

Statement of Jack Gillis, Director of Public Affairs,
Consumer Federation of America

On behalf of the

Consumer Federation of America
Advocates for Highway and Auto Safety
Center for Auto Safety
Consumers Union, the policy and advocacy arm of Consumer Reports
and
Public Citizen

Before the House Judiciary Subcommittee on Intellectual Property, Competition, and the Internet
Hearing on H.R. 1057, the “Promoting Automotive Repair, Trade, and Sales Act”

February 2, 2016

Chairman Issa, Ranking Member Nadler, and Members of the Subcommittee, my name is Jack Gillis, and I am Director of Public Affairs for the Consumer Federation of America. In addition to the Consumer Federation of America, I also am testifying today on behalf of Advocates for Highway and Auto Safety, the Center for Auto Safety, Consumers Union, the policy and advocacy arm of Consumer Reports, and Public Citizen. We are grateful for your invitation to appear today on an issue of tremendous importance to millions of Americans – the maintenance and repair of automobiles.

Consider any of the following experiences, which happen to thousands of Americans each year: you back into a pole at a shopping mall; someone in front of you stops suddenly and your bumpers collide; or, you inadvertently sideswipe your car in a cramped parking lot. Fortunately, few of these “fender-benders” result in injuries, but they often result in shocking repair bills.

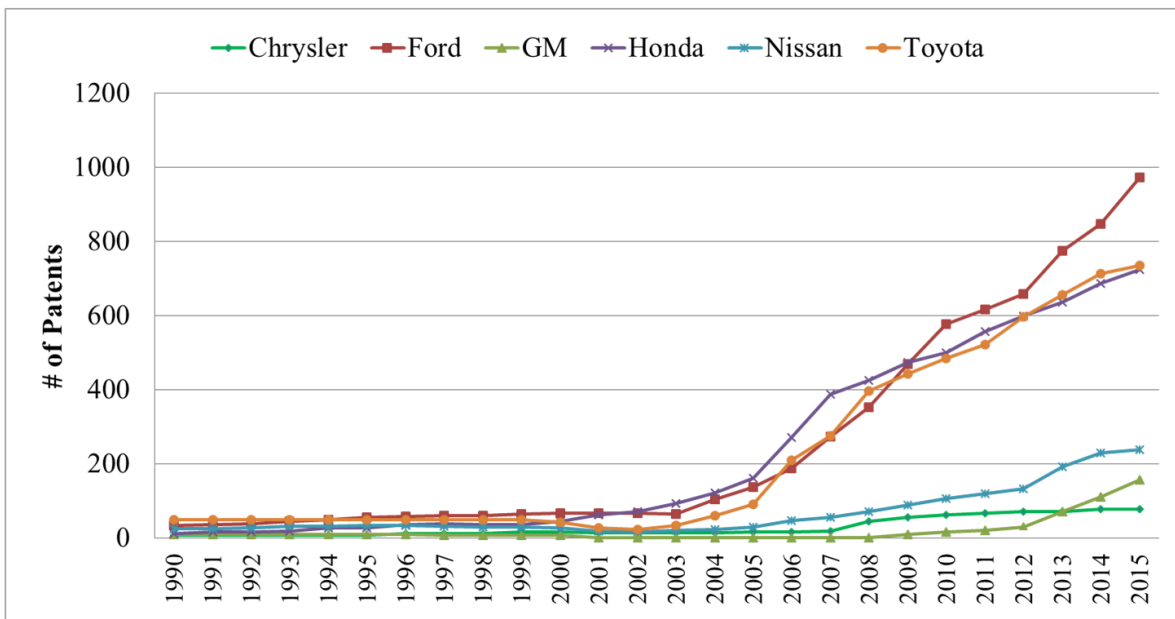
Why are these repair bills so high? One reason is the cost of the parts for the needed repairs. For example, Ford charges the same price for a fender as Dell charges for a high speed computer and flat screen monitor. A simple grill for your car costs the same as a combination flat screen TV/DVD player. An unpainted door from Toyota costs the same as a Sears’s refrigerator. And, the refrigerator comes with *two* doors, already painted and installed! You’ll typically have to pay someone an additional \$500 or more to paint and install the Toyota door. General Motors charges the same price for a rubber bumper cover as Garmin charges for a full color GPS, programmed with directions and maps to anywhere in the United States. The fact is,

computers, TVs, refrigerators, and GPS systems are cheaper and better today than five years ago for one reason – “competition”.

In the early 1990s, the car companies came to Congress and asked for special design copyright protection on these replacement parts and Congress said no. Our concern today is that the car companies are now using design patents, not for the important and legitimate protection of the overall design of their vehicles, but to prevent competition when it comes to getting the parts we need to repair our vehicles.

Over the past several years, there has been an enormous spike in the number of design patents on crash parts, which companies like Honda, Toyota, and Ford have received on their external crash parts. (See chart below.) Historically, while car companies have understandably received design patents on the overall design of a car, only recently have they begun to seek patents on the individual replacement crash parts.

DISTURBING TREND: COLLISION REPAIR PART DESIGN PATENTS GRANTED
 Cumulative Numbers of Collision Repair Part Design Patents Granted to Major Car Companies



The number of design patents awarded to the major car companies on collision repair parts has increased dramatically since the 1990s, after Congress said NO to their strategy to enact legislation providing copyright protection for repair parts. **Note 1:** The term “collision repair parts” includes bezels, bumper covers, deck lids, door shells, fenders, fascias, front/rear grilles, header panels, headlamps, high-mounted brake lights, hoods, pickup beds, pickup box sides, quarter panels, radiator supports, side markers, side mouldings, tailgates, taillamps, and wheel houses as defined by the Certified Automotive Parts Association at <http://www.capacertified.org/whatparts.asp>. **Note 2:** Figures shown are cumulative. **Note 3:** Data based on design patents issued through December 31, 2015.

In May of 2008, Ford filed a section 337 complaint at the International Trade Commission (ITC) against manufacturers and U.S. distributors of auto exterior repair parts on the 2005 Ford Mustang. This complaint followed on the heels of the previous section 337 complaint filed by Ford relating to the Ford F-150, which resulted in the effective elimination of a competitive choice for seven exterior Ford F-150 repair parts. As a result of a court settlement in April 2009, which ended legal actions on the Ford F-150 and Mustang, today the millions of F-150 and Mustang owners in the U.S. have limited alternative options for quality replacement collision parts. The settlement awarded one aftermarket competitor with a temporary, exclusive license to distribute aftermarket Ford parts. This was a further detriment to the consumer, who has had to shoulder the added cost of the royalty in the increased prices of parts. The settlement in 2009 was limited and temporary in nature between one car company and one distributor, leaving consumers open to whims and exploits of the car companies. Since then, the royalty agreement has been extended in time frame, and to other manufacturers -- for the one distributor.

This type of design patent enforcement action that began with the Ford F-150 emerged as a new business strategy for automakers. As automakers continue to ramp up their design patents on crash parts, the possibility of many additional design patent enforcement actions being brought at the ITC (or in the federal courts) continues to be very real. The cost of defending such cases is enormous. Even defending just a small number of such cases could easily drive competitors out of business altogether, regardless of whether they ultimately were to win on the merits.

What is particularly disturbing about the action taken by the car companies is that they are only selectively putting design patents on those parts where competition, albeit limited, is available.

Quality and Safety Must be Paramount for All Parts

The consumer organizations supporting this effort do so with the insistence that all parts, whether they be service parts sold by the car companies or parts made and sold by independent companies, must not compromise the integrity or safety of the vehicle. Not only do consumers have the right to competition, but they have the right to safe and high quality competitive parts.

We take a back seat to no one on insisting that all parts meet rigorous standards for safety and quality. However, there is no reason to allow patent law to be misused to block availability of more affordable alternative parts that are just as safe and high-quality.

So What Does This Mean for Consumers?

For over 25 years, consumers have benefited from competition, albeit limited, between car company brand replacement parts and independently branded parts. Such competition, where it exists, lowers prices, provides choice, and improves quality. In fact, many independent brand parts have lifetime warranties, something the car company parts lack. Unfortunately, however, car companies still have a 73% market share, competitive suppliers have 12%, and the remainder comes from recycled parts. Without congressional intervention, automakers will be able to hijack design patent laws to capture the entire collision repair parts market. Who are the victims if Congress does not intervene? The thousands of Americans who experience low-speed collisions each year.

It's no surprise the car companies don't want competition. Competitive replacement crash parts are typically 34% - 83%¹ less expensive. Car companies would have to lower their own prices for car company brand replacement crash parts to compete.

Elimination of Competition will Increase the Cost of Repairs

Right now, the elimination of competition from independent brand crash repair parts would cost automobile owners more than \$1 billion a year.

The lack of competition for repair parts will seriously harm consumers. Already-high accident repair costs could skyrocket. Right now, in low-speed crash tests conducted by the highly respected Insurance Institute for Highway Safety, the cost of a simple 5 mph bump into a pole can cost thousands of dollars to fix. Why does it cost so much to repair these vehicles? Because the car companies are able to charge monopolistic prices because of lack of competition.

Eliminating Competition Will Increase Insurance Premiums for Consumers.

If the automakers succeed in using design patents to eliminate competition for crash parts, it will not only result in higher repair costs, but also higher auto insurance premiums. When collision repair crash parts cost more, insurers will have no choice but to pass those cost increases on to their policyholders in the form of higher rates. In addition, in the face of already

¹ Analysis of the Impact of Banning Aftermarket Parts, Property and Casualty Insurers Association of America, January 19, 2010.

rising insurance premiums, many consumers are opting for higher deductibles. That means that more of these exorbitant crash repair costs will be coming directly out of consumers' pockets. This will have a disproportionate impact on low- and fixed-income consumers.

Eliminating Competition in Crash Parts Could Diminish Safety.

On the safety side, tragically, as the cost of needed repair parts rises, many consumers will be forced to forgo or delay needed repairs, leaving them with a vehicle that may not offer needed safety. Delaying or ignoring the replacement of a headlight, side mirror, or brake light could have serious safety implications. Consumers with low incomes, seniors on fixed incomes, and those consumers who pay for crash repairs out of their own pockets may not be able to afford needed repairs.

Eliminating Competition Will Result in More "Totals".

Higher repair costs due to less competition among the parts needed to repair our cars will force insurers to "total" more vehicles because the cost of repairing otherwise repairable vehicles no longer makes economic sense. Consumers lose when a vehicle is needlessly totaled. First of all, consumers who owe more on the car than it is worth will be left with debt payments for a loan on a non-existent car. In addition, total losses not only hurt the body shop industry by providing fewer vehicles to repair, but a needlessly 'totaled' vehicle can also harm the environment.

Eliminating Competition Protects the Automakers "Double Whammy".

The most tragic irony in the lack of competition is what I call the automakers' "double whammy." Not only will the lack of competition allow car companies to charge whatever they want for the parts we need to fix our cars, but when they charge so much that the car is "totaled," our only recourse is to go back to them and buy another one of their products.

The bottom line: If automakers succeed in eliminating competition, the cost to consumers will be enormous.

Unless Congress addresses the automakers' misuse of design patents on their crash replacement parts, consumers will be faced with mounting repair bills, more 'totaled' vehicles, increasing insurance costs, and deferring necessary repairs affecting safety.

**Congress Can Preserve Consumer Access to Affordable, Competitive and Quality
Crash Parts by Adopting a “Repair Clause” in the Design Patent Law.**

HR 1057 is not a perfect solution. Allowing the car companies to place patents on parts for the purposes of preventing competition is just as wrong for 30 months as it is for 14 years. Shortening the time period by which you allow monopolistic market behavior does not make that monopolistic market behavior acceptable. Two years ago, Congresswoman Lofgren proposed a truly elegant solution to the problem: Allow the car companies the right to patent parts for the purposes of protecting their designs from being copied by competing car companies, but also allow the independent production of such parts when they are used solely as replacement repair parts. At that time, powerful car company and manufacturing lobbyists blocked Representative Lofgren’s efforts to protect consumers from car companies’ monopolizing replacement repair parts. In the face of this intense lobbying to protect the use of design patents to prevent competition, HR1057 represents a compromise. We appreciate the commitment and leadership of Representatives Issa and Lofgren in developing HR1057 as an important step forward in better protecting the American consumer from being forced to pay unfair prices for the parts we need to fix our vehicles. It is now time for Congress to embrace HR1057 and open the market to competitively priced, high-quality alternatives to the expensive car company brand parts. By providing a “repair clause” in the design patent law, Congress will be providing consumer choice and promoting an open and competitive market for repairs, while enabling the car companies to retain the design patent protection on the overall vehicle.

HR1057 is an important step forward in eliminating the increasingly unfair, unacceptable, and unnecessary practice of using design patents to prevent competition. By establishing this “repair clause” in the design patent law, Congress will be preserving the consumer’s access to a competitive marketplace for quality alternative crash parts. Such a repair clause would establish a very narrow, practical exception to the design patent law so that if a car company does receive a design patent on a replacement part, independent companies could still make and distribute competing parts for the sole purpose of repairing the vehicle. Such a very narrow practical exception to the design patent law would not – and rightly should not – interfere with an automaker’s right to prevent competing car companies from using their patented vehicle and part designs.

Design does play an important role in consumers’ original choice of a car. However, after the purchase, consumers need the meaningful repair choices. When we plunk down our

hard-earned dollars for a new car, we are doing just that, buying a car, not a lifetime indenture to the car company to buy their parts. It is simply not fair for consumers to be forced to pay monopolistic prices for needed crash repair parts.

Other markets have successfully addressed and solved this problem. Nine European countries and Australia have enacted what is called a “repair clause” law, whereby the making and use of a matching exterior auto parts to repair an automobile is not an act of infringement, even though the original part is design protected. The adoption of such a law, EU-wide, is now under active consideration. American consumers deserve no less.

Consumer Federation of America, Advocates for Highway and Auto Safety, the Center for Auto Safety, Consumers Union, the policy and advocacy arm of Consumer Reports, and Public Citizen believe that a competitive crash parts marketplace, which has been evolving over the past few decades, has served consumers well. On behalf of these groups, I strongly urge Congress to adopt a repair clause to the design patent law and pass HR 1057. American consumers will thank you for ensuring a competitive market resulting in high quality, fairly priced alternatives to expensive car company brand parts.

We look forward to working with the Committee to advance this important legislation. Again, thank you for providing me the opportunity to discuss this important issue with you today.