Court of Justice EC, 5 October 1988, Volvo v Veng

Volvo 200

DESIGNL LAW

Non-harmonized design law

- **as Community law stands at present and in the absence of Community standardization or harmonization of laws, the determination of the conditions and proce-dures under which protection of designs and models is granted is a matter for national rules .**

It must first be observed, as the Court held in its **judgment of 14 September 1982 in Case 144/81 Keurkoop v Nancy Kean Gifts ((1982)) ECR 2853** with respect to the protection of designs and models, that, as Community law stands at present and in the absence of Community standardization or harmonization of laws, the determination of the conditions and procedures under which protection of designs and models is granted is a matter for national rules . It is thus for the national legislature to determine which products are to benefit from protection, even where they form part of a unit which is already protected as such .

ABUSE A DOMINANT POSITION

Refusal to license not in itself an abuse of a dominant position

- **an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right and that a refusal to grant such a licence cannot in itself constitute an abuse of a domi-nant position**

It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right . It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position .

- **Abuse may consist of abusive conduct on the part of an undertaking holding a dominant position, such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation**

It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article 86 if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States .

Source:

Court of Justice EC, 5 October 1988

(Mackenzie Stuart, G. Bosco, O. Due en J.C. Moitinho de Almeida, T. Koopmans, U. Everling, K. Bahlmann, Y.Galmot, R. Joliet, T.F. O' Higgins en F.A. Schockweiler)

In Case 238/87

REFERENCE to the Court under Article 177 of the EEC Treaty by the High Court of Justice, Chancery Division, Patents Court, London, for a preliminary ruling in the proceedings pending before that court between

AB Volvo

and

Erik Veng (UK) Ltd

on the interpretation of Article 86 of the EEC Treaty,

THE COURT

composed of : Lord Mackenzie Stuart, President, G . Bosco, O . Due, and J . C . Moitinho de Almeida (Presidents of Chambers), T . Koopmans, U . Everling, K . Bahlmann, Y . Galmot, R . Joliet, T . F . O' Higgins and F . A . Schockweiler, Judges,

Advocate General : J . Mischo

Registrar : D . Louterman, Administrator

after considering the observations submitted on behalf f AB Volvo, the plaintiff in the main proceedings, by David Vaughan QC, Richard Miller, barrister, and William Richards, solicitor,

Erik Veng (UK) Ltd, the defendant in the main proceedings, by Robin Jacob QC and Peter Prescott, solicitor,

the French Government, by Régis de Gouttes, acting as Agent,

the United Kingdom Government, by H . R . L . Purse of the Treasury Solicitor' s Department, acting as Agent,

the Italian Government, represented by Ivo M . Braguglia, avvocato dello Stato,

the Commission, represented by Anthony McClellan and Ida Langermann, acting as Agents,

having regard to the Report for the Hearing and further to the hearing on 18 May 1988,
after hearing the Opinion of the Advocate General delivered at the sitting on 21 June 1988,
gives the following

Judgment

Grounds

1 By an order of 17 July 1987, which was received at the Court on 3 August 1987, the High Court of Justice of England and Wales (Chancery Division, Patents Court) referred three questions to the Court under Article 177 of the EEC Treaty for a preliminary ruling on the interpretation of Article 86 of the Treaty with a view to determining whether the refusal by the proprietor of a registered design in respect of body panels for motor vehicles to grant a licence for the import and sale of such panels may, in certain circumstances, be regarded as an abuse of a dominant position within the meaning of the abovementioned article .

2 The questions were raised in proceedings between AB Volvo (hereinafter referred to as "Volvo ") and Eric Veng (UK) Ltd (hereinafter referred to as "Veng ").

3 Volvo, the proprietor in the United Kingdom of registered design No 968895 for the front wings of Volvo series 200 cars, instituted proceedings against Veng before the High Court of Justice for infringement of its sole and exclusive rights . Veng imports the same body panels, manufactured without authority from Volvo, and markets them in the United Kingdom .

4 In the proceedings before it, the High Court referred the following questions to the Court of Justice for a preliminary ruling :

1) If a substantial car manufacturer holds registered designs which, under the law of a Member State, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (if such body panels are not replaceable by body panels of any other design), is such a manufacturer, by reason of such sole and exclusive rights, in a dominant position within the meaning of Article 86 of the EEC Treaty with respect to such replacement parts?

2) Is it prima facie an abuse of such dominant position for such a manufacturer to refuse to licence others to supply such body panels, even where they are willing to pay a reasonable royalty for all articles sold under the licence (such royalty to represent an award which is just and equitable having regard to the merits of the design and all the surrounding circumstances, and to be determined by arbitration or in such other manner as the national court shall direct)?

3) Is such an abuse likely to affect trade between Member States within the meaning of Article 86 by reason of the fact that the intending licensee is thereby prevented from importing the body panels from a second Member State?

5 It is apparent from the terms of the order for reference that the national court submitted those questions taking account of the undertaking given by the defendant in the main proceedings to abandon its contention that a comparison of the prices charged by it for the body panels in question and the higher prices charged for the same panels by the plaintiff in the main proceedings constitutes an abuse of a dominant position by the latter .

6 Reference is made to the Report for the Hearing for a fuller account of the facts in the main proceedings, the course of the procedure and the observations submitted to the Court, which are mentioned or referred to hereinafter only in so far as is necessary for the reasoning of the Court .

The second question

7 It must first be observed, as the Court held in its **judgment of 14 September 1982 in Case 144/81 Keurkoop v Nancy Kean Gifts ((1982)) ECR 2853** with respect to the protection of designs and models, that, as Community law stands at present and in the absence of Community standardization or harmonization of laws, the determination of the conditions and procedures under which protection of designs and models is granted is a matter for national rules . It is thus for the national legislature to determine which products are to benefit from protection, even where they form part of a unit which is already protected as such .

8 It must also be emphasized that the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right . It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position .

9 It must however be noted that the exercise of an exclusive right by the proprietor of a registered design in respect of car body panels may be prohibited by Article 86 if it involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States .

10 In the present case no instance of any such conduct has been mentioned by the national court . Accordingly, and having regard to the answer given to the second question, it is unnecessary to give an answer to the first and third questions .

11 It must therefore be stated in reply to the second question submitted by the national court that the refusal by the proprietor of a registered design in respect of body panels to grant to third parties, even in return for reasonable royalties, a licence for the supply of parts incorporating the design cannot in itself be regarded as an abuse of a dominant position within the meaning of Article 86 .

Costs

12 The costs incurred by the Government of the Federal Republic of Germany, the French Government, the United Kingdom, the Italian Government and the Commission of the European Communities, which have submitted observations to the Court, are not recoverable . As these proceedings are, in so far as the parties to the main proceedings are concerned, in the nature of a step in the action pending before the national court, the decision on costs is a matter for that court .

Operative part

On those grounds,

THE COURT,

in reply to the questions submitted to it by the High Court of Justice of England and Wales, by order of 17 July 1987, hereby rules :

The refusal by the proprietor of a registered design in respect of body panels to grant to third parties, even in return for reasonable royalties, a licence for the supply of parts incorporating the design cannot in itself be regarded as an abuse of a dominant position within the meaning of Article 86 .

Opinion of the A-G Mischo 21 June 1988

Mr President,

Members of the Court,

1. The present reference for a preliminary ruling derives from proceedings before the High Court of Justice, London (Chancery Division, Patents Court), between AB Volvo (hereinafter referred to as "Volvo ") and Erik Veng (UK) Ltd (hereinafter referred to as "Veng ").

2. Volvo instituted proceedings against Veng for infringement of its registered design No 968895, which protects the front wings of Volvo Series 200 cars . The wings are manufactured in the Netherlands and Belgium, are incorporated in vehicles manufactured in Belgium and, as spare parts, are sold throughout the Community . In those proceedings, in which Volvo relies upon the fact that Veng imports from other Member States and places on the market in the United Kingdom components which are imitations of the protected design, Veng invokes Article 86 of the Treaty .

The first question

3. The first question submitted by the national court is worded as follows :

If a substantial car manufacturer holds registered designs which, under the law of a Member State, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (if such body panels are not replaceable by body panels of any other design), is such a manufacturer, by reason of such sole and exclusive rights, in a dominant position within the meaning of Article 86 of the EEC Treaty with respect to such replacement parts?

4 . With respect to that question, I can only repeat what I stated in my Opinion delivered today regarding the second question submitted by the tribunale civile e penale (Civil and Criminal Court), Milan, in Case 53/87 Consorzio italiano della componentistica di ricambio per autoveicoli - CICRA - and Maxicar v Régie nationale des usines Renault).

5. Before it is possible to determine whether a motor vehicle manufacturer holds a dominant position in the market in spare parts for vehicles of its manufacture, it is necessary in the first place to establish whether that market is in fact the "relevant market ".

6. It has been claimed in that respect that spare parts form part of a wider market which includes both motor vehicles and spare parts for them . In view of the fierce competition between motor-vehicle companies, the price of spare parts is one of the factors taken into consideration by purchasers .

7. There is no doubt that certain purchasers of cars, before making their choice, also obtain information as to the price of spare parts, and that factor may influence their decision . It is also certain that the owner of a vehicle of a particular make may, when deciding to change car, buy one of another make because the spare parts for the first car proved, in his opinion, excessively expensive . If the time factor is also taken into account, the competition prevailing in the new-car market thus also includes an element of competition regarding spare parts .

8. The fact nevertheless remains that the owner of a vehicle who, at a given moment, decides to repair the bodywork of his vehicle rather than change model is obliged to purchase (either directly, if he repairs the car himself, or indirectly through a garage in the manufacturer' s network or through an independent repairer) a body panel which is identical in shape to the original part . Consequently, for the owners of a vehicle of a particular make the "relevant market" is the market made up of the body panels sold by the manufacturer of the vehicle and of the components which, being copies, are capable of being substituted for them .

9. Therefore, I likewise cannot share the other views which have been put forward, namely that the market to be taken into account is the market in spare parts for cars in general or even the market which has grown up around the manufacture and maintenance of motor vehicles .

10. It must also be stated that a number of weighty arguments suggest that a vehicle manufacturer may hold a dominant position in the relevant market, even if such industrial property rights as he may have acquired are disregarded .

11. The manufacturer' s distribution network is in fact the first source of supply which comes to the mind of someone seeking a component because he feels sure that he will obtain that component there immediately or within a short period . Car manufacturers in a given country maintain, at least in that country, a fairly close-knit distribution network . Moreover, the manufacturer' s guarantee depends upon the use of so-called original parts the marketing of which is controlled by the manufacturer . At a time when manufacturers offer anti-rust guarantees of up to six years, that fact is not without importance . For their part, independent producers only enter the market some time after a new model is

brought out because they need time to undertake the "reverse engineering" necessary to enable them to produce copies of the original part . The parts produced by them do not enjoy the prestige associated with the "original part" label and the places where they can be obtained are less well known .

12. But in the present case, it does not seem to me to be necessary to establish beyond doubt whether or not a car manufacturer enjoys a dominant position, even if such industrial property rights as he may possess are disregarded . The situation referred to by the national court relates to body panels for which the manufacturer is the proprietor of a registered design .

13. Admittedly, it is apparent from previous decisions of the Court that the mere possession of an industrial property right does not automatically imply that the holder thereof occupies a dominant position within the meaning of Article 86 . In the Sirena and Deutsche Grammophon (1) cases the Court held that, for the proprietor of an industrial property right to hold a dominant position, he must be in a position to prevent the maintenance of effective competition over a considerable part of the relevant market, having regard in particular to the existence and position of any producers or distributors who may be marketing similar goods or goods which may be substituted for them .

14. But in the present case, the industrial property rights relate to body panels for a motor vehicle and the only products which can be substituted for them are products having exactly the same shape as the parts produced by the manufacturer . As the Commission rightly pointed out, in the circumstances of this case no substitutable goods exist which do not encroach upon the registered rights of the manufacturer . Accordingly, as soon as the proprietor exercises the rights deriving from his registered design and substitutable parts can no longer be produced, there is no doubt that the manufacturer holds a dominant position in the market in the spare parts for which he registered the design and which is, in the last analysis, the "relevant market" in the present case .

15. In view of the foregoing considerations, I suggest the following answer to the first question submitted by the High Court, London :

"If a substantial car manufacturer holds registered designs which, under the law of a Member State, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (and if such body panels are not replaceable by body panels of any other design), that manufacturer is in a dominant position within the meaning of Article 86 of the EEC Treaty, by reason both of such sole and exclusive rights and of the fact that it is impossible for the consumer to obtain a substitute product ."

The second question

16 . The second question asked by the High Court of Justice is as follows :

Is it prima facie an abuse of such dominant position for such a manufacturer to refuse to licence others to supply such body panels, even where they are willing to pay a reasonable royalty for all articles sold under the licence (such royalty to represent an award which is just and equitable having regard to the merits of the design and all the surrounding circumstances, and to be determined by arbitration or in such other manner as the national court shall direct)?

17 . The object of the second question is therefore to determine whether the mere fact of being the proprietor of a registered design for a spare part and of exercising the exclusive rights relating thereto constitutes per se an abuse on the part of the vehicle manufacturer, an abuse which could be brought to an end by the grant of licences to third parties .

18 . We have just seen, with respect to the first question, that proprietorship of a registered design is not of itself sufficient automatically to create a dominant position in every case . A fortiori, it cannot per se amount to abuse of such a position .

19 . The previous decisions of the Court leave no room for doubt on this point . As early as 29 February 1968 in its judgment in Case 24/67 Parke, Davis & Co . v Probel, Centrafarm and Others ((1967)) ECR 55, at p . 72), the Court stated

"for this prohibition ((under Article 86)) to apply it is ... necessary that three elements shall be present together : the existence of a dominant position, the abuse of this position and the possibility that trade between Member States may be affected thereby .

Although a patent confers on its holder a special protection at national level, it does not follow that the exercise of the rights thus conferred implies the presence together of all three elements in question .

It could only do so if the use of the patent were to degenerate into an abuse of the abovementioned protection ".

20 . Further on the Court stated that :

"since the existence of patent rights is at present a matter solely of national law, the use made of them can only come within the ambit of Community law where such use contributes to a dominant position, the abuse of which may affect trade between Member States ".

21 . The mere acquisition of an industrial or commercial property right (and the exercise of the corresponding rights without which registration of the design would be deprived of any practical utility) does not therefore constitute abuse of a dominant position . A further element is required .

22 . Let us also remember that in the judgment in Pharmon v Hoechst (2) the Court was asked whether the rule as to the exhaustion of exclusive rights also applied where the product imported and marketed was not one lawfully placed on the market of another Member State by the patent proprietor himself, with his consent or by a person economically or legally dependent on him, but a product manufactured in the Member State of exportation by the holder of a compulsory licence in respect of a parallel patent held by the patent proprietor in the Member State of importation .

23 . The Court stated that :

"where ... the competent authorities of a Member State grant a third party a compulsory licence which allows

him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party . Such a measure deprives the patent proprietor of his right to determine freely the conditions under which he markets his products ".

24 . The Court then referred to a consistent line of judgments previously delivered by it according to which

"the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain the reward for his creative effort", and concluded that :

"it is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent ".

25 . In the same judgment, the Court also made it clear that it was immaterial whether the competent authorities in the Member State which issued the compulsory licence had fixed royalties payable to the patentee or whether the patentee had accepted or refused such royalties (paragraphs 28 to 30 of the judgment in Pharmon v Hoechst).

26 . The substance of the exclusive rights deriving from a registered design is similarly jeopardized where the design has been registered in only one country and a compulsory licence is granted by the competent authorities in that State . It is for that reason that the legislation in most States allows a compulsory licence to be imposed only in exceptional cases such as non-exploitation of the patent, the protection of public health or national defence requirements .

27 . Finally, it follows from the foregoing considerations that the proprietor of a registered design would also be deprived of the substance of his right if he were obliged to grant a licence to every person who requested one and offered to pay a reasonable royalty .

28 . The refusal to grant a licence - in other words the straightforward exercise of the right associated with the registered design - cannot therefore in itself constitute abuse of a dominant position . In addition to the dominant position and the intellectual property right there must be a further circumstance or element . That element might for example be discriminatory conditions of sale (refusal to supply spare parts to independent repairers, for instance), or refusal to continue to manufacture spare parts for a vehicle no longer in production even though many vehicles of that type were still in use . But the case which comes most readily to mind is that of applying "unfair prices" within the meaning of subparagraph (a) of the second paragraph of Article 86 . Veng in fact contends that the front wings of Volvo Series 200 cars are sold by Volvo concessionnaires at exaggeratedly high prices .

29 . Where a reference is made for a preliminary ruling, only the court before which the main action is pending is in a position to settle a question of that kind .

30 . If the prices applied by Volvo are in fact "unfair", can it then be said - and the Commission appears to consider that it can - that the industrial property right "has ... been used as an instrument for ... the abuse" of a dominant position (within the meaning of the judgment in Hoffmann-La Roche v Centrafarm, paragraph 16 (3))? If that phrase is taken to mean "play a role in connection with the abuse", such an assertion might be correct since without the patent or registered design the manufacturer would probably not have been in a position to impose excessive prices . I believe, however, that the exercise of the intellectual property right serves rather to establish or to reinforce the dominant position of the undertaking (in the judgment in Parke, Davis the expression "contributes to a dominant position" is used) and that it cannot in any circumstances of itself constitute abuse of a dominant position . And that is the issue with which the High Court' s question is concerned .

31 . On the other hand it seems to me to be possible that where a dominant position is abused in connection with an industrial property right, the competent national authority (to the extent to which it is empowered to do so) or the Commission of the European Communities (on the basis of Article 3 of Regulation No 17) may impose one or more compulsory licences on the proprietor of the patent or registered design if it considers that that is the best way of bringing the abuse to an end .

32 . But let us return for a moment to the question of excessive prices . In the Parke, Davis judgment (cited above) the Court declared that a higher price for the patented product as compared with the unpatented product does not necessarily constitute an abuse . This appears to mean that "the inventor" is entitled to recover not only his production costs in the strict sense and a reasonable profit margin but also his research and development expenditure .

33 . As regards the bodywork components sold as spare parts the problem displays an unusual aspect in so far as part of that expenditure has probably already been recovered from the sale of new cars . However, I do not in principle see any reason why a manufacturer should be prohibited from charging the amortization to income both from new vehicles and from spare parts, provided that the apportionment is equitable . That is the question to be decided by the national court . If I have correctly understood the results of the inquiry into the policy with respect to bodywork spare parts pursued by a large motor-vehicle manufacturer carried out in 1984-85 by a public authority of a Member State, namely the United Kingdom Monopolies and Mergers Commission, the prices of bodywork components are in fact sometimes fixed at an excessively high level .

34 . It should be pointed out, finally, that if it were to be found that the monopoly enjoyed by motor vehicle manufacturers regarding spare parts produced by them and covered by protective rights frequently prompts them to abuse their dominant position or if the temptation to engage in such abuse were considered too strong, it would of course be open to the national legislatures or possibly to the Community legislature (by way of harmonization of national legislation) to regu-

late the exclusive rights in question by the means considered most appropriate .
35 . As regards the specific question submitted by the High Court of Justice, I propose that the Court should give the following reply :
"Article 86 of the EEC Treaty must be interpreted as meaning that refusal by the proprietor of a registered design to grant licences which would enable third parties to supply body panels covered by that design in return for the payment of a reasonable royalty does not of itself constitute abuse of a dominant position, since that refusal is no more than the consequence of the exercise of the right associated with the registered design ."

The third question

36 . The third question submitted by the High Court of Justice is formulated as follows :
Is such abuse likely to affect trade between Member States within the meaning of Article 86 by reason of the fact that the intending licensee is thereby prevented from importing the body panels from a second Member State?
37 . Since I have established that the refusal to grant a licence does not of itself constitute abuse of a dominant position, the third question is now devoid of purpose .
38 . But what about the effect on trade between the Member States if the proprietor of the registered design abused his dominant position, for example by fixing unfair sale prices?
39 . Like the Commission, I consider that in such cases it would be for the national court to investigate whether the undertaking abusing its dominant position imports the parts in question from one Member State into another Member State .

Conclusion

40 . I therefore propose that the Court should give the following answers to the three questions submitted by the High Court of Justice :
"1)If a substantial car manufacturer holds registered designs which, under the law of a Member State, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (and if such body panels are not replaceable by body panels of any other design), that manufacturer is in a dominant position within the meaning of Article 86 of the EEC Treaty, by reason both of such sole and exclusive rights and of the fact that it is impossible for the consumer to obtain a substitute product .
2) Article 86 of the EEC Treaty must be interpreted as meaning that refusal by the proprietor of a registered design to grant licences which would enable third parties to supply body panels covered by that design in return for the payment of a reasonable royalty does not of itself constitute abuse of a dominant position, since that refusal is no more than the consequence of the exercise of the right associated with the registered design . 3) In view of the answer given to the second question, the third question is devoid of purpose ."
(*) Translated from the French .
(1) Case 40/70 Sirena v Eda ((1971)) ECR 69, paragraph 16; Case 78/70 Deutsche Grammophon v Metro ((1971)) ECR 487, paragraph 16 .
(2) Judgment of 9 July 1985 in Case 19/84 ((1985)) ECR 2281, at p . 2298 .
(3) Judgment of 23 May 1978 in Case 102/77 ((1978)) ECR 1139, at p . 1168 .