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COMMISSION STAFF WORKING DOCUMENT

Subsidiarity Grid

Accompanying the documents

Proposal for a
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending COUNCIL REGULATION (EC) No 6/2002 on Community designs and repealing Commission Regulation (EC) No 2246/2002

and the

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the legal protection of designs (recast)

{COM(2022) 666 final} - {COM(2022) 667 final} - {SEC(2022) 422 final} -
{SWD(2022) 368 final} - {SWD(2022) 369 final}

1. Can the Union act? What is the legal basis and competence of the Unions' intended action?
1.1 Which article(s) of the Treaty are used to support the legislative proposal or policy initiative?
The (first package) proposal for a Regulation amending Regulation (EC) No 6/2002 and repealing Commission Regulation (EC) No 2246/2002 is based on Article 118(1) of the Treaty on the Functioning of the EU (TFEU). Article 118(1) empowers the European Parliament and the Council to establish measures for the creation of European intellectual property rights throughout the EU, including the setting up of centralised Union-wide authorisation, coordination and supervision arrangements. The (second package) proposal for a recast Directive on the legal protection of designs is based on Article 114(1) TFEU. This Article empowers the European Parliament and the Council to adopt measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States, which have as their object the establishment and functioning of the internal market.
1.2 Is the Union competence represented by this Treaty article exclusive, shared or supporting in nature?
In the case of both Article 118 and Article 114 TFEU, the Union's competence is shared.
*Subsidiarity does not apply for policy areas where the Union has **exclusive** competence as defined in Article 3 TFEU[1]. It is the specific legal basis which determines whether the proposal falls under the subsidiarity control mechanism. Article 4 TFEU[2] sets out the areas where competence is shared between the Union and the Member States. Article 6 TFEU[3] sets out the areas for which the Unions has competence only to support the actions of the Member States.*
2. Subsidiarity Principle: Why should the EU act?
2.1 Does the proposal fulfil the procedural requirements of Protocol No. 2[4]: - Has there been a wide consultation before proposing the act? - Is there a detailed statement with qualitative and, where possible, quantitative indicators allowing an appraisal of whether the action can best be achieved at Union level?
In preparation of the two package proposals, the Commission conducted a comprehensive first public consultation between 18 December 2018 and 30 April 2019. Its aim was to gather sufficient stakeholder evidence and views in order to support the evaluation of the EU designs legislation and establishing the degree to which that legislation works as intended, is fit for purpose and what problems need further action. As a complement to that extensive consultation, the Commission carried out a second public consultation between 29 April and 22 July 2021 to obtain additional stakeholder evidence and views to support the review of the legislation on designs in relation to selected issues and potential options and their impacts. Both the explanatory memorandums of the two package proposals and the common impact assessment report (Section 3) contain a section on the principle of subsidiarity and refer to question 2.2 below.
2.2 Does the explanatory memorandum (and any impact assessment) accompanying the

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12008E003&from=EN
[2] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12008E004&from=EN
[3] https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E006:EN:HTML
[4] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12016E/PRO/02&from=EN

Commission's proposal contain an adequate justification regarding the conformity with the principle of subsidiarity?

Yes. The explanatory memorandum of the (first package) proposal for a Regulation, which summarises the relevant content of Section 3 of the common impact assessment report, provides that Article 118(1) TFEU can only be applied for the creation of European intellectual property titles. The Community design system is an autonomous regime created by an EU Regulation already in 2002 and applies independently of any national system. The European Union Intellectual Property Office (EUIPO, formerly Office for Harmonisation in the Internal Market - OHIM) is a regulatory agency with legal, administrative and financial autonomy, which was created by the Council to manage the registration system for the Community design (RCD) and Community trade mark (now EUTM). As was the case with the changes introduced to the trade marks regime under Regulation (EU) 2017/1001, the analysis carried out in the impact assessment report to this initiative proved that the modification of certain provisions of the relevant basic Regulation (EC) No 6/2002 on Community designs is necessary, in particular, to update, improve and streamline the registration system for the RCD. The explanatory memorandum of the (second package) proposal for a Directive provides, in summary of the relevant content of Section 3 of the common impact assessment report, that the identified problems related to the significant divergences of the regulatory framework either do not allow, or notably distort, a level playing field for EU companies with further negative consequences on their competitiveness and that of the EU as a whole (e.g. spare parts). It is therefore advisable to adopt measures that can improve the relevant conditions for the functioning of the internal market. Such measures aiming at extending the current level of approximation through the Directive can only be taken at EU level, all the more so given the need to ensure coherence with the Community design system. It has to be considered in this context that the latter is embedded in the European design system which is built on the principle of coexistence and complementarity between national and EU-wide design protection. While the Regulation provides a complete system where all issues of substantive and procedural law are provided for, the current level of legislative approximation reflected in the Directive is only limited to selected provisions of substantive law. In order to be able to ensure effective and sustainable coexistence and complementarity between the components involved, it is necessary to create an overall harmonious system of design protection in Europe with similar substantive rules and at least principal procedural provisions which are compatible. As regards the issue of design protection for spare parts specifically, it needs to be added that the completion of the internal market for spare parts can only be achieved at EU level. The more than 20 years of experience with the freeze-plus clause (allowing Member States who have not yet done so, to open up the spare parts market for competition by introducing a so called 'repair clause') in the Directive has shown no strong trend towards harmonisation among Member States on a voluntary basis (despite the introduction of a repair clause in a few more Member States) or through self-regulation by the industry. Competition in spare parts is currently allowed in 12 Member States only (state of play as of mid 2022). Action at EU level would ensure that the design protection system in Europe as a whole gets substantially more accessible and efficient for businesses, in particular Small and medium sized enterprises (SMEs) and individual designers. It would further ensure the outstanding completion of the single market for repair spare parts to the substantial benefit of consumers being able to choose between competing parts at lower prices.

2.3 Based on the answers to the questions below, can the objectives of the proposed action be achieved sufficiently by the Member States acting alone (necessity for EU action)?

The identified problems to be solved by the present package initiatives have a strong cross-border (single market) dimension and the objectives pursued by the initiatives can therefore not be sufficiently achieved by the Member States acting alone. In case of the autonomous Community design system, created by Regulation (EC) No 6/2002 and applying independently of any national

system, it is clear that it is only the Union legislator that can do the required modernisation, improvement and streamlining of that system. The identified problems related to the significant divergences of the regulatory framework as result of the limited degree of harmonisation brought by the current Design Directive 98/71/EC cannot be solved by the Member States alone either. The required measures to improve the relevant conditions for the functioning of the internal market by extending the current level of approximation through the Directive can only be taken at Union level, given also the need to ensure coherence with the Community design system.

(a) Are there significant/appreciable transnational/cross-border aspects to the problems being tackled? Have these been quantified?

The existing market fragmentation in the EU in the area of repair spare parts is a problem for a majority of respondents, as highlighted by the first public consultation. For SMEs, divergent approaches of the Member States are problematic for cross-border operations as they create legal uncertainty and unpredictability. For others, including design users and independent producers, the current patchwork of national laws leads to difficulties with and high cost of ensuring compliance, agreeing on licensees, setting out distribution networks and managing imports. Fragmentation does in particular not allow independent producers and distributors to benefit from economies of scale through (permissible) free economic activity throughout the entire Union market. Also customers are insecure of whether or not and in which Member States the purchase of certain spare parts is lawful and they are deprived in parts of the Union from choosing between competing spare parts. Solid economic analysis suggests that if there was an EU-wide repair clause exemption, EU consumers are currently overspending between 415 and 664 million euros annually on the purchase of visible automotive spare parts alone.

The non-harmonisation of procedures in the area of industrial designs, such as the resulting availability or not of certain procedures and tools, legal uncertainty and different speed of registration, lead to an uneven playing field which is to the detriment of all users of the European industrial design system, regardless of the geographical scope of design protection they seek to obtain. As a result, a company, planning its industrial design strategy, faces a multitude of unevenly regulated regimes, which present applicants with different degrees of accessibility, complexity, predictability and speed in obtaining design protection leading to: higher costs and delays; underuse of (part of) the industrial design systems and distortion of competition.

(b) Would national action or the absence of the EU level action conflict with core objectives of the Treaty[5] or significantly damage the interests of other Member States?

The absence of the EU level action would conflict with the core objective laid down in Article 3 of the Treaty, which is to establish an internal market and to work for the sustainable development of Europe based on balanced economic growth and price stability, and a highly competitive social market economy.

(c) To what extent do Member States have the ability or possibility to enact appropriate measures?

The required modernisation, improvement and streamlining of the autonomous Community design system cannot be achieved by Member States but requires Union action. As for the

[5] https://europa.eu/european-union/about-eu/eu-in-brief_en

divergences of the regulatory framework at national level, Member States do not have the possibility to adopt appropriate measures implying effective and efficient further alignment of the regulatory framework in accord also with the Community design system, at reasonable cost and time. In particular, as far as the fragmented legal framework in the area of spare parts protection is concerned, the more than 20 years of experience with the current Design Directive has shown no strong trend towards harmonisation among Member States on voluntary basis or through self-regulation by industry.
(d) How does the problem and its causes (e.g. negative externalities, spill-over effects) vary across the national, regional and local levels of the EU?
As revealed by the evaluation carried out by the Commission, the legal environment in the field of industrial designs is very heterogeneous, due to the limited scope of the current Design Directive 98/71/EC, and yet lacking alignment with the Community Design Regulation (EC) No 6/2002. The current landscape of EU design law is thus characterised by a wide divergence between national rules and procedures, both among themselves and in relation to the rules and procedures applied by the EUIPO. A clear patchwork of conflicting national design laws exists with respect to design protection for repair spare parts. While twelve Member States exclude design protection and allow free competition, the rest retain manufacturers' design right monopoly despite encouragement to open the market embedded in the Design Directive.
(e) Is the problem widespread across the EU or limited to a few Member States?
As follows from the information given under point (d), the problems to be tackled are widespread across the EU.
(f) Are Member States overstretched in achieving the objectives of the planned measure?
No, the proposed measures are proportionate, as they involve marginal cost of transposition for Member States while bringing substantial economic benefits for firms and designers.
(g) How do the views/preferred courses of action of national, regional and local authorities differ across the EU?
The European Council has repeatedly called on the Commission to present proposals for the revision of both the basic Community Design Regulation (EC) No 6/2002 and the current Design Directive 98/71/EC to modernise the EU design protection systems and to make design protection more attractive for individual designers and businesses, especially SMEs. In this context it requested to address and consider measures aimed at supporting the complementary relationship between the Community, national and regional design protection systems, as well as efforts to reduce areas of divergence. A few Member States however expressed disagreement or reluctance with the proposed full liberalisation of the repair spare parts aftermarket through the insertion of a repair clause into the Design Directive. Another Member State also raised concerns about the proposed introduction of mandatory administrative invalidity procedures before the national IP offices of the Member States, as done already in the framework of the previous reform of the EU trade mark

legislation.

2.4 Based on the answer to the questions below, can the objectives of the proposed action be better achieved at Union level by reason of scale or effects of that action (EU added value)?

The Community design system was created by and thus can only be changed via the EU Regulation. Measures aiming at extending the current level of approximation of national design rules should continue through the Design Directive and consequently can only be taken at EU level, given also the need to ensure coherence with the RCD system. As regards the spare parts issue specifically, the completion of the internal market can only be achieved at EU level. The more than 20 years of experience with the current Design Directive has shown no strong trend towards harmonisation among Member States on voluntary basis or through self-regulation by industry. Action at EU level would thus ensure that the design protection system in Europe as a whole gets substantially more accessible and efficient for businesses, in particular SMEs and individual designers. It would further ensure the outstanding completion of the single market for repair spare parts for the sake of greater competition and to the substantial benefit of consumers being able to choose between competing parts at lower prices.

(a) Are there clear benefits from EU level action?

Yes.

The proposed liberalisation of the spare parts aftermarket will involve savings for consumers of EUR 340-544 million. These savings will be fully realized after the proposed ten-year transition period. During that ten-year transition, each year benefits will increase by EUR 4 to 13m.

The proposed adjustment of RCD fees will make basic access to registration for firms and natural persons applying for design protection less costly and shall bring annual savings of EUR 6m to those protecting designs for 5 to 10 years. The proposed simplification and streamlining of the RCD system will facilitate easier access to registration while ensuring greater predictability and legal certainty. To the extent quantifiable, it shall involve annual savings of EUR 1.6m as consequence of the update of the design representation requirements, and the extended possibility to file multiple applications. As for the EUIPO itself, the simplification and streamlining of procedures will enable it to run RCD operations more efficiently (less deficient applications to treat; smother running of workflows and back office IT landscape due to alignment with EUTM procedures). It shall further facilitate its task of promoting convergence of practices and tools in cooperation with national IP offices (EUIPO serving as benchmark).

The proposed further harmonisation of rules will make it easier and less costly for firms and designers to obtain design protection across Member States, including through combined use of national and RCD systems. It will bring greater predictability (less need for external expertise), help reduce costs in managing IP portfolios, and facilitate the cancellation of registered designs not meriting protection. It shall allow national IP Offices to become more attractive and competitive within the two-tier design protection system in the EU. Extended harmonisation of rules will also allow them to benefit from extended cooperation with the EUIPO to foster convergence of practices and tools.

(b) Are there economies of scale? Can the objectives be met more efficiently at EU level (larger

benefits per unit cost)? Will the functioning of the internal market be improved?
While there are no economies of scale as such, the objectives pursued by the two package initiatives can only be effectively and efficiently achieved at EU level. Both initiatives will clearly contribute to improving the functioning of the internal market.
(c) What are the benefits in replacing different national policies and rules with a more homogenous policy approach?
The completion of the single market in the area of repair spare parts will bring more and fair competition, facilitate intra EU trade and create greater legal certainty, resulting in greater choice and lower prices to the benefit of consumers. This may also help the existing EU Motor Vehicle Block Exemption regime in the field of antitrust achieve its full benefits for enterprises and consumers. Further approximation of national provisions, in particular in the area of procedures in alignment with the successful Community design regime, will make it easier and less costly for firms and designers to obtain design protection across Member States, including through the combined use of national and RCD systems, and in the context of multijurisdictional filing strategies. This will also increase predictability, help firms reduce costs in managing multinational IP portfolios, and make it easier and cheaper to have invalid designs removed from the register. Such greater alignment of rules will have also positive impacts on the cooperation between the EUIPO and national IP offices under the existing framework laid down in Article 152 of the EU Trade Mark Regulation (EU) 2017/1001 in terms of facilitating extension of convergence of practices. This promises to further potentiate the net benefits for users of the design protection systems in the EU while enhancing their complementarity and interoperability.
(d) Do the benefits of EU-level action outweigh the loss of competence of the Member States and the local and regional authorities (beyond the costs and benefits of acting at national, regional and local levels)?
Yes. Competence in the area of industrial designs continues to be a shared one. The proposed completion of the single market in the area of repair spare parts through the introduction of a Union-wide repair clause promises to bring substantial economic benefit in particular for consumers. The proposed further harmonisation of national rules in alignment with the Community design system will provide firms and designers with easier and more efficient access to registered design protection across the entire EU. This will actually also help national IP offices to become more attractive and enable both the EUIPO and national IP offices to expand cooperation to promote convergence of practices, thereby potentiating the net benefits for users of the design protection systems in the EU. The partial (limited) loss of national competence dwarfs in comparison.
(e) Will there be improved legal clarity for those having to implement the legislation?
It is expected that extended harmonisation of national rules in the area of industrial designs

will clearly lead to improved legal clarity and certainty as compared to today's fragmented and diverging legal framework.

3. Proportionality: How the EU should act

3.1 Does the explanatory memorandum (and any impact assessment) accompanying the Commission's proposal contain an adequate justification regarding the proportionality of the proposal and a statement allowing appraisal of the compliance of the proposal with the principle of proportionality?

Yes.

As stated in the explanatory memorandum of the (first package) proposal for a Regulation, the relevant proposal has been designed to reduce the administrative burdens and compliance costs for businesses and individual designers using the Community design system and for the EUIPO. The proposal involves targeted amendments to the self-standing Regulation (EC) No 6/2002 and does not go beyond what is necessary to achieve the identified objectives.

According to the explanatory memorandum of the (second package) proposal for a recast Directive, the addition of targeted harmonisation particularly in the area of registration and invalidity procedures focusses on principal provisions in procedural areas identified by stakeholders to be in greatest need of alignment with relevant provisions of the Regulation. The impact assessment report looked also at the option of a full-scale harmonisation of all design provisions (Option 4.2) but considered it disproportionate to the actual needs (see Section 6.4 of the Impact Assessment). As regards the issue of spare parts protection, the insertion of a repair clause by means of preferred Option 1.2 is considered to be most proportional to complete the internal market. Such action at EU level does not cause any immediate costs. Aftermarket liberalisation only requires legal acts in those Member States that currently protect spare parts to lift this protection and hence causes the lowest administrative costs of all options considered. Furthermore, by providing for a transitional period of ten years during which existing design rights will continue to be protected, vehicle manufacturers will be allowed to adjust their market conduct with minimum risk or disruption to investment and innovation. This option is also adequately prudent when it comes to the issue of fundamental rights and international obligations (see Section 8.1 of the impact assessment report).

3.2 Based on the answers to the questions below and information available from any impact assessment, the explanatory memorandum or other sources, is the proposed action an appropriate way to achieve the intended objectives?

The proposed action in form of the two package proposals is clearly an appropriate way to achieve the objectives. While the existing Community design system can in any case only be modernised and improved by amending the basic Regulation, the required further harmonisation of national rules in alignment with the Community design system can only be effectively and efficiently achieved by extending the scope of the current Design Directive.

(a) Is the initiative limited to those aspects that Member States cannot achieve satisfactorily on their own, and where the Union can do better?

Yes.

(b) Is the form of Union action (choice of instrument) justified, as simple as possible, and coherent with the satisfactory achievement of, and ensuring compliance with the objectives

pursued (e.g. choice between regulation, (framework) directive, recommendation, or alternative regulatory methods such as co-legislation, etc.)?
The objectives of the present package proposals clearly can best, and, in fact, only be pursued through a Regulation, amending the basic Community Design Regulation (EC) No 6/2002, and a Directive, extending the current level of harmonisation provided for by the current Design Directive 98/71/EC.
(c) Does the Union action leave as much scope for national decision as possible while achieving satisfactorily the objectives set? (e.g. is it possible to limit the European action to minimum standards or use a less stringent policy instrument og approach?)
Yes. In particular, the proposed harmonisation in the area of design procedures is limited to certain principal rules, leaving Member States free to establish more specific rules, and allowing them to adapt those to national specificities and traditions.
(d) Does the initiative create financial or administrative cost for the Union, national governments, regional or local authorities, economic operators or citizens? Are these costs commensurate with the objective to be achieved?
The two package initiatives will create some cost which are clearly commensurate with the objectives to be achieved. The proposed full liberalisation of the spare parts aftermarket will not involve direct cost for manufacturers of motor vehicles. Liberalisation will however cause loss of income corresponding to the savings expected for consumers. As for firms and natural persons applying for design protection, the reformed design protection systems will require some adaptation to new rules, including learning process. As regards the EUIPO, the proposed simplification of procedures and adjustment of fees could result in loss of revenue. These measures will also involve (minor) implementing costs to adapt workflows and IT processes. As far as Member States and national IP Offices are concerned, the proposed further harmonisation of rules, in particular in the area of procedures (e.g. establishment of office-based invalidity proceedings) will involve implementing costs. However, these costs are considered both bearable and proportional.
(e) While respecting the Union law, have special circumstances applying in individual Member States been taken into account?
Yes. The proposal considers special circumstances in individual Member States, while respecting Union law. For example, as to spare parts design protection, it has been taken into account that in addition to a significant number of Member States some other Member States (Germany and France) have lately opted as well for opening up their national aftermarkets through the introduction of respective repair clauses into their national laws. On the other hand, it has been taken into account that another significant number of Member States still provide for design protection and that the legitimate interests of holders of existing design rights therefore need to be addressed appropriately by providing for a transitional period.