Updated White Paper
on
Protecting the Consumer Patent Law Right of Repair and the Aftermarket for Exterior Motor Vehicle Repair Parts: The SMART Act, H.R. 1879, 117th Congress

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EXECUTIVE SUMMARY

This White Paper explains the pressing need to promote competition in the repair industry and to control sky-rocketing costs for consumers by enacting into law the Save Money on Auto Repair Transportation Act ("SMART Act"), H.R. 3664, 117th Congress (2021). Judicial interpretations of the design provisions of the Patent Act by the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") since 1980 have resulted in automobile original equipment manufacturers ("OEMs") obtaining design patents on cosmetic exterior automobile repair parts. Those patents restrict the supply of third-party repair parts and of independent repair services, which adversely affects consumers by raising costs and by limiting use of high-quality alternative parts.

Without legislative adoption of the SMART Act, American consumers will continue to absorb over $1.5 billion per year in additional costs when they repair their vehicles after collisions. The percentage of totaled vehicles is increasing across all age categories of automobiles, although it is higher for older vehicles that are increasingly sought to be repaired. Consequently, consumers are left without needed transportation. Further, the change to design patent rights, acquisition, and assertions continues to adversely affect the long-standing alternative collision parts industry, which has employed tens of thousands of American workers in cities and small towns across the country and supports the livelihood of more than 40,000 body shops nationwide.

1. As explained in a prior White Paper on the Promoting Automotive Repair, Trade, and Sales Act ("PARTS Act"), S. 812 and H.R. 1879, 115th Congress (2017), Congress has not textually authorized design patents for machines, or for parts or fragments of articles of manufacture or machines. But the Federal Circuit's recent interpretations effectively override the "right to repair" purchased, patented products recognized by the Supreme Court in 1850.
2. Although many states have enacted laws to better ensure that consumers and third-party service providers are not restricted from performing repairs with non-OEM parts, these laws do not address the effects of design patents on the aftermarket. If they did so, they would likely be found preempted by the Patent Act as interpreted.
3. Absent substantial changes to patent-holder practices or U.S. Federal Trade Commission ("FTC") enforcement of antitrust or consumer protection laws, only the U.S. Congress can restore consumer rights to repair automobiles using non-OEM parts and can restore the vigorous aftermarket in such parts and services.
4. Without legislative action, OEMs have increasingly and will continue to resort to using design patent rights to raise prices to consumers, prevent competition, and threaten the viability of the aftermarket in exterior automobile repair parts.
5. The SMART Act provides a balanced and targeted remedy to the overextension of the design patent infringement right resulting from these judicial interpretations. The SMART Act would create two narrow exclusions (based on two different time-frames) from the definition of different kinds of infringing conduct for design patents. These exclusions are specific to automobile repair parts. These exclusions ensure OEMs can recoup any investments in designing such parts and protect them from competition by other OEMs, while also ensuring that the consumer right to repair and the non-OEM aftermarket are protected. **The time for Congress to pass the SMART Act is now!**

Introduction

This White Paper explains the pressing need to promote competition in the repair industry and to control sky-rocketing costs for consumers by enacting into law the Save Money on Auto Repair Transportation Act, H.R. 3664, 117th Congress (2021). A prior White Paper[1] explained why the predecessor bill to the SMART Act, the Promoting Automotive Repair, Trade, and Sales Act, S. 812 and H.R. 1879, 115th Congress (2017), was needed to address changes since 1980 in design patent law. Those changes have resulted in automobile manufacturers (original equipment manufacturers) obtaining design patents on cosmetic exterior automobile repair parts. Those patents restrict the supply of third-party repair parts and of independent repair services, which adversely affects consumers by raising costs and by limiting use of high quality alternative parts. Key factual points from the 2017 White Paper and since are summarized below in this introduction, and key legal points from the prior White Paper are summarized in Part 1.

Unfortunately, the PARTS Act did not become law, and design patents have increasingly hindered competition and raised prices, now during a time of record high inflation. As stated in the 2017 White Paper and as remains the case now: "Legislation is needed to preserve the consumer repair right and the aftermarket for repair parts for legitimate exterior repairs to the original appearance of motor vehicles that embody such partial-product [(component)] or fragment design patents. After all, consumers have already paid patented prices to purchase their motor vehicles." Developments since that time have only reinforced the urgent need for federal legislation to protect consumers' right to repair. It is therefore critical that Congress enact the SMART Act.

It is important to stress the facts of why the SMART Act matters, before turning to the legal details. Without a change in carmaker practices, American consumers will continue to absorb over $1.5 billion per year in additional costs when they repair their vehicles after collisions.[2] In 2017, US consumers saw an average increase from 2016 rates in automotive insurance premiums of 7.2% with the top ten insurers.[3] Insurance rates have continued to rise since that time, including a 6.7% increase to date in 2022.[4] Major insurers have reported that approximately

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[1] White Paper on Protecting the Consumer Patent Law Right of Repair and the Aftermarket for Exterior Motor Vehicle Repair Parts: The PARTS Act, S. 812; H.R. 1879, 115th Congress (November 2017) ("2017 White Paper"). The 2017 White Paper is available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3082289.

[2] MiCRA Economics, Consumer Benefits from a Competitive Aftermarket for Crash Repair Parts, Executive Summary, 3-5 (2015) ("MiCRA Analysis") (also suggesting very minimal offsetting reductions of original sales prices to compensate for increased repair prices, and noting that large insurers may choose to limit collision insurance premium increases only to those motor vehicles for which repair part costs have risen, but would not differentiate with regard to motor vehicles in regard to property insurance premiums); Property Casualty Insurers Association of America, ("PCIAA") Aftermarket Parts: A $1.5 Billion Benefit for Consumers 1 (January 2013) ("PCIAA, Aftermarket Parts").

[3] *See* Automotive Body Parts Association ("ABPA") Presentation to the Federal Trade Commission, *Consumer Issues in the Collison Repair Industry,* at 15-16 (2019) ("ABPA Presentation").

[4] 2022 S&P Global data through June 2022 from top ten insurers. There was a small (0.4%) decrease in insurance premiums in 2020, during the height of the COVID-19 pandemic. Data from the NAIC 2018/2019 Insurance Database also indicates insurance premium changes from 2015 to 2019 of 18.71% overall, 17.99% for collision coverage, and 16.31% for comprehensive coverage.

25% of all insured vehicles in an accident are "totaled,"[5] meaning that the costs of repair (which reflects increased parts and service prices) exceed the value of the vehicle at the time of the accident. The percentage of totaled vehicles is increasing across all age categories of automobiles, although it is higher for older vehicles that are increasingly sought to be repaired,[6] in part due to new car parts manufacturing shortages and cost concerns with purchasing new cars. The result is to leave many consumers without transportation, needing to purchase replacement vehicles during a time of record high inflation.

For more than 60 years, the alternative collision parts industry has been offering quality alternative parts to consumers.[7] Typically, these "aftermarket" parts have been up to 50% less expensive than OEM parts, and the existence of that competition in the parts market has also induced OEMs to lower the costs of OEM parts to consumers by about 8%.[8] The alternative collision parts industry has employed tens of thousands of American workers in cities and small towns across the country – engaging in manufacturing, distribution, and third-party repair activities. Quality alternative collision parts support the livelihood of more than 40,000 body shops nationwide.[9] However, the automobile aftermarket collision parts market is now under increasing stress due to monopolization effects of the repair parts market resulting from design patents obtained by – and other measures taken by – automobile original equipment manufacturers.

As the FTC noted in its 2021 "Nixing the Fix" Report to Congress,[10] empirical research shows that "'[t]he misuse of design patents on repair parts to block competition from producing equivalent parts is creating an environment with less competition and a significant pricing increase in the marketplace.'"[11] Further, in 2018, the FTC sent numerous letters to automobile

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[5] S&P Global data.

[6] ABPA Presentation, at 20-22.

[7] *See, e.g.,* Quality Parts Coalition, The "Promoting Automotive Repair, Trade, and Sales Act of 2015": Background Summary 1 (2015); Garst, Aftermarket Shock, at 2 & n.3 (citing Hearing on Design Patents and Auto Replacement Parts Before the H. Comm. on the Judiciary, 112th Cong. (2010) (statement of Robert Passmore, Senior Director of Personal Lines Policy, Property Casualty Insurers Association of America)). *See also* Promoting Automotive Repair, Trade and Sales Act: Hearing on H.R. 1057 Before the H. Comm. on the Judiciary, Subcomm. on Courts, Intellectual Property, and the Internet, 114th Cong. 7 (2016) (Statement of Rep. Jerrold Nadler) ("According to some estimates, since generic auto parts can cost up to 50 percent less than brand--name alternatives, consumers could pay over a billion dollars a year more for repair parts if the independent market were to be eliminated…. And if repair parts cost more, insurance companies will be forced to raise their rates too, further hurting consumers.").

[8] *See, e.g.,* MiCRA Analysis, at 3-5; PCIAA, Aftermarket Parts.

[9] S&P Global data.

[10] FTC, Nixing the Fix: An FTC Report to Congress on Repair Restrictions (May 2021) ("Nixing the Fix").

[11] *Id.* at 22 (quoting and citing empirical research of the ABPA). OEMs also "are attempting to disrupt supply chains for aftermarket parts, thus reducing competition for original parts, by increasingly alleging trademark infringement at the point of entry when aftermarket collision repair parts are imported into the US." *Id.* (citing the ABPA FTC presentation, at 13). The FTC acknowledged that "it is clear that manufacturers' assertion of intellectual property rights can impede repairs by individuals and independent repair shops," and "[w]ith respect to patent law, patents could potentially impact competitive markets for repair parts if there are valid and enforced patents protecting component parts." *Id.* at 26. As discussed below, increasing numbers of such patents are being obtained and enforced. Yet, the FTC cavalierly dismissed these concerns, stating that "in many instances intellectual property rights (IPRs) do not appear to present an *insurmountable* obstacle to repair" and "*only two commenters* noted that

manufacturers warning against telling consumers that they needed to use specified parts or services to keep their automobile warranties intact (as such conduct violates the anti-tying provision of the Magnuson-Moss Warranty Act ("MMWA")).[12] Some OEMs either intentionally limit the availability of OEM parts (or licensed third-party repair parts) to authorized repair service providers,[13] or improperly disparage the use of third party repair parts and independent service operator ("ISO") quality or safety.[14] This adds to the limitations on third-party repair products resulting from enforcing new design patent rights on exterior automotive parts, and further consolidates the automobile repair market. It does so by precluding ISOs from being able to compete in performing automotive repairs. In turn, this further increases costs to consumers and limits their repair choices. It also may add time and distance costs for consumers, who need to obtain repairs that could otherwise be had at more convenient, independent automobile repair service providers.

As President Biden's Executive Order on Promoting Competition in the American Economy notes, "[y]et over the last several decades, as industries have consolidated, competition has weakened in too many markets, denying Americans the benefits of an open economy and widening racial, income, and wealth inequality. Federal Government inaction has contributed to these problems, with workers, farmers, small businesses, and consumers paying the price."[15] **It is long past time for the Congress and the President to fight for consumers and to take the necessary actions to fight inflation by enacting the SMART Act. Doing so will restore vigorous competition in the automobile exterior repair parts and services aftermarket.**

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manufacturers' assertion of patent rights impedes independent repair. *Thus,* it is not clear that manufacturers are readily turning to patent law to prevent independent repair shops from obtaining spare parts." *Id.* (emphasis added). Sadly, the issue isn't whether IPRs are "insurmountable" barriers to repair (which of course they are not, if OEM equipment and authorized repair providers are used), but whether design patents harm competition and consumers. Similarly, it is simply nonsensical to dismiss actual empirical evidence of widespread industry practices provided by a trade association by counting the number of commenters presenting that information (and without citation to any contrary evidence), rather than by actually assessing the validity of the evidence presented.

[12] *Id.* at 6. *See* 15 U.S.C. § 2302(c). In regard to cosmetic automobile repair parts, the Report noted that "the Specialty Equipment Market Association (SEMA) submitted a comment stating that it regularly receives complaints that automobile dealerships void automobile warranties if the dealership finds a specialty part (e.g., custom wheels) had been installed on the automobile, regardless of whether the specialty part caused the automobile to malfunction." Nixing the Fix, at 8.

[13] *See* Nixing the Fix, at 18 ("Some manufacturers make parts available only to their authorized repair networks. For example, LKQ Corporation … stated that in the automobile industry where replacement parts have generally been available outside of manufacturers' repair networks, several manufacturers, such as Volvo, limit the availability of key replacement parts to only their authorized repair networks.").

[14] *See id.* at 23 ("A number of commenters also raised concerns about OEMs disparaging the quality of aftermarket parts and independent repairs. The record most strongly reflects this with respect to the automobile industry."); *id.* at 29 ("'manufacturers' safety arguments are difficult to square with the experience of repair in the automotive sector.'… The automotive sector demonstrates that consumers and independent repair shops are able to repair cars every day even though cars are a diverse group of complex machines that contain gasoline and battery acid and have hundreds of moving parts.") (citations omitted).

[15] Executive Order On Promoting Competition in the American Economy, § 1 (July 9, 2021).

1. Summary of Legal Issues in the 2017 White Paper on the PARTS Act.

Congress has never explicitly authorized granting design patents for machines (such as cars), or for parts of machines, but only for "articles of manufacture."[16] Nevertheless, the U.S. Court of Customs and Patent Appeals (a predecessor court to the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit")) in 1980 reversed a decision of the U.S. Patent Office's Board of Patent Appeals and Interferences and adopted an interpretation of the design patent subject matter provision that authorizes design patents for parts of articles of manufacture (and implicitly for parts of machines), and even for designs for fragments of such parts.[17] This interpretation was adopted without regard to any limitation of design patents and infringement rights to the *overall* appearance of the entire article of manufacture, and without considering whether the parts or the fragments were functional by themselves (part of the definition of what distinguishes a machine from an article of manufacture), or were manufactured and sold separately as products.[18] Design patent law is not supposed to protect functional aspects of design.[19]

The consequence of authorizing patents for the visual appearance (not functional attributes) of parts and fragments of parts is to protect smaller and smaller parts of articles of manufacture (or machines such as cars). This reduction in size effectively overrides the patent law consumer "right to repair" purchased, patented products, which right has been recognized by the U.S.

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[16] 35 U.S.C. § 171(a) ("Whoever invents any new, original and *ornamental design* for an *article of manufacture* may obtain a patent therefor, subject to the conditions and requirements of this title.") (emphasis added). *See, e.g.,* Sarah Burstein, *The "Article of Manufacture" in 1887*, 32 BERKELEY TECH. L.J. 1, 5, 26-31, 62-63 (2017) (noting that these were terms of art and distinct and exclusive categories).

[17] *See* Application of Zahn, 617 F.2d 261, 267 (C.C.P.A. 1980) (quoting the PTO's belief that "'a claim to a design which is embodied in less than all of an article of manufacture – at least in one which is an integral or one-piece article such as a drill, or a screwdriver – is not permitted by the provision of § 171 authorizing a patent for 'any new, original and ornamental design for an article of manufacture.' We know of no reason for putting such a limited construction on that statute. We do not so construe it.") (citation omitted). For a critique of *Zahn,* see Sarah Burstein, *How Design Patent Law Lost Its Shape*, 41 CARDOZO L. REV. 555, 556 (2019). *See also* PTO, Summary of public views on the article of manufacture requirement of 35 U.S.C. § 171, at 6 (2021) ("'In the 1990s, the Office built upon the faulty logic of *Zahn* to extend design patent protection to designs for computer icons and interfaces. Scholars have criticized this expansion. Further expansions of design patentable subject matter are neither necessary nor advisable.'") (citing submission of design professors).

[18] Note that fragments of parts are never manufactured or sold separately, and they are never functional by themselves. If they were separately manufactured and functional, they would then be considered parts of the entire product.

[19] *See, e.g.,* Ethicon Endo-Surgery, Inc. v. Covidien, Inc., 796 F.3d 1312, 1328-29 (2015) ("If a particular design is essential to the use of an article, it cannot be the subject of a design patent…. We have found designs to be essential to the use of an article when the claimed design is 'dictated by' the use or purpose of the article…. We have also instructed that the overall appearance of the article—the claimed design viewed in its entirety—is the basis of the relevant inquiry, not the functionality of elements of the claimed design viewed in isolation.") (citations omitted); PHG Techs., LLC v. St. John Companies, Inc., 469 F.3d 1361, 1366 (Fed. Cir. 2006) ("'If the patented design is primarily functional rather than ornamental, the patent is invalid.' *Power Controls Corp. v. Hybrinetics, Inc.,* 806 F.2d 234, 238 (Fed.Cir.1986). The design of a useful article is deemed to be functional when 'the appearance of the claimed design is "dictated by" the use or purpose of the article.' *L.A. Gear, [Inc. v. Thom McAn Shoe Co.,]* 988 F.2d [1117,] 1123 [(Fed. Cir. 1993)]; *see also Rosco, Inc. v. Mirror Lite Co.,* 304 F.3d 1373, 1378 (Fed.Cir.2002).").

Supreme Court since 1850.[20] It does so by changing the "denominator" for distinguishing a legitimate repair from a prohibited act of new manufacture.

The consumer repair right was reaffirmed by the Supreme Court in 2017 as a core patent policy that cannot be avoided by contractual provisions.[21] As the Supreme Court noted in 1872, patented products when sold "become the private individual property of the purchasers, and are no longer specifically protected by the patent laws."[22] Consequently, consumers may repair those purchased, patented products so long as they do not "reconstruct" entire new products.[23] But if the patented object is a part (or fragment of a part), rather than a whole product as used by consumers, then consumers lose the ability to repair their purchased product without infringing patent rights. This is because by repairing or replacing the part, they will now be considered to remanufacture the part (or manufacture or use an unauthorized new part).

In 2019, the Federal Circuit further exacerbated the problem, specifically for automobiles. The Federal Circuit held that the consumer's purchase and use of replacement parts to repair automobiles to their original *appearance* is not a "functional" requirement for which design protection is prohibited.[24] As the court stated: "Our precedent gives weight to this language, holding that a design patent must claim an 'ornamental; design, not one 'dictated by function.'… We hold that, even in this context of a consumer preference for a particular design to match other parts of a whole, the aesthetic appeal of a design to consumers is inadequate to render that design functional."[25] Thus, design patents can prevent competition in the supply of such *ornamental* features of repair parts, requiring consumers to purchase either OEM parts or "mismatched" aftermarket parts. But consumers do not want their repaired cars to look like Frankenstein's monster, and instead seek to restore the *original* appearance of those purchased products when making legitimate repairs. Further, state insurance laws or insurance policies may *require* the use of "like kind and quality" repair parts, and thus provide legal options for consumers to use appearance-matching aftermarket repair parts.[26] But the Federal Circuit's interpretation of

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[20] *See* Wilson v. Simpson, 50 U.S. (9 How.) 109, 123 (1850).

[21] *See* Impression Products, Inc. v. Lexmark Int'l, Inc., 137 S.Ct. 1523, 1531-32 (2017) ("A patentee is free to set the price and negotiate contracts with purchasers, but may not, 'by virtue of his patent, control the use or disposition' of the product after ownership passes to the purchaser…. so long as those [consumers] bringing in the cars own them, the [repair] shop is free to repair ... those vehicles.... [E]xtending the patent rights beyond the first sale would clog the channels of commerce, with little benefit from the extra control that the patentees retain.") (citations omitted).

[22] Mitchell v. Hawley, 83 U.S. (16 Wall.) 544, 548 (1872).

[23] *See* Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 346 (1961) ("[M]aintenance of the 'use of the whole' of the patented combination through replacement of a spent, unpatented element does not constitute reconstruction. The decisions of this Court require the conclusion that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to 'in fact make a new article.'").

[24] Auto. Body Parts Ass'n v. Ford Glob. Techs., LLC, 930 F.3d 1314, 1318-19 (Fed. Cir. 2019)

[25] *Id.*

[26] *See, e.g.,* National Association of Insurance Commissioners, NAIC Model Laws, Regulations, Guidelines, and Other Resources, After Market Parts Model Regulation § 5 (2009) ("Like Kind and Quality": "An insurer shall not require the use of after market parts in the repair of an automobile unless the after market part is at least equal in kind and quality to the original part in terms of fit, quality and performance."). Other jurisdictions have adopted express automobile collision repair parts exclusions from design rights, some of which exclusions are limited to so-called must-match or must-fit parts. *See, e.g.,* Dana Beldiman, et al., *Spare Parts and Design Protection – Different*

design patent law prohibits such aftermarket parts and supersedes these state insurance laws and policies, requiring the use of only OEM repair parts.

These judicial changes in interpretation of the design patent eligibility provision and of the design patent functionality doctrine have turned legitimate repairers and legitimate third-party parts producers and importers into illegal infringers. This conversion of legal to illegal conduct did not result from any change in consumer or aftermarket practices, nor from any legislative changes to the design patent law or the patent law right of repair. Further, as discussed in Part 4, the OEMs have increasingly sought design patents for their exterior repair parts. They have done so in order to take advantage of this changed interpretation and to shut down the aftermarket for repair parts and ISOs. Unless the federal courts reverse this changed interpretation of design patent subject matter eligibility and functionality, or unless the FTC exercises its consumer protection or competition authorities to find the assertion of such design patent rights to be unfair, **only Congress can restore the consumers' right to repair their automobiles and restore a robust aftermarket in third-party parts and independent repair services.**

2. Increasing State-Level Recognition and Protections for Consumer Automobile Repair Rights Cannot and Will Not Solve the Federal Design Patent Problem.

Numerous states have enacted or are on the verge of enacting consumer automotive (and other vehicle) right to repair laws. These laws seek to restrict OEMs from refusing to provide to ISOs information or parts that are needed for repairs. For only one (prominent) example, the state of Massachusetts adopted a law in 2012 that (as of various model years) required OEMs to provide diagnostic information (but not trade secrets) as needed by ISOs to enable such independent repairs.[27] By ballot initiative, Massachusetts in 2020 adopted a law requiring the sharing of telematics data.[28]

Nothing in those state laws (or any other state law) would require OEMs to permit third-party manufacture or import of design-patented repair parts. Nor would they permit the use by consumers or by ISOs of such design-patent infringing parts.[29] If those state laws were to do so, moreover, one would readily expect the OEMs to argue that federal design patent law preempts those state laws under constitutional "purposes and objectives" conflict preemption principles (pursuant to the Supremacy Clause of Article VI, clause 2). Constitutional conflict preemption is

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Approaches to a Common Problem. Recent Developments from the EU and US Perspective, 69 J. OF EUROPEAN & INT'L IP L. 673, 685-90 (2020).

[27] *See* Mass. Session Laws, ch. 368 (creating chapter 93J, the Massachusetts Right to Repair Act, later consolidated into Mass. General Laws, ch. 93K). Following legal challenges to the act, in 2014 trade associations for the OEMs and aftermarket manufacturers and repairers entered into a memorandum of understanding agreeing to nationwide provision of such repair diagnostic information (but not telematics). *See* Memorandum of Understanding, Alliance of Automobile Manufacturers, Association of Global Automakers, Automotive Aftermarket Industry Association, and Coalition for Auto Repair Equality (Jan. 15, 2014).

[28] Massachusetts SD645 (2019-2020) (codified at Mass. General Laws, ch. 93K).

[29] In contrast, the Song-Beverly Act in California requires original equipment makers of electronics who provide express warranties to supply "service literature and functional parts" to competitors. CAL. CIV. CODE § 1793.03 (West 2019).

found when state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" in enacting a federal law.[30]

The OEMs raised federal constitutional conflict preemption claims against the Massachusetts Right to Repair laws.[31] Similar federal constitutional conflicts preemption claims would no doubt be raised against any state law that sought to prohibit OEMs from exercising their federal design patent infringement rights against third-party parts manufacturers or importers, or against consumers or ISOs using aftermarket repair parts. It is highly unlikely that federal courts would permit states to prohibit what they have interpreted Congress to authorize.

For example, in an even more sympathetic context, the Federal Circuit found that DC's excessive pharmaceutical pricing regulation was preempted by the Patent Act, as it would reduce the economic returns to patent holders.[32] As Federal Circuit Judge Dyk subsequently noted, "any state law regulating the prices of patented pharmaceutical products would likely be preempted as a result of the panel's holding. While the D.C. statute in this case appears to be invalid because of its poor drafting, the panel's opinion suggests that even legitimate price regulation is invalid."[33] States thus lack the power to solve the problem for repair rights that the Federal Circuit created.

3. The Federal Trade Commission Has Recognized the Unfairness of Repair Restrictions, Particularly for Automobiles, But Has Not Issued Any Rules to Address Overextension of The Design Patent Infringement Right.

As stated above, the FTC's recent "Nixing the Fix" report noted that an empirical analysis showed that "'[t]he misuse of design patents on repair parts to block competition from producing equivalent parts is creating an environment with less competition and a significant pricing increase in the marketplace.'"[34] Under Section 5 of the Federal Trade Commission Act, the FTC has authority (at least by adjudication) to declare certain commercial practices to be "unfair methods of competition" ("UMC") and "unfair or deceptive commercial practices" ("UDCP").[35] As discussed in a recent article that was part of a symposium on the FTC's antitrust and consumer protection authority,[36] the FTC in theory could address the over-extension by the federal judiciary of federal design patent rights for exterior auto parts. It could do so by finding such repair-restricting practices either to be anticompetitive or to be unfair to consumers.

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[30] Hines v. Davidowitz, 312 U.S. 52, 67 (1941).

[31] *See, e.g.,* Alliance for Automotive Innovation v. Healey, 1:20-cv-12090, Complaint, ¶¶ 84-90, 116-28 (Nov. 20, 2020); *id.,* Plaintiff's opposition to Motion to Dismiss, 23-25 (Jan. 8, 2021); Chris Villani, 'Right to Repair' Law Puts Car Brands in Lurch, Court Told, Law360 (July 21, 2021) (discussing claims of preemption brought against the 2020 Massachusetts telematics law based on the National Highway Transportation Safety Act).

[32] Biotechnology Indus. Org. v. D.C., 496 F.3d 1362, 1371-72 (Fed. Cir. 2007).

[33] Biotechnology Indus. Org. v. D.C., 505 F.3d 1343, 1348 (Fed. Cir. 2007) (Dyk, J. dissenting from denial of en banc rehearing).

[34] Nixing the Fix, at 22 (citation omitted).

[35] 15 U.S.C. § 45(b). Rulemaking authority to define UMC may exist under Sections 6(n), and such rulemaking authority clearly exists (although it is burdensome to exercise) for UDCP under Section 18. 15 U.S.C. §§ 46(g), 57(a).

[36] Joshua D. Sarnoff, How the FTC Could, but Won't, Use Its Rulemaking Authority to Allow Aftermarket Parts, https://truthonthemarket.com/author/jsarnoff/ (May 10, 2022).

In regard to competition, the Supreme Court held in *FTC v. Actavis* (2013) that conduct (there, legal assertion and settlement; here the exercise of infringement rights) within the scope of granted patent rights may still constitute an antitrust violation.[37] Using patent rights to tie repair parts and services to the original equipment purchase market may violate either Section 1 or Section 2 of the Sherman Act.[38] The FTC might also extend antitrust principles beyond what is prohibited under the Sherman Act.

Similarly, in regard to unfair commercial practices, the FTC can "prescribe … rules which define with specificity acts or practices which are unfair or deceptive acts or practices in or affecting commerce."[39] But the FTC's statutory rulemaking authority does not define what "acts or practices" are "unfair," except to refer to Section 5(a)(1)'s legislative declaration that "unfair … commercial practices" are "unlawful." In turn, Section 5(n) of the FTC Act defines an unfair act or practice as one that must "cause[] or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition."[40] The use of design patent rights to prohibit competitors from producing competing third-party exterior repair parts and consumers and ISOs from obtaining or using such competitive parts should clearly qualify as "unfair" under this definition.

The FTC, however, is unlikely to exercise its authority to explicitly restrict the assertion of granted intellectual property rights. (This is true without regard to whether Congress or only the judiciary by interpretation has authorized those rights.) The FTC recently indicated a willingness to devote more enforcement resources to the right-of-repair, including against "asserting patent rights and enforcement of trademarks in an unlawful, overbroad manner."[41] But to address the over-extension of design patent rights through competition or consumer protection law would likely trigger judicial invalidation of any orders or rules that the FTC might issue. A reviewing federal court would likely invalidate such an order or rule under either: (1) the "major questions" doctrine, where courts now will refuse to find that Congress granted authority to an agency to address conduct that poses significant economic consequences absent very clear and specific legislative language[42]; or (2) the "nondelegation doctrine," where courts will hold what they (rarely) consider to be unduly vague and important grants of regulatory authority to be unconstitutional delegations of legislative power.[43] The FTC simply is unlikely to seek to test the scope of its delegated UMC or UDCP power in this way, absent a further and more specific legislative delegation of power addressing the issue.

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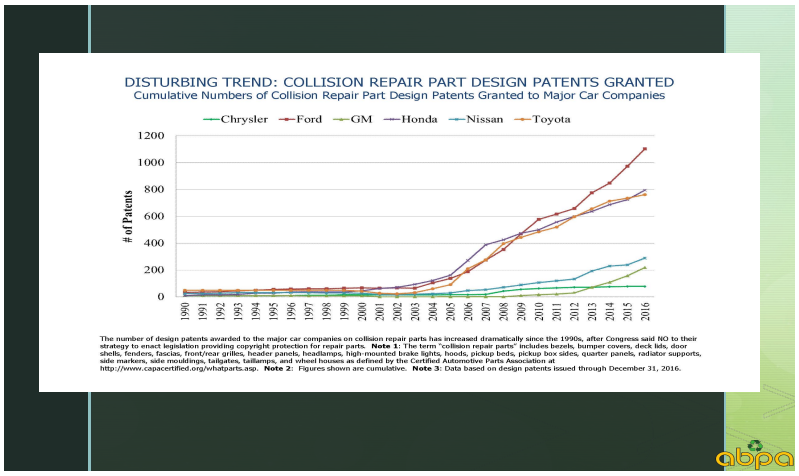
[37] FTC v. Actavis, Inc., 570 U.S. 136, 148-53 (2013).
[38] 15 U.S.C. §§ 1, 2.
[39] 15 U.S.C. § 57(a)(1)(B).
[40] 15 U.S.C. §§ 45(a)(1)&(n).
[41] FTC, Policy Statement of the Federal Trade Commission on Repair Restrictions Imposed by Manufacturers and Sellers (July 21, 2021).
[42] *See* Nat'l Fed'n of Indep. Bus. v. Dep't of Lab., Occupational Safety & Health Admin., 142 S. Ct. 661, 665 (2022). Note the irony of comparing this interpretive approach to restricting the scope of legislative authorization to that in *Zahn* finding legislative authorization for parts and fragments notwithstanding the lack of legislative specificity.
[43] *See id.* at 668 (Gorsuch, J., concurring) ("[T]he major questions doctrine is closely related to what is sometimes called the nondelegation doctrine. Indeed, for decades courts have cited the nondelegation doctrine as a reason to apply the major questions doctrine.") (citation omitted).

4. **<u>Original Equipment Manufacturers Increasingly Resort to Design Patents To Prevent Third-Party Repair Parts and ISO competition.</u>**

Once Ford was successful in obtaining design patents on its F-150 truck and asserting them against aftermarket competition, other OEMs have moved quickly to obtain and assert design patents on exterior repair parts. The following chart visibly demonstrates this trend from 1990 to 2016.



The trend has either continued or accelerated since that time, as shown by the following chart addressing design patents acquired by major OEMs.[44]

Cumulative Design Patents Obtained by Vehicle Manufacturers since 2017						
Year	Chrysler	Ford	General Motors	Honda	Nissan	Toyota
2017	68	133	184	101	40	85
2018	134	292	351	197	112	148
2019	180	450	641	301	169	215
2020	267	672	728	397	204	268
2021	291	883	850	478	236	350
*2022	306	949	937	502	279	373
*Through July 31, 2022						

A multi-year search of US Patent and Trademark Office (PTO) granted design patents for automobiles and automotive parts was conducted using classifications D12 (vehicles) and

[44] Data acquired from Lexis/Nexis TotalPatent One.

D26/28 (vehicle headlights).[45] In 2015, 2123 such design patents issued; in 2016, 2498; in 2017, 2912; in 2018, 2936; in 2019, 3788; in 2020, 3292; in 2021, 3052; and in 2022 (up to May 24), 1121. Given the trend over the last seven years, there's no indication that the recent numbers would not also have been significantly higher and have continued along the same trajectory, but for the COVID-19 pandemic and 2022 macro-global economic downturn.

Information is not available regarding numbers of patent infringement assertions, including number of cease-and-desist letters that have been sent. Anecdotally, however, companies have increasingly asserted the increasing design patent rights acquired. But it is also possible that the increasing number of design patent rights acquired (particularly after the 2019 Federal Circuit decision on functionality) have deterred aftermarket parts manufacturers from producing or importing unauthorized repair parts, and thus that fewer assertions of patent rights have occurred.

5. The SMART Act Provides a Balanced and Targeted Remedy to the Overextension of the Design Patent Infringement Right.

Like its predecessor the PARTS Act, the SMART Act seeks to ameliorate the consumer and competitive harms caused by partial-product and fragment design patents. It does so by restoring the historic right of consumers to repair their motor vehicles using legitimate, non-OEM exterior motor vehicle repair parts of their choice. It also protects the ability of competitors in the marketplace to make, offer for sale, import, and sell such parts in order for consumers to use them in the repair of their vehicles. This will ultimately keep repair costs down by promoting a healthy competitive marketplace for consumers in a time of record high inflation.

Specifically, the SMART Act would create two narrow exclusions (based on two different time-frames) from the definition of infringing conduct for design patents, which exclusions are specific to automobile repair parts. Section 2 of the SMART Act would create a new section (j) to 35 U.S.C. § 271 (the patent law infringement provision). Subsection (j)(2)(B) provides that:

> after the expiration of a period of 30 months beginning on the first day on which any such component part [of a motor vehicle as originally manufactured] is first offered to the public for sale as part of a motor vehicle in any country, it shall not be an act of infringement of the design patent to use or sell within the United States any article of manufacture that is similar or the same in appearance to the component part that is claimed in the design patent if the purpose of the article of manufacture is for the repair of a motor vehicle so as to restore the motor vehicle to the appearance of the motor vehicle as originally manufactured.

[45] Although the D12 class may be slightly over-inclusive by covering non-automotive vehicles, such as trains and planes, the vast majority (perhaps 90% or more) of granted design patents in these classes appear to be for parts of automobiles. Virtually all of D26/D28 is for automobile headlights. The slight discontinuities between the chart's numbers and the extracted data for 2015 and 2016 likely reflect patents issued to additional OEMs, although it is possible that some of the design patents on vehicles may not be for exterior collision repair parts.

This limits the period of exclusivity to the patent holder to prevent competition in repair parts intended solely to restore the original appearance of purchased automobiles. Additionally, Subsection (j)(2)(A) provides that:

> it shall not be an act of infringement of the design patent to make or offer to sell within the United States, or import into the United States, any article of manufacture that is similar or the same in appearance to the component part that is claimed in the design patent if the purpose of the article of manufacture is for the repair of a motor vehicle so as to restore the motor vehicle to the appearance of the motor vehicle as originally manufactured.

This eliminates the exclusivity immediately for manufacture, offer for sale, or import, so as to permit third-party parts suppliers to develop, manufacture, and test those products so that they can be available as soon as the limited period of sales and use exclusivity expires. It makes clear that the activities of making new repair parts (including testing those parts) or reconstructing original parts, offering to sell such parts, and importing such parts, when engaged in for the legitimate purpose of effectuating the consumer repair right, are *never* considered to be an act of infringement.

Section 3 of the SMART Act would make conforming amendments to the special design patent damages section of 35 U.S.C. § 279 (which provides for the recovery of an infringer's total profits) by creating a new subsection (b) that makes clear that this remedy does not apply if the conduct is not considered infringement under subsection (j)(1) or (2). Finally, Section 4 of the SMART Act would apply (once it becomes effective) to patents that have already been granted.

The SMART Act's exclusions from infringement do not prohibit partial or fragment design patent eligibility, and do not limit the scope or duration of such patents. The exclusions also are not defenses that excuse otherwise improper conduct. Rather, they reflect legislative recognition that the manufacture, offer for sale, and import of parts for legitimate repair of the ornamental appearance of motor vehicle products should never have been considered infringing conduct. As a legislative compromise, they also strike a new temporal balance with regard to the sale and use of such parts, limiting the infringement right for sale and use to a short period. This compromise avoids the need to address the difficult question of how to determine when an entire motor vehicle is totally spent, and thus how to distinguish permissible repairs from impermissible reconstructions of the automotive products that the repair parts seek to restore for use.

The SMART Act would not deprive OEMs of the ability to prevent competition from other OEMs seeking to design their automobiles to copy the patented parts. Nor would it interfere with any *legitimate* innovation incentives to develop new automotive part designs. Manufacturers owning design patents on exterior parts already receive their monetary consideration, and patent law provides incentives to produce improved designs, through the first sale of the entire purchased product in which a partial-product or fragment design patent is embodied. Rather, the SMART Act would only assure that, once an automobile containing patented parts is purchased by a consumer, the consumer can restore its original appearance using non-OEM repair parts (after the limited exclusivity period). The SMART Act does so by limiting the infringement rights (solely for the purpose of restoring automobiles to their original

appearance) for sale and use of replacement parts to a short period and by eliminating the infringement rights of making, offering for sale, and importing (solely for the same purpose) so as to ensure a ready supply of non-OEM parts will be available after that period. The SMART Act preserves the design patent rights granted in all other respects. By partially limiting the scope of the design patent infringement right for automobile parts in this fashion, moreover, there can be no legitimate argument that Congress will have improperly taken property without compensation.[46] It is similar to many other examples of legislative correction to judicial interpretations that have over-extended the patent rights that Congress has granted.[47]

In summary, the SMART Act provides a limited and targeted compromise remedy for the restriction of the consumer repair right caused by design patents on exterior automobile repair parts. Given the ever-increasing acquisition of those patents and the ever-increasing costs to consumers and to competition that those patents cause**, the time to enact the SMART Act is now.**

[46] See 157 Cong. Rec. H4421 (daily ed. June 22, 2011) (statement of Rep. Lamar Smith) ("The application of these new reexamination procedures to existing patents is not a taking or otherwise a violation of the Constitution.'") (quoting a letter from former Judge Michael McConnell, U.S. Court of Appeals for the 10th Circuit).

[47] *See, e.g.,* 35 U.S.C. § 271(e)(1) (excluding specific conduct from utility patent infringement, following a narrow judicial interpretation of the "experimental use exception" and thus a broad interpretation of the scope of the infringement right in Roche v. Bolar, 733 F.2d 858, 862-63 (Fed. Cir. 1984).