whether BMW's four registrations were valid Aesthetic Design registrations. Grandmark claimed that they weren't because the designs were functional in nature. The company demanded that the registrations be cancelled, alternatively that the matter be referred to the Competition Tribunal, the argument being that registering designs that are functional in nature as Aesthetic Designs (possibly to circumvent the spare parts exclusion) is an abuse.

The court looked at the major design law cases (there have been very few) to determine just what an Aesthetic Design is. In the South African case of Homecraft Steel Industries vs SM Hare the court referred to the seminal British case of *Amp vs Utilux*, where the court said this: 'The phrases "appeal to" and "judged solely by the eye" denote features which will influence choice or selection... the feature must have some individual characteristic... it must be calculated to attract the attention of the beholder... there must be in some way a special, peculiar, distinctive or striking appearance - something which catches the eye and in this sense appeals to the eye.' On the issue of whose eye is to be considered, the court in the later South African case of *Swisstool Manufacturing Co vs Omega Africa Plastics* said this: 'While the eye is to be the

eye of the court, the court should view the design through the spectacles of the customer'. This led the court in the BMW case to conclude as follows: 'What emerges from the analysis is, essentially, that aesthetic designs are those that invite customer selection - and customer discrimination between articles - solely by their visual appeal.'

Court says component's design must be judged on its own qualities

The court was prepared to accept that BMW spends much time, money and expertise on designing the appearance of its vehicles. But it did not accept the argument that simply because a vehicle qualifies for registration as an Aesthetic Design, so do its component parts. The court said that the design of a component must be judged on its own qualities, independently of the design of the entire vehicle. Vehicle components, said the court, 'are not selected by customers for their appeal to the eye'. Rather, they are 'selected for the function they perform - which is to replace component so as to restore the vehicle to its original form.' The court summarised it as follows: 'The eye through which the design must be judged is that of the likely customer, who will choose it so as to maintain the form of the vehicle. Indeed it can be accepted from their nature that most customers will not even see the component before it is fitted to the vehicle, not make any selection at all, other than giving instructions for the restoration of the vehicle.'

So BMW's Aesthetic Design registrations were invalid. But the court also had to consider a trademark issue, because BMW claimed that Grandmark had infringed the trademark BM. Grandmark's use of the mark BM was, however, unusual, for example it appeared in forms like this: 'GORDON AUTO BODY PARTS CO. LTD; MFG LOT: 1004A; GD471: **BM**3 SRS 92-05 HOOD.' In the earlier Appeal Court decision of Commercial Auto Glass vs BMW the court made it clear that in order for there to be infringement there must be 'trademark use', in other words use that is likely to be interpreted as designating origin (a link between the product and the owner of the mark). Use for purely descriptive purposes is not trademark use, and this is what the court felt Grandmark's use was. It said this: 'It can hardly be said that the trademark is used as a badge of origin when the label states it to have a different origin. Moreover, the numbering surrounding and immediately following the mark clearly reflects its use to identify the component concerned.' So there was no trademark infringement either.

The implications

Just what are the implications of this judgement, is it open season for importers and sellers of replacement parts? Maybe so! Vehicle manufacturers certainly cannot rely on Functional Design registrations to stop the sale of replacement parts because of the specific exclusion in the Designs Act. And they will now also find it very difficult to use Aesthetic Design registrations. Some manufacturers may draw comfort from the fact that the court did make a point of saying that there are certain components - wing mirrors, wheels, seats and steering wheels getting particular mention - that are intended to be interchangeable between vehicles, and that some of these might be registrable as Aesthetic Designs. As for trademarks, it's unlikely that a vehicle manufacturer will have a case unless the replacement parts seller is foolish enough to actually try and pass the product off as being the real thing. As for the question of whether the exercise (and particularly the abuse) of an IP right ever contravenes competition law, this will have to wait for another day - the Appeal Court felt that there was no need to refer the matter to the Competition Tribunal because the registrations were invalid.

A major decision indeed!

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