

SSS Auto Parts Pty Limited ACN 006 784 354 (**SSS Auto**) wishes to make a submission to the ACCC in relation to the *New Car Retailing Industry – a market study by the ACCC* Draft Report dated August 2017, in particular in relation to Part 5 of that draft report, as follows:

1. GM Holden Ltd (ACN 006 893 232) and related parties (collectively, **GMH**) have sued SSS Auto and related parties (collectively **SSS**) in the Federal Court of Australia (VID394/2015) pursuant to s71 *Designs Act 2003* (Cth) (**DA**) for alleged infringement of GMH's registered designs relating to certain motor vehicle body spare parts.
2. SSS is defending GMH's action on the basis that its use of the parts said to infringe was for the purpose of repair and relies on s72 DA. SSS is cross claiming that GMH contravened s77 DA by making unjustified threats to SSS's customers, causing SSS loss and damage, and breached s18 and s29 Australian Consumer Law (**ACL**) by engaging in misleading or deceptive conduct.
3. The hearing is listed for a 10 day trial in Melbourne commencing on 16 October 2017.
4. SSS imports, distributes and sells a wide range of aftermarket and parallel imported genuine parts as well as some OEM parts for all major car brands and models. As at 30 June 2017 SSS carried more than 32,000 different product lines (stock keeping units or SKUs) of spare parts. The SSS group operates with large warehouses in Melbourne, Sydney, Brisbane and Adelaide and there is also a separately owned 'SSS' branded business in Perth. SSS has always marketed itself and has always intended to sell replacement parts to the various participants in the automotive repair industry for the purpose of repair. It has never marketed itself or intended to sell parts for the purpose of customers changing the appearance of their lower spec vehicles to a higher spec model.
5. GMH's action involves a VE Commodore SS series 1 front and rear bumper bar, a series 2 front bumper bar and the HSV E2/3 front bumper bar assembly that were imported and sold by SSS in the period from 2011 to 2017.
6. As the draft report states, at page 100,

*“Exemptions in the Designs Act 2003 (Cth) provide some protection for aftermarket suppliers of parts that replicate OE designs.”<sup>396</sup>*

<sup>396</sup>Section 72 of the Designs Act 2003 (Cth) provides that certain repairs do not infringe registered designs, and means that the Act cannot be used to prevent manufacture of spare parts or undertaking repairs with such parts. “

7. Section 72(2) DA provides that if a defendant raises the repair exemption in proceedings then the registered owner (in this case GMH) bears the onus of proving that the defendant knew or ought reasonably to have known that the purpose of its use was not repair. 'Use' is specifically defined in s72(5) and essentially means commercial use.
8. There are difficulties in the construction of s72, and this case is the first time that the section has been judicially considered.
9. In the *Explanatory Memorandum* to the DA it was stated:

a. At the Outline on page 1:

To ensure effective competition in the spare parts market, the Government is excluding spare parts from design protection. The Bill will still allow registration of designs of component parts of complex products, but this will be subject to a 'right of repair' exemption that provides a complete defence against infringement when design registered parts are used (including manufacture and supply) for repair purposes. The use of design registered parts for non-repair purposes would, however, be an infringement of the registered design. This approach recognises that component parts of a complex product can either be used as original equipment or as spare parts, and seeks to strike a balance between providing an incentive for creative activity in design and enabling competition in the spare parts market. It will provide protection for original equipment use by allowing new and distinctive designs of component parts of complex products to be registrable. However, where design registered component parts are used as spare parts for repair or replacement purposes there would not be an infringement.

- b. At paragraphs 107, 108 and 109 of the *Notes On Individual Clauses*

**Clause 72 -- Certain repairs do not infringe registered designs**

**Subclause 72(1)**

107. This subclause provides a complete defence against infringement where a component part embodying a registered design is used for repair purposes without the authorisation of the design owner. It includes the use of a component part embodying a design that is substantially similar in overall impression to a registered design. To satisfy this subclause, the complex product needs to be repaired (as defined in subclause 72(5)), and to have its overall appearance restored in whole or in part (as defined in subclause 72(3)). However, this subclause does not provide a defence against infringement where the use of a component part embodying a design results in the enhancement of the appearance of the complex product. This approach preserves the incentive to innovate by allowing all designs of component parts of complex products to be registered if they meet the innovation threshold, without introducing any risk of subsequent anti-competitive behaviour. This enables original component parts to be protected, while the same or substantially similar component parts may be used for repairs without the risk of infringement.

**Subclause 72(2)**

108. This subclause provides that the onus is placed on the owner of the registered design to prove that parts were being made, supplied or used for non-repair purposes. To place the onus on the suppliers or manufacturers of spare parts would act as a disincentive for new participants to enter the spare parts market. It would force suppliers and manufacturers of spare parts to track their entire inventory to see whether they all are being used for genuine repair purposes.

109. Nevertheless, if suppliers or manufacturers are knowingly participating in using parts for non-repair purposes, or should have reasonably known that they are doing so, then they should not be able to hide behind the right of repair defence.

10. GMH made a submission to the Senate Economic Legislative Committee, in relation to the draft *Designs Bill 2003* and a copy of this submission, dated 30 April 2003, is attached to this submission as Annexure A. The case pursued by GMH in these proceedings is not consistent with the position it put in its submission, in that, inter alia, GMH argues in this case that it is not necessary for it discharge its onus of proof under s72(2) on a vehicle by vehicle basis, contrary to what it stated in its 2003 submission.
11. SSS's cross-claim concerns GMH's conduct when it threatened SSS customers about infringement of s71 DA. GMH made no mention of the repair exemption under s72 DA when doing so, and in several cases obtained undertakings from SSS's customers that they would, amongst other things, forever cease selling the parts in Australia, even though GMH's design registrations are only for a limited period of time. There is also evidence of conduct by GMH in precipitously using eBay take down procedures to cause listings of spare parts subject to registered designs to be removed. Once again, this conduct appears to have been undertaken without notifying anyone (eBay or the affected suppliers) that they were entitled to rely upon a right of repair to sell those parts lawfully.
12. It follows from the above that there is a significant disparity in market power between GMH and sellers of spare parts (many of which, the evidence will show, were legally unrepresented in their dealings with GMH or used local lawyers unfamiliar with intellectual property) which, in the view of SSS, has facilitated GMH's conduct.
13. In SSS's opinion, GMH has sued it as the importer in order to cut off a major source of competitive supply, rather than suing individual traders who engaged in the actual non-repair activities, because to do that would be more expensive. Yet if GMH succeeds and SSS is prevented from importing, distributing and selling these parts, as GMH has demanded, not only those persons engaged in non-repair activities but also those lawfully engaged in repair will have denied to them the competitive pricing of these aftermarket parts - an outcome which would be contrary to the express purpose of s72 and the government's policy behind it, and one which GMH submitted to the Senate Committee, s72 would not permit (see page 4 of its submission "*Effect of Right of Repair Defence*").
14. SSS concurs with the assertion in the draft report, that car manufacturers attempt to restrict access to spare parts to protect intellectual property rights, but submits further that intellectual

property rights are used by car manufacturers (along with other tactics) to maintain the high prices of spare parts to which the draft report extensively refers, (see for example Chapter 5, Outline on page 93, section 5.3 pages 98 to 103). In the opinion of SSS, in pursuing its action against SSS and in engaging in the conduct the subject of SSS’s cross claim, GMH is using its intellectual property rights and the inherent uncertainty in the meaning, scope and implications of s72 DA to stifle competition and to maximise its own revenues at the expense ultimately of the Australian consumer.

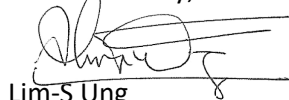
15. In support of SSS’s assertions, set out in the table below are the SSS reference to, and GMH description of, the parts the subject of the proceedings, the relevant design, the GMH Price, the SSS list price and the SSS trade price together with the percentage that each SSS price is of the GMH price.

SSS Part no	GMH Description	Design Reg No.	GMH Price	SSS Price / % GMH Price	SSS Trade Price/ % GMH Price
IV11545NBB	VE SS/SV6/SS-V Series 1 rear bumper	311300	448.16	235.00 / 52.4%	120.00 / 26.8%
IV11540NBB	VE SS/SV6/SS-V Series 1 front bumper	311413	470.02	220.00 / 46.8%	135.00 / 28.7%
ISV1540NAA	E2/E3 HSV front bumper	323875	1838.55	520.00/ 28.3%	300.00 / 16.3%
ISV1500NJL	E2/E3 HSV daytime running lamp (left hand)	324781	778.00	295.00/ 37.9%	135.00 / 17.3%
ISV1500NJR	E2/E3 HSV daytime running lamp (right hand)	324781	778.00	295.00/ 37.9%	135.00 / 17.3%
ISV1560NAA	E2/E3 HSV lower grille	325150	104.41	70.00 / 67.3%	30.00 / 28.8%
ISV3500NAL	E2/E3 HSV upper grille (left hand)	325151	68.75	35.00 / 50.9%	16.00 / 23.3%
ISV3500NAR	E2/E3 HSV upper grille (right hand)	325151	68.75	35.00 / 50.9%	16.00 / 23.3%
ISV1500NEL	E2/E3 HSV Clubsport fog lamp cover (left hand)	325153	178.27	50.00 / 28.1%	35.00 / 19.7%
ISV1500NER	E2/E3 HSV Clubsport fog lamp cover (right hand)	325153	178.27	50.00 / 28.1%	35.00 / 19.7%
ISV0560NCC	E2/E3 HSV bonnet garnish (chrome)	325159	522.06	250.00 / 47.9%	80.00 / 15.3%
ISV0560NBH	E2/E3 HSV bonnet garnish (black)	325159	700.33	290.00 / 41.4%	100.00 / 14.3%
IV21540NBB	VE SS/SV6/SS-V Series 2 front bumper	333688	524.67	265.00 / 50.6%	135.00 / 25.8%

16. SSS has already spent several hundred thousand dollars in legal costs in defending itself and pursuing its rights against GMH in this matter.

SSS is prepared to answer questions and provide any further information in relation to this submission on a confidential basis. Enquiries should be directed to SSS’s lawyers, Benjamin Lawyers of Suite 11.02, Level 11, 82 Elizabeth Street, Sydney NSW 2000 T 02 9223 1555, E [tim.benjamin@benjaminlaw.com.au](mailto:tim.benjamin@benjaminlaw.com.au)

Yours sincerely,



Lim-S Ung

Sole Director and Shareholder SSS

Dated: 6 September 2017

ANNEXURE A

30 April 2003

Dr Kathleen Dermody  
The Secretary  
Senate Economics Legislation Committee  
Room SG.64  
Parliament House  
Canberra ACT 2600

Fax: 02 6277 5719

Dear Dr Dermody,

**Designs Bill 2002 and Designs (Consequential Amendments) Bill 2002**

Thank you for the opportunity to make a written submission to the Senate Economics Legislation Committee regarding the above Bills.

Holden is supportive of the overall objectives of the proposed legislation and has been actively involved in the review process for the current Designs Act 1906 for some 10 years.

However, Holden has continued to express a number of concerns in relation to the proposed amendments. Principally, Holden has argued that preventing automotive companies from protecting their designs, in which there has been substantial investment, is inconsistent with the rights afforded to companies in other industries to protect their intellectual property rights. In addition, it is not the case that design rights have been relied upon to charge consumers more for registered spare parts than would be the case in the absence of design rights. This has been refuted through a number of detailed price surveys that have been conducted over the period that design rights have been under review.

For your information, I have included Holden's detailed comments relating to various aspects of the changes in Attachment A.

Holden advocates that the provisions of Section 8(ii) of the Designs Bill 2001 should continue to apply to the design of a product, which is not in the nature of a spare part. Holden strongly believes that the visible parts of a design should be protected, as it is the visible features of a product that predominantly characterise its design. This would address the needs of Australian industry to have appropriate protection for its research and endeavour while at the same time not preventing the development of generic parts which can be sold in competition with the design registered parts.

Holden's preferred position is to use Section 79 of the Bill as a mechanism for addressing the supply of spare parts. This section provides for compulsory licences to be granted in relation to products for which a design is registered but where insufficient products are being made in Australia, depending on the extent and circumstances of the case. This would

remove the need for specialist provisions in relation to spare parts and still ensure a competitive market structure within the spare parts area.

I appreciate the Committee's flexibility in allowing Holden the additional time required to provide our comments on the proposed amendments. Please do not hesitate to contact me if you have any questions regarding Holden's submission.

Our Corporate Lawyer, Ruth Linnane, will be appearing on Holden's behalf at the Public Hearing to be held on Friday 2 May in Canberra.

Yours sincerely,

Alison Terry  
Executive Director - Corporate Affairs

## **Attachment A: Holden's Detailed Comments**

### **Design Protection as an Incentive to Research and Development**

Intellectual Property protection is a fundamental incentive to research and development within Australia.

Holden directly employs some 480 engineers and 90 drafting people at our Engineering and Design facility at Port Melbourne in Victoria. In addition, Holden engages a number of design companies within Australia including Edag Future, and Venture Industries who provide design and development services for Holden.

Of significant concern to Holden is that the provisions contained in the Designs Bill do not afford intellectual property protection to companies undertaking automotive design in Australia.

Holden has a long history of innovation and development activities and we are one of the highest spending private sector R&D companies in this country. In 2002, Holden invested around \$227 million in R&D expense on new product development and innovation. Holden has also invested significant capital to support its research and development activity, with \$6 million invested in 2001 to establish a Virtual Reality Design Studio. This studio provides state of the art design facilities and aims to ensure Holden's world competitive position in the automotive industry is maintained.

In recent times, Holden has successfully undertaken a number of design projects. For example, Holden played a significant role in the design of the "Cruze" vehicle in both Australia and Japan, by taking Suzuki's original design and enhancing this to suit a particular niche in this market segment. In addition, Holden's success in securing the export of the Pontiac GTO to the US has also been a by-product of Holden's successful design and development of the Monaro.

### **Spare Parts Exclusion**

Each new vehicle or "face lifted" model designed at Fishermen's Bend generates some 1,600 parts and only some of these, which embody an inventive and novel step, can currently be protected from unauthorised copying under the current Designs registration process.

The parts Holden seeks to protect are those that are visible to the naked eye.

The proposal to exclude spare parts registration in the forms presently proposed by Government would, if implemented, have the effect of denying automotive manufacturers' design protection for their innovative vehicle designs. The effect of this may have wide-reaching economic repercussions not only for automotive companies, but also for the Australian economy as a whole.

If enacted as presently proposed, the provisions of the Designs Bill will:

- (a) give rise to considerable uncertainty and hence, increase the need for litigation;
- (b) restrict the scope for useful protection of new or original design presently validly registrable under the Designs Act 1996;
- (c) increase the ease with which copiers can escape a finding of infringement, while also reducing the penalty in some instances where infringement is established; and
- (d) introduce delay, due to post-registration examination, before action against an infringer can be taken, while also making considerably more difficult the task of obtaining meaningful examination of designs.

In addition, Holden believes that the Designs Bill departs from the guidance provided to the Government by the Franki Report and in many important respects from the ALRC Report on which the Bill is based. The final Report of the Review of Intellectual Property Legislation under the Competition Principles Agreement September 2000 states:

*"The Committee recognises that new Design Legislation is in progress and supports both its aim and early release. We do not, however, believe there is a need for further modifications respecting spare parts at this stage."*

### **Reliability and Safety Standards and Cost**

To deny the automotive industry design protection will give rise to copy parts, which typically would not meet our standards of reliability and safety.

To the extent that spare parts are not required to meet similar quality, safety and reliability requirements to those which the manufacturers are currently required to meet, the imported products have a greater risk of being of inferior quality. Consequently, there is a risk of a reduction in safety standards for imported spare parts as, unlike original equipment components, these parts do not presently have to meet ADR requirements.

### **Effect of Right of Repair Defence**

Whilst a "right of repair" defence enables the owner of a design to litigate and assert their rights based on the manufacture of parts for purposes other than repair, this will not be the case in practice. Owners of designs will be unable to prevent large scale manufacture of spare parts where the end use of such spare parts is not only for repair but also for other purposes including imitation.

The only way in which manufacturers are likely to satisfy the burden of proof in Court is on a vehicle by vehicle basis. It will be burdensome for the vehicle manufacturers who are the owners of the design to prove that a vehicle has been altered in circumstances other than repair. This does not address the heart of the problem, which is not the individual owners of various vehicles, but rather the manufacturers of the copy parts.

Even where a business has an inventory significantly in excess of the inventory it would be required to carry for supply to repair shops, manufacturers who own the designs will be unable to demonstrate that the excess parts have been manufactured for purposes other than repair. This cannot be proven until after the part has been sold and used on a vehicle,

with the costs of tracing the use of each part manufactured being extremely time consuming and impractical.

The effect of excluding the spare parts from the proposed new design legislation will prevent Holden from protecting its original creative designs for its vehicles. This would substantially affect the business case in relation to the design and development work required in order to produce new vehicles.

### **Compulsory Licence Provision**

Section 79 of the Bill provides for compulsory licences to be granted in relation to products for which a design is registered but where insufficient products are being made in Australia depending on the extent and circumstances of the case.

This mechanism provides a possible answer to the questions regarding spare parts registration and availability of the spare parts, by allowing an opportunity for manufacture of spare parts, under a compulsory licence, in appropriate circumstances. As such, Section 79 could remove the need for specialist provisions in relation to spare parts, allowing protection of Australian design innovation and ensuring a competitive market structure within the spare parts area. In addition, this mechanism would allow vehicle manufacturers to address issues such as structural safety, testing, certification and validation in accordance with Australian Design Rules, enabling effective supply of spare parts of the same standard as the original parts of a vehicle.