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Delegations will find attached a proposal from the Commission, submitted under a covering letter from Mr Jordi AYET PUIGARNAU, Director, to Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union.

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**COMMISSION STAFF WORKING PAPER**

**IMPACT ASSESSMENT**

*Accompanying document to the*

**Proposal for a  
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
amending COUNCIL REGULATION (EC) No 207/2009 of 26 February 2009  
on the Community trade mark**

**and the**

**Proposal for a  
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
to approximate the laws of the Member States relating to trade marks (recast)**

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# COMMISSION STAFF WORKING PAPER

## IMPACT ASSESSMENT

*Accompanying document to the*

**Proposal for a  
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### **1. INTRODUCTION**

#### **1.1. Importance of trade marks and available systems of trade mark protection**

Trade marks are indicators of business origin, distinguishing products and services of one company from those of another. They enable consumers to recognize a product as one which they have liked, or disliked, in the past and thereby allow them to make an informed choice when making the purchase or asking for a service. Trade marks are also essential marketing tools for modern business: They are the principal instrument used by businesses for advertising their products, and offer a guarantee that all the goods originating from the same producer have a certain quality. In a world of increasing consumer sophistication, branding, supported by trade marks, can assist businesses of all sizes in their quest for innovation and entry into new markets.

Trade marks are territorial rights. They guarantee a protection to their owners only in the territory of the country or countries concerned. In Europe, several systems for trade mark protection exist.

- (a) National trade marks are registered by the intellectual property (IP) offices of Member States on the basis of a harmonised system. Currently, there are 24 national offices, and one regional office – the Benelux Office for IP (BOIP)<sup>1</sup>. National trade marks generally serve users seeking registration in one, or a limited number of,

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<sup>1</sup> Hereinafter, the 24 national IP offices and the Benelux Office for IP are referred to jointly as "national IP offices" and the national and regional trade marks as "national trade marks".

countries, as well as users that want to obtain much broader protection in geographical terms but are not able<sup>2</sup> or willing to opt for a Community trade mark.

- (b) Community Trade Marks (CTM), available since 1996, grant their proprietors a unitary IP right with an equal effect throughout the entire EU. They are registered by a specialised EU agency, the Office for Harmonisation in the Internal Market (Trade Marks and Designs) (OHIM) which was established in 1994 in Alicante, Spain. The CTM does not replace national trade mark systems, but provides an additional legal framework ("a 26<sup>th</sup> regime") for obtaining trade mark protection in the territory of all 27 Member States.
- (c) Finally, international trade mark registrations are administered by the World Intellectual Property Organisation (WIPO), and secure protection in several countries, through the system of the Madrid Agreement and the Protocol to that Agreement. These trade marks can be obtained in a single procedure; however, once registered they do not become a single IP right, as the CTM, but split into a bundle of national and/or Community trade marks, depending on the choice of the applicant. International applications have limited added value within the EU and are more advantageous for users seeking trade mark protection in countries outside Europe and/or worldwide.

The national, Community, and international trade mark systems not only coexist passively but are closely interrelated with each other<sup>3</sup>.

## 1.2. Political context

The trade mark system in Europe has undergone a significant development over the last 20 years. This process started with the harmonisation of national trade mark laws in 1989 and was followed by the creation of the CTM in 1994. Since then, it has not been subject to any major modifications<sup>4</sup>.

The business environment, however, has changed significantly over the past two decades, notably with the expansion of the internet and other electronic business tools. The numbers of trade mark applications have been growing, both at national and Community levels<sup>5</sup>, as are

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<sup>2</sup> Given the unitary character of a Community trade mark (Article 1(2) CTMR), protection cannot be obtained if absolute grounds for refusal exist in any part of the EU (for example, trade marks that would be purely descriptive in one of the EU languages and/or would be contrary to public policy in one Member State). Similarly, the existence of an earlier national trade mark in a single Member State can prevent the registration of a CTM for the whole territory of the EU.

<sup>3</sup> In principle, companies should be able to freely choose between registration at national, Community or international level, depending on their business needs and the type of protection that they want to secure for their trade mark rights. Ideally, their choice ought to be guided by considerations regarding plans for future expansion, existence of prior rights in some territories, investment in IP protection etc. In practice, however, their free choice is often biased by uneven conditions at individual IP offices. For more details about these issues see chapter 3.2, problem definition.

<sup>4</sup> The 1989 Trade Mark Directive was amended only once in 1992 as regards its transposition deadline. The 1994 CTM Regulation was amended in 2003 in relation to the EU accession to the system of international trade mark registrations under the Protocol to the Madrid Agreement. In 2004, the CTM Regulation was subject to some further amendments on substantive law and procedures. Both the TM Directive and the CTM Regulation were codified in 2008 and 2009, respectively, but without any changes on substance.

<sup>5</sup> For more details refer to section 3.1.2.



the numbers of trade mark users. Stakeholders increasingly demand faster, higher quality, more streamlined trade mark registration systems, which are more consistent, user friendly, publicly accessible and technologically up-to-date.

In 2007, when addressing the issue of the financial perspectives of OHIM, the Council<sup>6</sup> recognised that it was over a decade since the introduction of the CTM Regulation and the establishment of OHIM, and under the principles of better regulation, emphasised the need for an overall assessment of the functioning of the CTM system. It invited the Commission to start work on a comprehensive study on the overall functioning of the CTM system.

The Commission committed itself, in its 2008 "Small Business Act"<sup>7</sup>, to make the CTM system more accessible to SMEs. Furthermore, the 2008 Communication on an Industrial Property Rights Strategy for Europe<sup>8</sup> stressed the Commission's commitment to effective and efficient trade mark protection and to a high quality trade mark system. It concluded that it was time for an overall evaluation which could form the basis for future review of the trade mark system in Europe, and the further improvement of cooperation between OHIM and national IP offices. As regards the international dimension, the Communication announced that the Commission would prepare the ground for the accession of the EU to the Singapore Treaty on the Law of Trademarks and encouraged Member States to ratify that treaty. In 2010, in the Communication on Europe 2020 strategy<sup>9</sup> under the Flagship Initiative: "Innovation Union", the Commission committed to modernise the trade marks framework in order to improve the framework conditions enabling business to innovate. Finally, in its new IPR strategy for Europe<sup>10</sup>, the Commission announced a review of the trade mark system in Europe, with a view to modernising the system both at EU and national levels, by making it more effective, efficient and consistent as a whole.

On the basis of interim results of a related Commission study (see section 2.2 below), the Competitiveness Council adopted on 25 May 2010 conclusions on the future revision of the Trade Mark system in the EU<sup>11</sup>. The Council called on the Commission to present proposals for the revision of, respectively, the CTM Regulation, and the Directive approximating the laws of Member States relating to trade marks, and flagged up those issues which it would like to see addressed therein.

### **1.3. Scope of the impact assessment**

The present impact assessment looks into the business needs of trade mark users in Europe and evaluates them against the current conditions resulting from the EU trade mark legislation. It deals with the CTM Regulation<sup>12</sup> and the Trade Mark Directive (TM Directive) and assesses the impact of their possible modification, as well as of other soft law measures. The analyses focus on major problems and shortcomings identified in the current system during a comprehensive fact finding and consultation process ("evaluation process", for details see chapter 2.2).

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<sup>6</sup> Council Conclusions of 21 and 22 May 2007, Council document 9427/07.

<sup>7</sup> COM(2008) 394 final.

<sup>8</sup> COM(2008) 465 final.

<sup>9</sup> COM(2010) 2020 final.

<sup>10</sup> COM(2011) 287 final.

<sup>11</sup> Council document 2010/C 140/07.

<sup>12</sup> The impact assessment does not look into provisions of the implementing measures to the CTM Regulation.

Accordingly, the scope of this report was shaped on the basis of these evaluation results which primarily revealed considerable incoherence between the trade mark systems in the EU, and the inefficient procedures, inappropriate practices and missing and/or outdated tools and instruments. Such shortcomings all negatively affect the access to trade mark protection, especially its speed and cost, as well as the legal certainty of trade mark users in general. All these findings demonstrated an urgent need for modernisation and streamlining of the European trade mark system, both at EU and national levels.

The report does not focus on the issue of OHIM financing as its primary content. In accordance with the commitment made in an earlier impact assessment<sup>13</sup>, accompanying the 2009 Commission proposal for reduction of OHIM fees<sup>14</sup>, the evaluation process encompassed an assessment of OHIM's fees and fee structure<sup>15</sup>. This assessment concluded that the current balance between the fees appears appropriate<sup>16</sup>. The study contractor noted in this context that the overall level of fees must be sufficient to cover the expenses of the present and any future tasks of the Office, and any payments made by the Office to the national offices. The level of fees should further suffice to establish and maintain an adequate reserve fund. In addition, it found that there is no objection in principle to fixing the fees at a level which takes into account additional considerations, such as facilitating a choice between CTMs and national trade marks, or the actual and potential value of the IP right granted by the Office. As long as the overall fee level is sufficient to cover the Office's operations, the legislature was considered to have substantial discretion to fix the level of each individual fee. The interests to be taken into account in this context include those of CTM applicants and proprietors, the interests of earlier rights owners, and also the interests of the EU as a whole and of its Member States in maintaining an adequate balance between their trade mark systems and the CTM system. A CTM renewal fee, substantially higher than the application fee, was regarded as entirely justified in view of the value of an existing and continuing registration valid in the whole EU, and the fact that it may contribute to preventing CTMs being renewed which are not used at all or are of only marginal value to their owners. Therefore, this report does not address OHIM fees as an issue per se, but does so in relation to identified problems or considered policy options (see chapter 6.2.1.3).

Where suitable, this report draws links to a recent impact assessment<sup>17</sup> which accompanied the 2011 proposal for a Regulation entrusting the OHIM with the European Observatory on

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<sup>13</sup> This 2009 impact assessment addressed the issue of OHIM budgetary surplus and of its financial perspectives in general. As a first step, the report identified the need to stabilise the OHIM budget in the medium term and to avoid a further growing gap between its revenues and expenditure. As a second step, it announced a later, more comprehensive revision of OHIM's financial structure to be carried out in the context of a study on the overall functioning of the Community and national trade mark systems. See at [http://ec.europa.eu/governance/impact/ia\\_carried\\_out/docs/ia\\_2009/sec\\_2009\\_0419\\_en.pdf](http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2009/sec_2009_0419_en.pdf).

<sup>14</sup> Proposal for a Commission Regulation on the amendment of Commission Regulation (EC) No 2869/95 on the fees payable to the Office for the Harmonisation in the Internal Market (Trade Marks and Designs), C(2009) 2322. This Regulation (EC) No 355/2009 was adopted on 31 March 2009.

<sup>15</sup> This assessment, carried out by the Commission contractor, the Max Planck Institute for Competition and IP law (MPI), included questions on levels of various OHIM fees (notably application, renewal, opposition, cancellation and appeal fees), the need for their further adjustment and/or changing the fee structure overall. In the context of this study and also as part of the overall evaluation exercise, led by Commission services, views of all interested parties were sought, in particular, that of trade mark users, national IP offices and OHIM.

<sup>16</sup> See MPI Study, pages 190-191.

<sup>17</sup> SEC(2011) 612, [http://ec.europa.eu/internal\\_market/iprenforcement/docs/observatory/sec\\_2011\\_0612\\_en.pdf](http://ec.europa.eu/internal_market/iprenforcement/docs/observatory/sec_2011_0612_en.pdf).

Counterfeiting and Piracy<sup>18</sup>. It should be clarified, however, that whereas the Observatory Regulation aims at extending the current mandate of the Office by entrusting it with new competences in relation to IPR enforcement, the present impact assessment report looks into the core business of OHIM and national IP offices in the field of trade marks, notably their registration and administration. Accordingly, since the subject matter of these two initiatives is substantially different and not directly related, the number of potential common issues is limited.

Finally, the present impact assessment does not expressly scrutinize all possible amendments, in particular not those aimed at minor adaptations of existing provisions with little, or no, practical impact, nor those which would "clean" both pieces of legislation from obvious historical leftovers<sup>19</sup>. Nevertheless, an overview of the proposals for amending existing legislation is provided in Annex 2 (section 9.2).

## **2. PROCEDURAL ISSUES AND CONSULTATION OF INTERESTED PARTIES**

### **2.1. Procedural issues**

The preparation of this impact assessment was monitored by an Inter-Services Steering Group, composed of Directorates General Internal Market and Services (MARKT), Enterprise and Industry (ENTR), Joint Research Centre (JRC), Budget (BUDG), Secretariat-General and Legal Service. The Steering Group met on three occasions, on 30 June 2011, 20 July 2011 and 12 September 2011. The minutes of the last Steering Group's meeting were sent to the Impact Assessment Board (IAB).

A draft of this impact assessment was submitted to the IAB on 21 September 2011 and discussed at the Board's meeting on 19 October 2011. The IAB issued an opinion on 21 October 2011 finding that the draft report should be significantly improved in several important aspects. The report has been substantially revised, improved and extended in order to completely comply with the opinion of the IAB<sup>20</sup>.

The revised draft of this impact assessment was submitted to the IAB on 10 January 2012. The IAB issued a second opinion on that revised draft on 3 February 2012, confirming that the report had been improved to a significant extent along the lines of the IAB's first opinion. The report has been further revised and improved in order to address the remaining points raised by the IAB.

After the second opinion of the IAB, the report was subject to further discussions with the DG BUDG as regards its parts dealing with financial matters and OHIM budget. Following the recommendations of the DG BUDG, some new elements were added to the final impact assessment, leading in part to changes in the originally preferred options (for details, see Annex 5, section 9.5).

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<sup>18</sup> See glossary in Annex 1 (section 9.1).

<sup>19</sup> One example of such an outdated provision is the definition of a trade mark which still contains the requirement of graphical representation for a sign to be registered as a trade mark. This definition is no longer suitable for new, non-conventional trade marks, for example sounds.

<sup>20</sup> For details regarding both IAB opinions and subsequent revisions of the impact assessment report see Annex 5 (section 9.5),

The initiative to which this impact assessment relates to has been introduced into the Commission's agenda planning as 2011/MARKT/003.

## 2.2. External expertise and consultation of interested parties

The drafting of this impact assessment was preceded by an extensive evaluation and consultation process in which DG MARKT sought expertise of external specialists as well as views of interested parties.

The evaluation process started in 2008 with a "consultation on trade marks" carried out via the European Business Test Panel (EBTP)<sup>21</sup>. It aimed at gathering views of companies, including small and medium sized enterprises (SMEs)<sup>22</sup>, about issues such as the added value of trade marks for companies, the awareness of the potential users, the costs of a trade mark, the relationship between the national and the CTM systems, the efficiency of the systems and the protection of trade marks.

The main component of the evaluation process was a comprehensive study<sup>23</sup> commissioned by the Commission from the Max Planck Institute for Intellectual Property and Competition Law in Munich, Germany, and carried out between November 2009 and February 2011. The study was based on a non-exhaustive set of evaluation questions<sup>24</sup> grouped around two main tasks: assessment of links between the CTM and national systems, and assessment of the functioning of the CTM system. The aim of the study was to identify potential areas for improvement, streamlining and future development of the trade mark system as a whole, both at Community and at national level. The study also established the potential for enlarging the scope of cooperation between OHIM and national IP offices.

In addition to the expert analyses by the Max Planck Institute, which were complemented by an economic analysis of certain aspects of the CTM system by the institute INNO-tec<sup>25</sup>, the study comprised a number of consultations with various stakeholders. First of all, a large online survey<sup>26</sup> among users of the CTM system was performed by the Institut für Demoskopie Allensbach, Germany (Allensbach survey). The survey was based on a random sample of 1,599 users, and data was collected between February and March 2010. Secondly, user associations were invited to express their views on all evaluation questions, and to make further observations and suggestions. In total, 19 organisations representing trade mark users at national, European and international level sent their contributions<sup>27</sup>, making use of both listed evaluation questions and free submissions. Indeed, a number of issues that had not been

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<sup>21</sup> [http://ec.europa.eu/yourvoice/ebtp/consultations/2008\\_en.htm](http://ec.europa.eu/yourvoice/ebtp/consultations/2008_en.htm).

<sup>22</sup> In terms of participation there were 391 replies and the size of the companies that replied was very variable, from small and medium enterprises to big companies (more than 500 employees).

<sup>23</sup> See the final MPI study, including annexes, at [http://ec.europa.eu/internal\\_market/indprop/tm/index\\_en.htm](http://ec.europa.eu/internal_market/indprop/tm/index_en.htm)

<sup>24</sup> See the tender specification at: [http://ec.europa.eu/internal\\_market/indprop/docs/tm/090722\\_tender\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/tm/090722_tender_en.pdf)

<sup>25</sup> As part of the MPI study, an empirical assessment of the development of the CTM system and its relationship with national trade mark systems was carried out by the Institute INNO-tec at the Ludwig-Maximilians-Universität, LMU Munich School of Management. The final INNO-tec report, annex 1 to the MPI study, is available at [http://ec.europa.eu/internal\\_market/indprop/docs/tm/20110308\\_inno-tec-report\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_inno-tec-report_en.pdf).

<sup>26</sup> See the final Allensbach report at [http://ec.europa.eu/internal\\_market/indprop/docs/tm/20110308\\_allensbach-report\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_allensbach-report_en.pdf).

<sup>27</sup> For all received contributions refer to Annex 4 of the study: Statements of user organisations, available at [http://ec.europa.eu/internal\\_market/indprop/docs/tm/20110308\\_statements-of-use\\_en.pdf](http://ec.europa.eu/internal_market/indprop/docs/tm/20110308_statements-of-use_en.pdf).

part of the initial tender were eventually considered by the Commission's services on the basis of users' comments. Moreover, a hearing with 15 major user organisations was organised by the Max Planck Institute in Munich on 8 and 9 June 2010. The purpose of this meeting was to give user organisations the opportunity to express their main ideas on the study and to discuss with them topics raised in the call for tender<sup>28</sup>. Finally, the Max Planck Institute consulted all national IP offices<sup>29</sup> and OHIM, most of them by means of personal visits, the rest on the basis of a written questionnaire. The results of all these consultations, surveys and hearings<sup>30</sup> were taken into consideration in the final report of the Max Planck Institute and by DG MARKT when drafting the present impact assessment.

The conclusions of the study endorsed the need for greater coherence between the CTM and national systems and for further approximation of Member States' trade mark laws both within and beyond the current scope of the TM Directive. While many aspects of the present CTM system were confirmed as functioning well, the study made a large number of proposals for improvement and identified areas for strengthening cooperation between OHIM and national IP offices.

As a follow up to the study, DG MARKT held a number of bilateral meetings with user associations. Moreover, it organised a hearing with their representatives to seek their views on selected proposals of the study as well as to test some options identified as part of the impact assessment. The hearing took place on 26 May 2011 in Brussels and was attended by 18 user associations. Its results shaped and confirmed the preliminary analysis of the Commission.

Finally, it should be mentioned that the TM Directive was subject to transposition checks by the Commission following the expiry of the transposition deadlines. DG MARKT commissioned in 1997 a study on the conformity of the trade mark laws in the 15 old Member States with the Directive. The conformity of the laws of the 12 new Member States was assessed internally. Those studies did not reveal any significant problems in transposing the Directive. This result corresponds to the fact that there were no infringement procedures to be opened against Member States. Against this background, it is not surprising that the question of proper implementation of the Directive by Member States did not play any role in the above later evaluation process.

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<sup>28</sup> For a combined presentation of the opinions of user associations per subject see MPI study p. 31-38. See also a summary of the statements made by user associations, in particular in relation with problematic legal and capacity related issues, in Annex 7.

<sup>29</sup> A systematic presentation of the statements of national IP offices per question is included in the MPI Study, 'Chapter 1: Interviews with, and information from, national trade mark offices' p. 5 - 30.

<sup>30</sup> When carrying out these consultations, the Commission minimum consultation standards (Cf. "Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission", COM(2002) 704 final) were observed. In particular, the consultation documents were drafted in a clear and concise manner and sufficient notices were given for both participation in meetings and responses to questionnaires. Given the very specific subject matter, there was not an open public consultation. However, all relevant target groups were consulted by means of appropriate tools and the consultation process was given a large publicity.

### 3. POLICY CONTEXT, PROBLEM DEFINITION AND SUBSIDIARITY

#### 3.1. Background and context

##### 3.1.1. Nature and size of the market concerned

Europe's economy relies on powerful brands, requiring strong and effective trade mark protection. In the EU, the value of the top ten brands per country<sup>31</sup> amounts to almost 10% in relation to their GDP (PPP)<sup>32</sup>. The percentage is even higher in smaller countries with valuable brands where the figure can amount to over 30%<sup>33</sup>. As such, the economic value of trade marks serves as an indicator for the economic wealth of a country. The average value of the top ten brand values per Member State equals € 35 billion but amounts to € 145 billion in Germany and € 138 billion in the United Kingdom. Annual communication and advertising expenditure in Europe on brands of € 174 billion<sup>34</sup> benefits media as well as sport, arts and entertainment.

In microeconomic terms, trade marks are important and valuable business assets for companies across all sectors, and able to significantly increase in value as businesses expand and grow. With regard to international trade dimension, 48% of EU exports are upmarket branded goods<sup>35</sup>.

##### 3.1.2. Development in numbers of trade mark applications

The demand for trade mark protection is constantly high. In absolute terms, both CTM and national trade marks have grown between 1996 and 2008 (the most recent year for which data for all 26 offices are available). While the total number of trade mark applications in the 27 current EU Member States increased<sup>36</sup> by about 8% from 471,000 in 1996 to 509,000 in 2008<sup>37</sup>, the numbers of CTM applications have more than doubled during a similar period from about 43,000 in 1996 to over 107,000 in 2012<sup>38</sup>.

An overall global decrease in activity was witnessed from 2007 to 2009, reflecting prevailing economic conditions. In 2008, a total of 3.3 million trade mark applications were filed worldwide, representing a 0.9% decline compared to 2007. China was an exception, with 2009 showing a 21% increase in filings and more than a 50% increase in registrations compared with the previous year. However, indications are that with the economic recovery trade mark filings have started to grow again.

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<sup>31</sup> Source: European Brand Institute, [www.eurobrand.cc](http://www.eurobrand.cc).

<sup>32</sup> For the used methodology, refer to methods of brand valuation of the European Brand Institute at [http://www.icon-net.com/medialib/file/EBI\\_eurobrand%20Methoden\\_ISO\\_ON\\_Okt%202010.pdf](http://www.icon-net.com/medialib/file/EBI_eurobrand%20Methoden_ISO_ON_Okt%202010.pdf).

<sup>33</sup> For example, this was the case of Finland in 2009; see "eurobrand2009 country review" at <http://www.eurobrand.cc/studien-rankings/eurobrand-2009/>

<sup>34</sup> Source: [http://www.aim.be/economic\\_aspects.htm](http://www.aim.be/economic_aspects.htm)

<sup>35</sup> Same as in footnote 34.

<sup>36</sup> Even more pronounced is the growth in applications filed at national IP offices by national (resident) applicants, which rose from 269,000 in 1996 to 364,000 in 2008.

<sup>37</sup> At the top of the ranking are the French IP Office (91,214 applications in 2011) and the German Patent and Trade Mark Office (69,117 applications in 2011). As regards the national registers, the German database contained in 2011 774,000 registered trade marks and the French one 1,010,260. Overall, the registers of Member States' IP offices (without OHIM) contain almost 9 million trade marks.

<sup>38</sup> By the end of 2012, OHIM registered almost 900,000 CTMs and, in October 2011, the one millionth CTM application was filed.

### 3.1.3. *Impact of the reduction of CTM fees on demand*

At the time of the Impact Assessment for the last CTM fee reduction in 2009, there was no evidence available for the previous 2005 fee reduction having led to an increase in volume of CTM applications. Therefore, the Commission proceeded from the assumption that the number of CTM applications would remain unchanged. According to the findings of INNOtec, the fee reduction instituted in 2005 had a strong positive effect on demand for the CTM. The second fee reduction in 2009 was too close to the end of the available data series to be evaluated as to its effects by the institute. However, against the 2005 experience it cannot be excluded that the substantial fee reduction in 2009 also may have had an impact on the demand of CTMs besides possible other impacting factors (e.g. the start of economic recovery, increasing internationalisation of businesses or further efficiency improvements at OHIM)<sup>39</sup>. This is confirmed by the difference between the 90,000 CTM applications per year forecasted in the Impact Assessment for the last fee reduction and the current over 105,000 applications per year<sup>40</sup>.

### 3.1.4. *Users of the CTM system*<sup>41</sup>

The 350,000 companies from 170 countries that have registered CTMs range from large multinationals to SMEs. From the beginning, the majority of the CTM applications originated from EU Member States. In recent years, these countries accounted for around 70% of total applications. Among the Member States, Germany, United Kingdom, Italy, Spain and France are the top filers. Among non-EU countries, the United States, Switzerland, Japan, Canada and Australia are the main users of the Community system.

The full integration of the 12 Member States that joined the EU between 2004 and 2007 is still a work in progress, including the use by companies from those countries of the European IP rights provided by OHIM. Thus, the 12 new Member States account for about 12% of the total GDP of the EU at Purchasing Power Parities (2009, Eurostat data) but they represented only 5% of CTM applications in 2010.

Looking at CTM owners by company size, it is clear from the chart below that the vast majority of new CTM owners are SMEs. The chart shows the composition of new CTM owners in each year, distinguishing between large-scale enterprises (LSE) and SMEs. In the early years of OHIM's operation, a significant share of new owners were LSEs, more than 35% in 1996. In contrast, in recent years, the SMEs' share has been well over 95%. This indicates that there was an initial rush of big companies, already operating on a pan-European scale, to protect themselves to the maximum extent possible. By now, all the big

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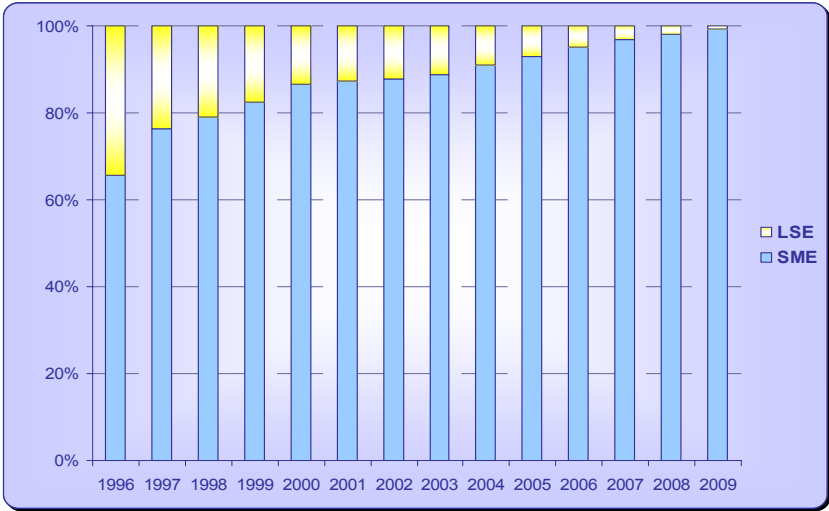
<sup>39</sup> In the context of the INNOtec economic study (footnote 25), the analysis also detected some evidence suggestive of competition between OHIM and national offices. However, it could shed only a limited amount of light on the extent of the effect that competition between the CTM and national trade marks has on demand for the latter. This rather unclear picture is confirmed by the relevant information which the MPI itself obtained from national offices. In fact, national offices were clearly not unanimous when asked whether the fee reduction for CTMs has had any impact on the number of applications for national trade marks received by the office (for more details see paragraph 1.21 on p. 9 of the MPI study and also considerations taken into account in the IA for the last CTM fee reduction in 2009 (footnote 13), p. 16 under point 3.4.3 'Coexistence' and footnote 17 of this document under iii).

<sup>40</sup> While in 2009 OHIM received 88,209 CTM applications, and, thus, practically the volume as forecasted (90,000), the Office got 11% more applications in 2010 (98,313) and witnessed a further increase in 2011 (105,857).

<sup>41</sup> Source: report of Allensbach Institute (footnote 26); OHIM data and calculations.

multinationals already have their CTMs. Most of the recent growth comes from SMEs, once again reflecting the critical role such companies play in the development of Europe’s economy and their growing internationalisation at a much earlier stage in their evolution.

**Figure 1: New CTM owners by company size**



Source: OHIM data and classes of Allensbach Institute

*3.1.5. Overview of legislative framework*

The EU legislative framework is based on two main components, the Trade Mark Directive approximating the laws of Member States related to trade marks, and the Community Trade Mark Regulation.

The aim of the Trade Mark Directive<sup>42</sup> was to ensure that national trade marks registered with the Member States' IP offices were subject to the same substantive conditions of registrability<sup>43</sup> and enjoyed the same protection under the laws of all the Member States. It did not undertake a full-scale approximation of laws but harmonised only those (substantive) provisions of national law that most directly affected the functioning of the internal market, leaving expressly unharmonised the procedural rules concerning the registration, revocation and invalidity of trade marks<sup>44</sup>.

Alongside and linked to national systems, the CTM Regulation<sup>45</sup> established a free-standing trade mark system which provides a single procedure for registering a unitary Community right having equal effect throughout the EU, instead of a separate procedure in each Member State leading to a bundle of national trade mark rights conferring protection only in their respective territories. The

<sup>42</sup> Originally First Council Directive No 89/104/EEC of 21 December 1988, now codified as Directive 2008/95/EC.

<sup>43</sup> This means harmonisation of trade mark definition (i.e. of signs of which a trade mark may consist), grounds for refusal of a trade mark application and for invalidation of a registered trade mark, further grounds for refusal or invalidity concerning conflicts with earlier rights etc.

<sup>44</sup> See the 4<sup>th</sup> and 5<sup>th</sup> recitals to the Preamble of the TM Directive.

<sup>45</sup> Originally the Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, now codified as Regulation 207/2009.



provisions of the CTM Regulation were further specified in three implementing Regulations<sup>46</sup>, adopted as comitology measures in accordance with Council Decision 1999/468/EC.

### 3.1.6. *Systemic coexistence, extent of the links and interaction between the systems*

#### 3.1.6.1. Systemic coexistence

The coexistence principle is expressed in the 6<sup>th</sup> Recital of the Preamble to the CTM Regulation and is one of the cornerstones of the European trade mark system. According to that principle, CTM law does not replace the law of the Member States on trade marks, but solely provides an additional legal framework for obtaining effective and efficient trade mark protection throughout the entire Union, with the result that the Community and national systems exist alongside each other.

However, coexistence does not mean that these systems merely exist in parallel, but rather that they should complement each other harmoniously, that is, in a way that allows each system to attain its specific purpose. This complementary relationship between the Community and national trade mark systems mainly manifests itself on two levels:

First, there is a significant degree of overlap between the two systems in terms of territorial coverage. Territorially, European trade mark systems are to a certain extent *interchangeable* in the sense that users may seek trade mark protection for the whole or part of the EU, by opting either for a CTM or for one or more national trade marks. In fact, the clear intention of the Community legislator has been that businesses should not be required to apply for registration of their trade marks as Community trade marks if they do not want protection of their trade marks at Community level (see 6<sup>th</sup> Recital at the end).

Therefore, companies should be free to choose between registering of their trade marks at national or Community level (or international level) and be able to combine those trade mark filings where appropriate, according to their specific business needs and strategic interests. In practice, it is not unusual for a growing undertaking, seeking to expand its business beyond a national or regional market, to escalate its trade mark protection by *adding* a CTM to its existing portfolio of national registration(s). Finally, it also happens frequently that a company aiming at a large market may have to opt for registering its trade mark several-fold at national level instead of having a single CTM. This is due to the unitary character<sup>47</sup> of a CTM, which does not allow the trade mark to be registered at all if there is an obstacle in any of the Member States (e.g. existence of an older identical or similar national trade mark<sup>48</sup>, descriptiveness of a verbal trade mark in one of the EU languages<sup>49</sup>). In such a case, the number of parallel national trade marks depends on the company's business needs in geographical terms and may range from 1 to 25 (excluding of course the territory or territories where a ground of refusal exists).

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<sup>46</sup> Commission Regulation (EC) No 2868/95 of 13 December 1995 implementing Council Regulation (EC) No 40/94 on the Community trade mark; Commission Regulation (EC) No 2869/95 of 13 December 1995 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs) and Commission Regulation (EC) No 216/96 of 5 February 1996 laying down the rules of procedure of the Boards of Appeal of the Office for Harmonization in the Internal Market (Trade Marks and Designs).

<sup>47</sup> See also footnote 2.

<sup>48</sup> Example of a "relative" ground for refusal, see Art. 8 CTMR, see also Glossary in Annex 1.

<sup>49</sup> Example of an "absolute" ground for refusal, see Art. 7 CTMR, see also Glossary in Annex 1.

Second, the systems are legally and organically linked and interact with each other in a variety of ways<sup>50</sup>. First of all, trade mark owners in the EU can use their national trade marks in opposition, cancellation or Court proceedings to prohibit the registration or use of a later identical or similar CTM and *vice versa*. Moreover, CTM owners may also choose to abandon their national registration and claim for the CTM the *seniority*<sup>51</sup> of the national trade mark which has been left to lapse, while keeping the same level of protection in the Member State in which the latter was registered. Equally, companies who choose, or are forced to, abandon their CTM, can transform their CTM into one or more national registrations, through the mechanism of *conversion*<sup>52</sup>.

It should be stressed in this context that the above multi-filing practices of companies are natural in the trade mark field and form part of companies' business and/or branding strategies, which may differ on a case-by-case basis in accordance with the economic purpose of each trade mark filed. The multi-level trade mark system in Europe has been shaped against this reality. However, the choice of whether a company should opt for a CTM or a national mark should be driven by its business needs only and not by convenience considerations or other extraneous factors. The problems described below in the problem definition are not caused by the multi-filing itself, but are often due to legal and other distortions which result in a sub-optimal operation of the EU trade mark framework for businesses.

### 3.1.6.2. The extent of the links and interaction between the systems

There is ample evidence that users make extensive use of the above options and regularly exploit the links between the various systems, both when determining their trade mark strategies and when facing the need to protect or enforce their existing rights.

According to the Allensbach survey<sup>53</sup>, 21% of SMEs and 30% of LSEs owning trade marks at OHIM, answered that their prevailing practice is to apply for both national and CTM protection, whereas around 20% of them (22% of SMEs and 17% of LSEs) answered that they had no prevailing practice or that it was impossible to say whether they use mostly the CTM or national systems. According to the INNO-tec report<sup>54</sup>, 19% of Community trade mark applications filed at the OHIM by German applicants between 1997 and 2006, i.e. 15,440 trade marks, had also been filed as national trade marks in Germany.

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<sup>50</sup> MPI Study Part III, Chapter 1.A "Coexistence", pages 45-47.

<sup>51</sup> See Glossary in Annex 1.

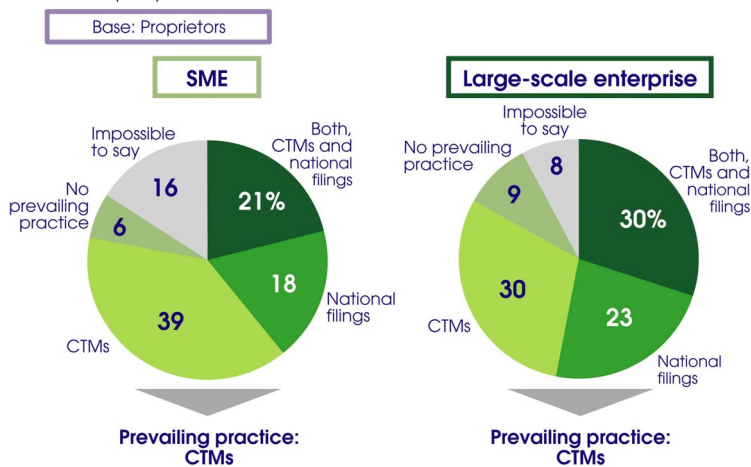
<sup>52</sup> See Glossary in Annex 1.

<sup>53</sup> Allensbach survey (footnote 26), pages 16-18.

<sup>54</sup> See footnote 25. In the above text, reference is made to page 22 of the INNO-tec report.

**Figure 2: Filing practice of SMEs and LSEs (among CTM users)**

Q7: Thinking of all your own trade mark applications, that is, national trade mark applications and CTM applications (including applications based on IR registrations): Which of the following applies best to your office or company?



Source: Allensbach report

This practice is further attested by the fact that 93.216 CTM applications (roughly 10% of the total until May 2011) have been filed with a priority claim from a national filing<sup>55</sup>. Furthermore, a comparative search carried out by OHIM in the TM View database has shown that out of a sample of 666.527 CTM applications (verbal marks only), 174.795 (that is 26,3% of the sample) had also been filed as national marks<sup>56</sup>.

The extensive *interaction* between the systems is also clear from a number of indicators: A query on the number of national rights used in opposition proceedings against CTM has revealed that at least 32% of the earlier rights used in opposition proceedings before the OHIM are national marks<sup>57</sup>.

As regards seniorities and conversions, figures show that, from the inception of the CTM system, 256.056 seniority claims were filed with the OHIM until May 2011<sup>58</sup> and 3.171 conversion requests were made until the end of 2010<sup>59</sup>.

While the above figures demonstrate the extent of a simultaneous use of CTMs and national trade marks, similar statistics about multiple registrations at national level are not available. However, contacts with stakeholders have confirmed that, as explained in the previous section "systemic coexistence" (3.1.6.1), it is a common practice for companies to seek trade mark protection in several Member States, notably when a CTM protection cannot be obtained due to existing absolute or relative grounds for refusal in a part of the EU.

The foregoing shows that, depending on its branding strategy, an undertaking wishing to market its products in the EU may opt for a CTM or one or more national marks, either alternatively or cumulatively, and that, in either case, it may be confronted with procedures

<sup>55</sup> Source: OHIM data.

<sup>56</sup> Source: OHIM data.

<sup>57</sup> Source: OHIM data.

<sup>58</sup> Source: OHIM data.

<sup>59</sup> Source: OHIM data.

pertaining to another system, even if its initial choice was to acquire a trade mark using a different regime. For instance, CTM filers must search national registries to ensure that there are no prior rights opposable to their application, whereas national filers must check the CTM register for the same reason.

Hence, in order to be able to make an informed choice and to be in a position to effectively protect their rights, companies need to have a sound overview of the rules and procedures applicable not only on Community level, but also in each and every Member State separately.

### **3.2. Problem definition**

The two main problems identified in the context of this impact assessment relate first to divergent provisions of the existing regulatory framework and, second, to the low level of cooperation between trade mark offices.

#### *3.2.1. Problem relating to divergent provisions of the existing regulatory framework*

The consultation and evaluation exercise has revealed that the business environment in the trade mark field remains very heterogenous in spite of the partial harmonisation of national laws dating back to early 1990s. The level of harmonisation imposed by the TM Directive was quite low, focusing on a restricted number of substantive rules that were then considered to most immediately affect the functioning of the internal market<sup>60</sup>, whereas an important number of areas, in particular relating to formal requirements and procedures, was left unharmonised. Moreover, the CTM Regulation was enacted several years after the Directive, which means that at the time the Directive came into being there was no 'common benchmark' against which the efficiency of national proceedings could be measured. By now, however, the procedures followed by OHIM have been in place for more than 15 years and are generally regarded as meeting business needs and expectations, in terms of timeliness, user-friendliness and quality.

As a result, the current landscape of EU trade mark law is still characterised by a wide divergence between national rules and procedures, both among themselves and in relation to the rules and procedures applied by the OHIM, while no attempt has ever been made to apply 'best practice' with regard to procedures.

As reported by user organisations<sup>61</sup> during the consultation process the existing divergencies between national systems are regarded as significant. These divergences are due to three main causes related to the regulatory framework:

- the fact that the TM Directive does not cover procedural aspects;
- the insufficient level of harmonisation as regards substantive law including optional provisions in the TM Directive; and
- the vague legal basis for cooperation.

There is a broad agreement among users of the trade mark systems in Europe that the present level of approximation between national trade mark laws, as well as with the CTM system,

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<sup>60</sup> See the 4th Recital of the Preamble to the TM Directive.

<sup>61</sup> MPI study, p. 32.

has not been sufficient. User organisations unanimously stated that further harmonisation of national trade mark laws, with regard to both substantive law and procedural issues, is needed.

At a political level also, the Council<sup>62</sup> appreciated the incoherence between the CTM and national regimes and called on the Commission to include in its proposals measures to make the TM Directive more consistent with the CTM Regulation and thus to further contribute to reducing areas of divergence within the trade mark system in Europe as a whole.

### 3.2.1.1. Non-harmonisation of trade mark procedures

Due to the fact that procedural aspects were left completely unharmonised, the existing gaps affect a variety of procedural areas, including the conditions for granting a filing date<sup>63</sup>, the designation and classification of the goods and services for which protection is sought<sup>64</sup>, the range of goods and services (number of classes) covered by a trade mark application<sup>65</sup>, the extent of ex officio examination of grounds for refusal<sup>66</sup>, the possibility of submitting observations by third parties<sup>67</sup>, the existence or not of administrative procedures for opposing an infringing application or cancelling<sup>68</sup> a mark, the defenses of absence of genuine use available to trade mark owners in the context of such proceedings, the duration/renewal of the registration<sup>69</sup> and the option to divide a trade mark application or registration<sup>70</sup>.

The following three important examples illustrate some practical problems caused by the incomplete harmonisation of rules and practices.

#### *(a) Designation of goods and services and classification issues*

Trade mark protection is always granted in relation to a specific set of goods and/or services. The goods and services for which protection is sought determine to a large extent the scope of protection afforded to the trade mark owner, and also affect other aspects of trade mark protection such as the claiming of priority and seniority, insofar that in those cases a double identity of signs and goods and services is required.

Article 28 of the CTM Regulation, in combination with Rule 2 of the CTM Implementing Regulation<sup>71</sup>, imposes on the Office the obligation to apply the Nice Agreement<sup>72</sup> to the classification of goods and services, despite the fact that the European Union is not a party to that Agreement.

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<sup>62</sup> See Conclusions on the future trade mark review, document referred to in footnote 11, paragraph 14, last bullet point.

<sup>63</sup> See for the CTM Articles 26 and 27 of the CTM Regulation.

<sup>64</sup> See explanation given in the following under point (a).

<sup>65</sup> See explanation given in the following under point (b).

<sup>66</sup> See explanation given in the following under point (c).

<sup>67</sup> See for the CTM Article 40 allowing to submit observations on the basis of absolute grounds for refusal.

<sup>68</sup> See for the CTM Articles 41 (opposition), 51 (revocation), 52 (absolute grounds for invalidity) and 53 (relative grounds for invalidity) and furthermore the explanation given under point (d).

<sup>69</sup> See for the CTM Articles 46 (duration) and 47 (renewal) of the CTM Regulation.

<sup>70</sup> See for the CTM Articles 44 (division of the application) and 49 (division of the registration).

<sup>71</sup> For reference see footnote 46.

<sup>72</sup> International Classification of Goods and Services under the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks; available at <http://www.wipo.int/classifications/nice/en/classifications.html>.

On the other hand, the TM Directive does not create the same obligation for Member States. Although all countries of the EU are parties to the Nice Agreement, with the exception of Cyprus and Malta, who apply the same system on a voluntary basis, there are no common rules in the Directive as to how that agreement should be applied in practice. What is more, Article 2 of the Nice Agreement expressly allows the contracting parties to give to the classification the effect that suits best the requirements of their legal system, by providing that the classification is not binding when determining the scope of protection afforded to the registration.

As a result of a lack of legal provisions in that regard, OHIM and national offices follow different rules and criteria for the classification of goods and services. This has led to the adoption of diverging classification practices across European IP offices to the detriment of consistence, clarity and legal certainty. In particular, different Member States regard various terms in the Nice Classification as not suitable, whereas others, including the OHIM, accept them all. Moreover, while OHIM and some national offices have been applying the Nice Classification by assuming that its class headings are exhaustive and encompass all the goods or services falling into a given class of goods or services ("cover-all" approach), the majority of the IP Offices consider these headings as merely exemplary, concrete terms covering only goods or services clearly encompassed by their specific meaning ("it-means-what-it-says" approach).

### **Box 1: Classification – real life examples and practical consequences**

- An applicant requesting protection at OHIM for the heading of Class 15 ("musical instruments") is also deemed to have protection for "stands and cases adapted for music instruments" whereas these additional goods will not be protected in a Member State following a different practice, unless it is specifically enumerated in the specification.
- A CTM application for the heading of Class 25 ("clothing, footwear and headgear") is deemed to also cover "belts", which would only be protected in a different system if the applicant takes the precaution to also indicate "belts" or at least "clothing accessories" when applying for protection.

Practical consequences for the industry:

- The same term is interpreted differently in different jurisdictions within the EU, which leads to undesirable fluctuations in the trade mark's scope of protection in different territories and makes it impossible to secure uniform trade mark protection throughout Europe. To avoid this, companies have to express the specification of their trade marks in different terms depending on the territory of registration.
- In the case of conflict between trade marks having been registered under different regimes, this does not only create a great deal of legal uncertainty about the meaning of the registration and, by extension, about its scope of protection, but also leads to unreasonable distortions when trying to enforce the same trade mark in different territories, or when claiming priority, seniority or conversion.

The consequence for IP offices:

- The acute legal controversy surrounding this area has the effect of rendering cooperation between OHIM and national offices in classification matters and/or the development of common tools and IT platforms near impossible. For instance, it is very difficult to create common classification databases if the acceptability of a given term is subject to different rules in different territories.

To remove the existing stalemate, the Appointed Person by the Lord Chancellor (United Kingdom) referred a preliminary ruling to the Court of Justice, aimed at clarifying the correct application of the Nice Classification to trade mark filings<sup>73</sup>. In its judgment of 19 June 2012 the Court of Justice indeed found that the TM Directive must be interpreted as meaning that it requires the goods and services for which the protection of the trade mark is sought to be identified by the applicant with sufficient clarity and precision to enable the competent authorities and economic operators, on that basis alone, to determine the extent of the protection conferred by

<sup>73</sup> Case C-307/10, The Chartered Institute of Patent Attorneys ("IP TRANSLATOR").

the trade mark. Furthermore, it must be interpreted as meaning that it does not preclude the use of the general indications of the class headings of the Nice Classification, provided that such identification is sufficiently clear and precise. Finally, that an applicant for a national trade mark who uses all the general indications of a particular class heading of the Nice Classification must specify whether its application for registration is intended to cover all the goods or services included in the list of that class or only some of those goods or services. If the application concerns only some of those goods or services, the applicant is required to specify which of the goods or services in that class are intended to be covered.

*(b) Number of classes of goods or services covered by a single trade mark application*

There are different rules in place in the Union as regards class fees<sup>74</sup>. Thirteen national offices operate with a fee structure where the application/registration fee only covers one class of goods or services, so that an additional (class) fee has to be paid for any extra class. By contrast, the other 12 national offices follow the CTM system where the basic application fee for a CTM automatically includes three classes of goods or services regardless of whether that number of classes is applied for by the applicant or not. In the latter case the applicant is only charged an additional (class) fee for any further class of goods or services beyond the third.

As found in the MPI study<sup>75</sup>, easy accessibility of trade mark protection is of key significance for the proper functioning of trade marks as an element of undistorted competition. The degree of accessibility is determined not only by the overall volume of prior rights, posing obstacles to protection of new signs, but, also, by the 'space' occupied by each mark in the register (which depends on the specific range of goods and services in respect of which the trade mark is registered).

The MPI study generally concluded that there is no sustainable documentation showing that access to trade marks is substantially impaired by congestion of registers<sup>76</sup>. However, it pointed to several features of the CTM system which tend to invite a certain amount of 'cluttering' and may, therefore, give rise to problems. One problem being that the basic application fee, covering three classes, encourages applicants to apply for a broader scope of protection than actually needed<sup>77</sup>. This is clearly corroborated by the experience of the Spanish IP office, where the move to a 'one-class-per-fee system' (basic application fee only covering one class of goods or services) has led to a significant drop in the average number of classes covered by new trade mark applications<sup>78</sup>.

A basic application fee, including three classes, not only attracts unnecessarily broad specifications of goods and services for trade mark coverage, but also increases the likelihood of subsequent applicants finding access to trade mark protection barred by prior rights. This creates a problem between the CTM system and the national systems which operate with an application fee covering a single class only, as the CTM system can potentially obstruct national filings. Moreover, such an approach also poses an internal issue for the CTM system, as CTM applicants are confronted with an aggregated number of prior rights existing both at the Union level and under national law.

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<sup>74</sup> For details refer to figure 9 under 6.2.1.2.

<sup>75</sup> MPI Study, p. 53, paragraph 1.32.

<sup>76</sup> MPI Study, p. 55, paragraph 1.39. For details on the views presented by stakeholders and on the related evidence gathered refer to p. 54, paragraphs 1.36 to 1.38 of the Study.

<sup>77</sup> See MPI Study, p. 169, paragraph 4.47.

<sup>78</sup> According to the MPI Study, p. 12, paragraph 1.24, the average number of classes covered by a trade mark application in Spain has gone down to 1,5. By contrast, according to OHIM the current average number of classes covered by a CTM application is 2,9, and thus twice the Spanish average.

The MPI study favoured having all IP Offices in the Union operating with an application fee covering one class only, as this would ensure a balanced and harmonious trade mark system, and reduce the potential for cluttering the trade mark registers. The special hearing organised by DG MARKT on 26 May 2011, and subsequent written comments on the MPI study obtained thereafter, have revealed that this position is supported by the majority of user associations<sup>79</sup>, provided that such a fee structure change would not involve an increase in fees (i.e. applicants would not have to pay more than they do now for a trade mark covering two or three classes).

*(c) Ex-officio examination of relative grounds for refusal*

Although the right to file an opposition to the registration of a later trade mark is in principle reserved for the holders of earlier rights, several national offices conduct, in addition, an ex-officio examination of relative grounds for refusal<sup>80</sup> concerning conflicts with earlier rights<sup>81</sup>, by raising the relevant objection even if the rightholder chooses not to do so.

**Box 2: Ex-officio examination of relative grounds – practical consequences**

The ex-officio examination of relative grounds is generally perceived as creating several unnecessary hurdles to the registration of trade marks:

- To the extent that such an objection may be overcome if the owner of the right gives its consent to the filing, it creates a complex and time consuming traffic in "letters of consent", whereby applicants need to contact the owner and request a clearance (which is not always granted for free), even if the owner would not have opposed the application of its own motion. Thus, companies are obliged to undergo unnecessary expenses and delays, not to mention that they often fall victims of extortion.
- In some cases the owners of the earlier rights might have gone out of business or may have transferred the mark to a third company who does not yet appear on the register. In such cases, applicants will not be in a position to locate the owner in order to obtain a letter of consent and might not be able to get their registration, even though, in practical terms, there is no real conflict. Moreover, the earlier right on which the objection is based may not be used by its owner, which means that the office raises an objection on the basis of a right that could not have validly been relied on by its proprietor to prevent the registration or use of a later mark. Hence, the system gives rise to artificial disputes and distorts competition by erecting unjustified barriers to enter a market.
- This approach gives rise to legal uncertainty, since offices applying the ex-officio system only raise objections on the basis of earlier registered rights, that have been filed for identical or similar goods and services. Accordingly, they cannot offer a guarantee that if an application successfully passes the ex-officio control, it will not subsequently be opposed on the basis of a mark which has acquired reputation in the marketplace and or on the basis of an earlier unregistered well-known mark. This, however, leads to an unacceptable duplication of procedures which are both time consuming and inefficient.

<sup>79</sup> ECTA, GRUR, FICPI, UNION, ITMA, COAPI, CIPA, INTA, Marques, EFPIA and Vfa..

<sup>80</sup> See Glossary in Annex 1.

<sup>81</sup> That practice was introduced in some EU jurisdictions as a consumer protection measure to ensure that they are not confused when making purchasing decisions. However, it is increasingly being abandoned, both in the EU and internationally, on the assumption that the protection afforded to prior right holders is principally aimed at protecting the interests of competitors and that, at any rate, consumers are adequately protected through the action taken by the owners of prior rights against later confusingly similar trademarks. For that reason, it was not included in the system introduced by the CTM Regulation. While in the EU the majority of Member States (including all bigger countries except Poland) follow the CTM approach in the meantime, there are still eleven Member States which adhere to the principle of relative grounds examination ex-officio (for details refer to figure 9 under 6.2.1.2). The latter approach may be considered as reflecting a contradiction between the nature of relative grounds, aimed at protecting private property or rights, and the fact that an ex officio examination is carried out as if they were absolute grounds, which are aimed at protecting the public interest.



*(d) Absence of uniform rules and procedures in opposition and cancellation:*

The availability and nature of opposition and cancellation procedures at EU and national levels show major discrepancies. Proceedings may be administrative (at IP office) or judicial (at Courts) and may vary significantly in terms of length and complexity. Moreover, national rules not always offer the same range of defenses to trade mark applicants.

**Box 3: Opposition and cancellation – examples and practical consequences**

- In some Member States, trade mark applicants and owners cannot challenge the validity or opposability of the earlier rights relied upon against their trade mark in the same proceedings, with the result that they often need to lodge separate legal remedies to that effect, often in a different forum, with all the delay and expense that this may entail.
- In a number of Member States it is only possible to contest the validity of a prior trade mark in court proceedings, which delays things even further and usually requires the appointment of a qualified lawyer to prosecute the case.

Practical consequences for industry:

- The above systems are exceedingly long, cumbersome and expensive.
- In comparison, the administrative opposition and cancellation procedures, as applicable at OHIM and other national offices, are much simpler since the validity of earlier rights can be raised as a defense in the same proceedings and without need for professional representation. In practice, this means that a CTM applicant may successfully defend itself against an opposition and obtain its trade mark years faster and with considerably less expense than a national applicant.

3.2.1.2. Insufficient level of harmonisation as regards substantive law

*(a) Non-harmonised issues*

Further to the procedural aspects, a number of substantive law issues remain unharmonised, namely the protection of geographical indications, the rules applicable to trade marks as objects of property, and the provisions relating to collective trade marks<sup>82</sup>.

Firstly, contrary to the CTM Regulation<sup>83</sup>, the grounds for refusal contained in the TM Directive do not address conflicts with protected geographical indications (GIs). In consequence, there can be no guarantee that the levels of protection afforded to GIs by other instruments of EU law<sup>84</sup> are indeed applied in a uniform and exhaustive manner in trade mark examination throughout the EU, for instance, when applying absolute grounds for refusal.

Likewise, the current provisions of the CTM Regulation fall short from offering the same degree of protection as other instruments of EU law. Specifically, the prohibitions included in Article 7(1)(j) and (k) of the CTM Regulation apply only to trade marks filed for '*the same type of product*', contrary to Articles 13 and 14 of Regulation 510/2006 and Article 45 (2) of Regulation 479/2008, which afford protection also in the case of '*the same class of product*', a '*comparable product*' or even against any other kind of product '*insofar as using the name*'

<sup>82</sup> See in this regard also Annex 2.

<sup>83</sup> See Article 7(1)(j) and (k) for absolute grounds and Article 8(4) for relative grounds for refusal.

<sup>84</sup> Notably Council Regulation (EC) No 510/2006 of 20 March 2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, Regulation (EC) No 110/2008 of the European Parliament and of the Council of 15 January 2008 on the definition, description, presentation, labelling and the protection of geographical indications of spirit drinks and Council Regulation (EC) No 479/2008 of 29 April 2008 on the common organisation of the market in wine.

*exploits the reputation of the protected name*'. Similarly, Article 7(1)(k) of the CTM Regulation can be invoked only against marks which 'contain' or 'consist of' a GI, but not against applications reproducing the protected indication in translated form or merely 'evoking' the same, contrary to Articles 13 and 14 of Regulation 510/2006.

This, however, stands at apparent odds both with Article 164 of the CTM Regulation, which provides that the protection afforded to GIs under Regulation 510/2006 'shall not be affected' by its provisions, and with the established case-law of the Court of Justice, which requires that existing rules of Union law protecting GIs are given full effect in proceedings relating to the registration of trade marks<sup>85</sup>.

Second, apart from some basic rules concerning licensing<sup>86</sup>, and unlike the CTM Regulation<sup>87</sup>, the TM Directive does not comprise provisions regarding other aspects of trade marks as objects of property, such as transfers<sup>88</sup> or rights in rem. In consequence, vital aspects of the commercial exploitation of trade marks are regulated poorly or differently across the EU.

Indicatively, the TM Directive does not contain rules dealing with matters such as (a) the transfer of trade mark rights separately from the owner's business<sup>89</sup>, (b) the inclusion of the company's trade marks in the transfer of the entire undertaking, (c) the requirement, present in the CTMR, that trade mark assignment must be made in writing, and (d) the possibility for trade marks to form the object of rights in rem or to be levied in execution. In addition, the conditions for a licensee to bring infringement actions are different in the CTM Regulation and the TM Directive, in that the latter does not allow licensees to intervene in infringement actions brought by the proprietor, so as to be able to claim their own damages.

#### **Box 4: Transfers and Licensing – example**

Company A is a producer of food-stuffs based in Member State X. It produces five different products, marketed under five distinct brand names. Two of these trade marks are protected as CTMs while the remaining three as national marks in all Member States.

Due to the lack of harmonisation of the legal norms relating to transfers and licensing, the following risks may occur:

(i) In order to enhance its growth, Company A decides to merge with and into Company B. Although all its CTMs are automatically transferred to the new company, its national marks will only be included in the assignment if the national law so stipulates, or if express provision is made in the merger agreement.

(ii) Company A markets its products across the EU through locally based licensees-distributors, one in each Member State. Company C launches a range of competitive products in a number of Member States, imitating the marks of Company A. The conditions under which A's licensees can take preventive action against Company

<sup>85</sup> See the Judgment of the Court of Justice of 14 July 2011 in joined Cases C-4/10 and C-27/10 '*Bureau national interprofessionnel du Cognac*'

<sup>86</sup> See Article 8 of the TM Directive which in particular does not regulate whether licensees need the consent of the proprietor to instigate infringement proceedings.

<sup>87</sup> The CTM Regulation contains in Section 4 a comprehensive body of rules dealing with CTMs as objects of property (see Article 17 on transfer, Article 19 on rights in rem, Article 20 on levy of execution, Article 21 on insolvency proceedings and Article 22 on licensing).

<sup>88</sup> This essentially concerns the important question whether a registered trade mark may be assigned separately from any transfer of the undertaking as so provided in Article 17(1) of the CTM Regulation.

<sup>89</sup> The need to allow for the separate transfer of trade marks is also imposed by Article 21 of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

C differ, depending on whether the infringed right is a CTM or a national mark, with the risk that some of the actions brought by A's licensees may be rejected as inadmissible.

Third, while the CTM Regulation encompasses a set of specific provisions regarding the collective marks but not certification marks, the TM Directive refers to such rights but leaves this type of trade mark protection unharmonised in most of its aspects<sup>90</sup>.

Collective marks (whether or not with elements of guarantee or certification) designate goods which share specific common characteristics (like provenance from a specific locality), or which satisfy particular manufacturing or quality standards. Indications of this kind are protectable as trade marks in a number of Member States and have proven particularly successful in protecting the economic value inherent in such commercial instruments.

To the extent, however, that collective and certification marks are recognised as particular types of trade mark rights only in some Member States and their protection can differ substantially from one legal system to another, industry cannot be offered with a uniform level of protection for such indications throughout the EU.

For instance, OHIM objects to applications for collective marks which, in reality, are either guarantee or certification marks<sup>91</sup>, despite the fact that the same signs would have been registered as trade marks e.g. in the Benelux, on the assumption that “certification marks in the sense that one individual entity unilaterally sets standards with which the goods shall comply if they carry the mark, cannot constitute Community collective marks in the sense of the CTMR”<sup>92</sup>.

Moreover, the possibility of invoking a national certification mark in opposition proceedings against a later CTM application is significantly complicated on a technical level by the total absence of provisions specifically regulating this type of mark in the CTM Regulation itself.

These substantive issues were omitted during the first harmonisation round of the laws of the Member States. However, both the Study<sup>93</sup> and user associations (which were explicitly asked for their opinion in the above mentioned special hearing organised by DG MARKT on 26 May 2011) have expressed the view that the relevant provisions related to these issues are important and should therefore be approximated as well, in order to achieve a harmonious system of trade mark protection in Europe.

#### *(b) Optional provisions in the TMD*

Moreover, problems arise from the fact that the current Directive, contains several provisions which are only optional for Member States. In practice, this has also led to deviations from the CTM system and from the general need to align as much as possible the CTM Regulation with the TM Directive in all crucial areas of substantive trade mark protection.

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<sup>90</sup> Article 15 of the TMD only allows to provide for additional grounds for refusal or cancellation, or to derogate from the non-descriptiveness requirement laid down in Article 3(1)(c).

<sup>91</sup> Manual concerning proceedings before the Office, Part B, Examination, Section 10.2.

<sup>92</sup> A recent example is CTMA N° 9 136 714, filed in the name of the EU, represented by the European Commission.

<sup>93</sup> See MPI study, p. 131, para. 2.314 (concerning geographical indications), p. 222 (on the protection of collective marks), and p. 225-227 (on the rules addressing trade marks as objects of property).

These voluntary provisions concern rules directly affecting the system of absolute<sup>94</sup> and relative<sup>95</sup> grounds for refusal, like the possibility to refuse registration to signs applied for in bad faith and the possibility to provide for protection of marks with reputation against dissimilar goods and/or services<sup>96</sup>.

### Box 5: Gaps in protection due to the optional character of rules

Company A is the holder of national trade mark N in Member State X, which has acquired a substantial reputation in that territory. Company B applies to register the similar sign N1 for dissimilar goods, both as a CTM and as a national mark in Member State X, in an attempt to take unfair advantage of the reputation of mark N. Company B also applies to register the sign N1 in Member States Y and Z, to which Company A was planning to expand its business, in apparent bad faith.

The current lack of harmonisation of the relevant legal norms within the EU leads to the following unsatisfactory results:

Firstly, although Company A can validly oppose the filing of the mark N1 as a CTM under Article 8 (5) of the CTM Regulation (which extends to national marks with a reputation), it cannot prevent the registration of the sign N1 as a trade mark in Member State X (that is, in its home territory), unless the legislation of that State voluntarily protects reputed marks.

Secondly, although Company A can cancel the registration of the sign N1 as a CTM and also in State Y, on the ground that it was filed in bad faith, it cannot validly challenge the registration of the same sign in Member State Z, if the latter has chosen not to transpose the relevant provisions of the TM Directive.

As part of the MPI study, the contractor was asked to gather evidence and analyse whether there is a need for harmonising these optional elements. During the consultation phase, Member States did not much comment on this issue<sup>97</sup>; only France was explicit in this regard while being supportive of further, mandatory harmonisation regarding specific optional disposals. On the other hand, user organizations identified the optional provisions in the TM Directive as an important reason for persisting divergences between the national systems<sup>98</sup> and suggested that the currently optional provisions of the TMD should be made mandatory<sup>99</sup>. Also the MPI in its conclusions<sup>100</sup> preferred to remove a number of these optional provisions.

#### 3.2.1.3. Missing clear legal basis for cooperation

This driver has clear links with the second identified problem, the low level of cooperation (see below). It is presented here because of its regulatory nature. The CTM Regulation does not contain a clear legal base for cooperation. Such a gap has been observed in cooperation programmes with national offices since 2005, and most recently, with the Cooperation Fund.

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<sup>94</sup> Article 3(2) TM Directive allows Member States to include, in addition to the mandatory absolute grounds for refusal listed in Article 3(1), further grounds for refusal into their national law, such as under point (d) concerning applications made in bad faith or trade marks resulting from such applications.

<sup>95</sup> Article 4(4) permits Member States to include, in addition to the mandatory relative grounds for refusal listed in Article 4(1) and (3), further grounds for refusal into their national law, such as under point (a) relating to trade marks having a reputation in the Member State which are applied or registered for dissimilar goods and services.

<sup>96</sup> See Article 5(2) of the TM Directive.

<sup>97</sup> MPI study, p. 30.

<sup>98</sup> MPI study, p. 32, para. 2.4.

<sup>99</sup> For details, see MPI study, e.g. p. 32, paragraphs 2.5 – 2.6, p. 49, paragraph 1.18 and p. 95, paragraph 2.148.

<sup>100</sup> MPI study, Part V, Chapter 1.

In fact, the current legal base for cooperation activities is very vague in the CTM Regulation<sup>101</sup> and non-existent in the Directive. This causes difficulties for national IP offices to participate in any cooperation projects and also to justify use of financial and/or human resources. In the case of OHIM, the inappropriate legal base has led to some problems when validating its expenditure on cooperation in budgetary terms.

### 3.2.2. *Problem relating to the low level of cooperation between trade mark offices*

The second main problem to be addressed within this impact assessment report is the low level of cooperation between the trade mark offices in Europe. As explained previously in the context part, there are many links between the CTM and national regimes with direct consequences for both trade mark users and IP offices, which require a certain level of complementarity between the two systems. To achieve and ensure this complementarity, OHIM and national IP offices should cooperate closely. At present, however, both the missing legal base for cooperation, as already mentioned in the context of the first problem, and other unfavourable circumstances, which are to be specified in the following, under 3.2.2.1 and 3.2.2.2, seriously hinder specific and targeted cooperation. Additionally, the existing level of legislative approximation also has an influence on the extent IP offices cooperate with each other. In fact, it is clear that the more divergences exist in the regulatory framework, the less IP offices feel encouraged and able to cooperate with each other. This means that all problem drivers analysed in this impact assessment report are largely interconnected with each other.

#### 3.2.2.1. Insufficient technical facilities of national offices

The first main driver (besides a lack of clear legal basis) being responsible for the low level of cooperation between trade mark offices are the insufficient technical facilities, particularly IT equipment, at some national offices. The lack of technical facilities prevents successful implementation of the envisaged cooperation projects.

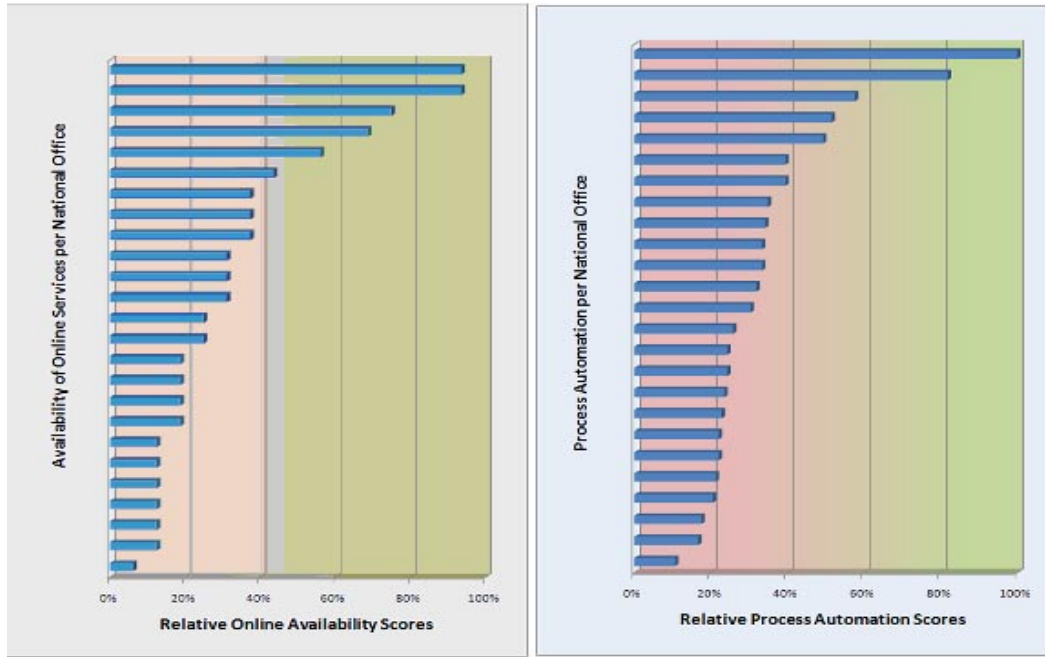
In this context one must refer to the available data on the state of IT development at trade mark offices in Europe, bearing in mind that the availability of electronic services at OHIM and national offices, as well as the level of automation of their internal processes, significantly influence their effectiveness and efficiency both internally and vis-à-vis their users. The available data were obtained in 2009 in the context of launching the Cooperation Fund. OHIM carried out, with the assistance of the consultancy Gartner, an extensive evaluation of the current state of art in IT at national offices. The evaluation assessed the degree of process automation (back office) as well as the availability of online services that are provided to users (front office).

The assessment revealed that the level of IT equipment is still low. The figure 3 demonstrates the availability of e-services at individual national offices (first chart) and their degree of automation (second chart and figure 4). These overviews show that only five offices provide more than 50% of their services online and that a majority of offices are still far from being automated, whereas none of the considered standard processes (TM examination, opposition, cancelation, similarity search etc.) is fully automated at more than seven national offices.

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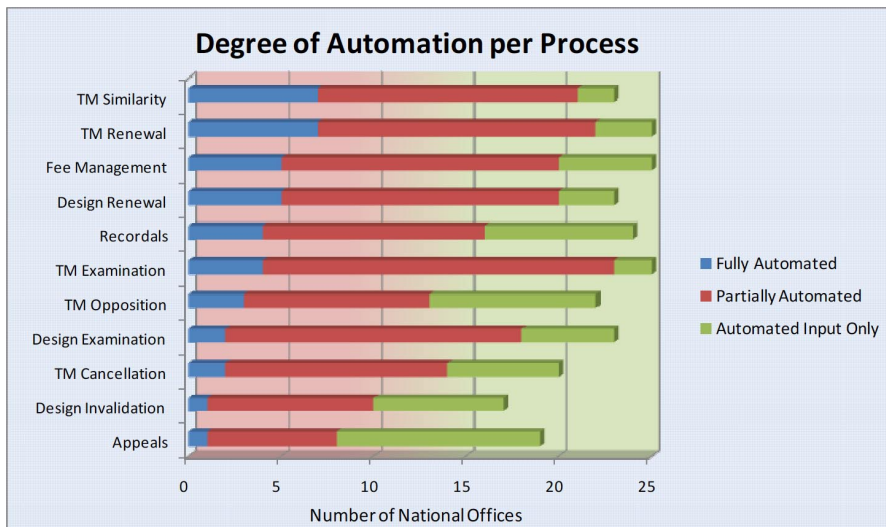
<sup>101</sup> Article 90 CTMR on 'administrative cooperation' reads: "Unless otherwise provided in this Regulation or in national laws, the Office and the courts or authorities of the Member States shall on request give assistance to each other by communicating information or opening files for inspection. Where the Office lays files open to inspection by courts, Public Prosecutors' Offices or central industrial property offices, the inspection shall not be subject to the restrictions laid down in Article 88."

**Figure 3: Availability of online services<sup>102</sup> & degree of automation<sup>103</sup> at national offices**



Source: OHIM data (2009), based on self-assessment of national offices

**Figure 4: Degree of automation**



Source: OHIM data (2009), based on self-assessment of national offices

3.2.2.2. Lack of sustainable financing in medium to long term

The second major driver is that most national offices do not possess the necessary financial resources required to develop, launch and run, in the long term, common tools (for example, joint trade mark databases with online search facilities). This is often the consequence of the vast majority of offices not having statutory financial autonomy enabling them to deploy

<sup>102</sup> The relevant e-services considered in this context are specified in Annex 3, point 9.3.1.

<sup>103</sup> The relevant assessed processes are specified in Annex 3, point 9.3.2.

resources without direct intervention from other governmental authorities. Due to such dependency, priorities cannot be fixed by the offices' management without considering domestic conditions or limitations set by ministerial authorities, which may influence the work plans of the national offices. As a result, offices may be led to concentrate resources on immediate domestic interests, as opposed to spending resources to fulfil cross-border business needs resulting from the functioning of the Internal Market.

For reasons of subsidiarity, the lack of financial autonomy of national IP offices is not tackled by this impact assessment, as it is for Member States to determine their institutional structures<sup>104</sup>.

However, it should be stressed that it is the lack of sustainable financing in medium to long term which represents the main problem in this context. Already today, the experience with the Cooperation Fund and other common projects has demonstrated the difficulty of some national offices to take part in these activities. This situation may worsen in the future due to economic turmoil, with the result that national offices will not be able to join all of these cooperation initiatives, because of lacking resources, and, in the worst case, abandon already running projects.

### 3.2.3. *Adverse effects*

Given the legal and other links between the CTM and national systems (see the context part "systemic coexistence" above), all trade mark applicants in Europe have to be familiar with both national and CTM legal systems to cope, for example, with possible opposition procedures.

Moreover, as explained in the context part above, many enterprises, including SMEs, make use of several systems in parallel, i.e. they opt for both the CTM and national protection, and/or register a number of national trade marks, as part of their company's branding strategy.

Finally, users of a single national system may also be negatively affected by the current situation. Indeed, the differences between the existing regimes, for example, the availability of certain procedures and tools, legal certainty as well as speed of registration, lead to an unlevel playing field which is to the detriment of all users of the European trade mark system, regardless of the geographical scope of trade mark protection they seek to obtain.

As a result of the above described current situation (see chapters 3.2.1.1 – 3.2.2.2), a company, planning its branding strategy, already faces a multitude of unevenly regulated regimes, which present applicants with different degrees of accessibility, difficulty, predictability<sup>105</sup> and speed in obtaining trade mark protection.

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<sup>104</sup> See also MPI study, p. 257, para 23.

<sup>105</sup> The term '*predictability*' is used to denote the ease with which trade mark applicants can successfully anticipate the result of the registration procedure, by predicting whether or not their trade mark will be granted. Predictability requires legal certainty (i.e. a set of clear and unambiguous legal rules) and a uniform, consistent and coherent interpretation of these norms by trade mark authorities. Predictability is greatly enhanced by the existence of common practices and tools, such as common guidelines, databases etc. and, in order to be sustainable in time, it requires the continuous cooperation between trade mark authorities across the EU, as well as their commitment to constantly strive for an ever increasing convergence of their practices. This is all the more so in view of the fact that trade mark examination often entails a high degree of subjectivity, which can only be eradicated, or at least diminished, by a set of clear and detailed assessment rules.

Similarly, when facing the need to enforce its rights or defend itself against alleged infringement, a company is faced with an overcomplicated regulatory framework which may give rise to legal uncertainty and increases dependency on external consulting. Moreover, since it is outdated in some areas<sup>106</sup>, the trade mark system in Europe does not provide, from the users' perspective, effective and efficient solutions which respond adequately to their expectations. However, even in case where trade mark offices already render advanced e-services, their tools and other practices often differ from each other<sup>107</sup>. In addition, trade mark offices neither work with coordinated (examination) guidelines, nor the same quality and performance standards. This influences their decision making practice, results in inconsistencies and negatively affects coherence, integrity and reliability of the European trade mark system as a whole.

Therefore, it is clear that the negative effects resulting from the divergent regulatory framework are further aggravated by the lacking convergence of practices, tools and decision making at trade mark offices in Europe.

Overall, the missing common tools and other reasons for incoherence in administrative practices are summarised in the below figure 5.

**Figure 5: Missing common tools and other problems**

<b>Problem</b>	<b>Examples</b>
<b>Missing common tools</b>	Common seniority database
	Online search facilities for trade marks of all IP offices in the EU
	Common classification database
	Tool on similarity of goods and services
<b>Discrepancies in tools and practices</b>	Non-harmonised quality/performance standards
	Non-harmonised forecasting methodology
<b>Inconsistencies in decision making</b>	Discrepancies in examination guidelines
	Few common trainings

Source: consultations with stakeholders and OHIM Cooperation Fund

Box 6 shows that the number and scope of practical implications due to the heterogeneity and divergences in trade mark tools and practices (including decision making) may be significant for a trade mark applicant/owner.

**Box 6: Examples of divergences in trade mark tools and practices**

When seeking trade mark protection for two identical trade marks at two IP offices the applicant will probably have to deal with different application forms (not always available in other languages than the language of that country), provide different information and data, face various classification practices (including use of two different lists of goods and services), experience a different speed of procedures and thus an overall length of

<sup>106</sup> Notably as regards trade mark tools and electronic services, e.g. databases, searching facilities etc., which are still not available at (all) IP offices – at present and as illustrated previously in figure 3, the development in this field is lagging behind the business environment of the 21st century which relies to a large extent on information technologies and where speed plays a key role.

<sup>107</sup> Source OHIM, based on the evaluation carried out with the consultancy Gartner, see under point 3.2.2.1.



the registration process as well as uneven quality of office's decision (which directly impact the risk of future invalidation of such a trade mark), and face many other differences.

Furthermore, the below case study (box 7) demonstrates how costly, lengthy and burdensome in terms of administrative procedures launching a new trade mark for a company may be, in particular for a SME, notably because of missing trade mark databases and common searching tools. The significant extra cost related to clearance of prior rights, under current circumstances inevitable because of lacking alternative solutions<sup>108</sup>, appears unjustified in today's digital society.

### **Box 7: Case study – lack of search facilities**

An Italian starter company F wants to sell its products EU-wide and has decided to protect its goods with two Community trade marks. Before applying for the CTMs the company would like to check whether identical or similar trade marks already exist at both Community and national level to avoid later oppositions against its application ("clearance"). The company has to check the 26 registers one by one. At OHIM and several national IP offices, trade mark registers are available online. In other offices, registers have not been (fully) digitalized yet, and are therefore less accessible for searches. This task is further complicated by the fact that some trade mark registers are available only in the respective national language. Given the complexity of such a task, the company F would not be capable of performing it on its own and needs to engage one or, more often, many external consultants which implies substantial additional cost.

To avoid cost and delay (the company is pressed to launch the product on the market to get a head start over competitors) the company decides to take the risk of applying for a CTM without clearing for prior rights. It pays 1800 EUR for the filing of two CTM applications. Unfortunately for the company, trade marks similar to the applications already exist in two Member States and their owners raise an opposition against the company's applications. The company engages a TM attorney (cost) to evaluate the situation and decides to abandon one of its CTM applications (in spite of the fact that it cannot recuperate the paid fee of 900 EUR) and to defend the other one. Even though a professional representation is not obligatory in opposition proceedings, the company does not feel able to deal with the procedure on its own and hires a law firm (further extra money).

At present, the opposition procedure is still pending. The trade mark in question has not been registered yet and company F has not put its goods on the market.

Thus, the low level of harmonisation of trade mark laws and procedures as well as the limited convergence of practices and tools at IP offices due to the low level of cooperation have a series of significant adverse consequences for industry: higher costs and delays; legal uncertainty; risk of unsustainable relationship between the CTM and national systems; limited accessibility of the trade mark systems.

First, there is a direct increase in costs, because industry is obliged to: (a) increase inhouse expertise so as to be in a position to internalise the knowledge necessary for effectively dealing with the various aspects of the system in all Member States, (b) seek expensive professional advice, often in the form of an international network of external consultants, especially when the issues involved require local legal expertise, and (c) develop and maintain overcomplicated data management tools in order to manage its trade mark portfolio efficiently, in particular since it has to deal with divergent rules as regards registration and

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<sup>108</sup> In this regard, the CTM Regulation and its provisions on searches appear outdated as they do not provide a satisfactory remedy to this problem. According to Article 38(1) CTMR the Office draws up a Community search report citing those earlier CTM which might be in conflict with the application. The CTM applicant can also request, against payment of a fee, a national search report from a Member State's IP office. This service, however, is offered currently only by 10 national offices. Furthermore, both search reports are elaborated only after the filing of a CTM, i.e. after the application fee was paid. The trade mark study confirmed that many users do not consider these searches reliable and therefore useful; see MPI study, p. 182.

renewal fees, term of protection, calculation of renewals, transfers, licensing, professional representation etc.

Second, the low level of harmonisation also raises costs indirectly, because legal uncertainty often encourages companies to resort to unnecessary multi-filing practices in case one kind of trademark protection proves to be easier to obtain or more efficient than another. Indeed, the research conducted by the institute INNO-tec has confirmed such practice by revealing that it is often cheaper for companies to apply for several trade marks, hoping that one will be registered, than to undertake an exhaustive search for all possible conflicts between marks on the OHIM and on national trade mark registers within the EU. As a result, firms often apply for more than one CTM at a time when they seek to ensure that they will have at least one trade mark in the register for a new product or service<sup>109</sup>. In addition the complexity and lack of transparency of the system leads to considerable delays in developing an appropriate trade mark strategy and, thus, slows down the marketing of new products and services and hampers the competitiveness of the company to a significant extent.

Third, the lacking harmonisation of trade mark procedures<sup>110</sup> as well as the limited use of IT tools contribute to appearance of delays in registration and other proceedings. The consultations with national offices revealed that the average time for registration varies considerably: trade mark protection can be obtained within the limits of 3 to 6 months in the "fastest" offices whereas it may take up to several years in others<sup>111</sup>. Similar results were obtained for average times of opposition and cancellation procedures<sup>112</sup>. As for users, they repeatedly emphasised<sup>113</sup> the importance of processing times for the protection of their IP rights. For example, a trade mark registration within a year or a year and a half which is currently the average across the EU may be perceived as being excessively long from the perspective of a company's marketing strategy where delays of several weeks or months significantly matter. Accordingly, not only the currently "slowest" but all IP offices should aim at decreasing the speed of their processes.

Fourth, legal uncertainty increases the exposure to legal risks, especially if a company, due to reduced budget or time pressure<sup>114</sup>, decides not to forego an exhaustive EU wide priority search (which, due to the current lack of transparency and search facilities, can prove quite costly) before securing trade mark rights. Moreover, and more importantly, the diversity of prior rights opposable to a later trade mark in different territories may lead to strategic errors and could result in: (a) loss of trade mark rights (and of the expense that was incurred in order to secure them in the first place); (b) civil or even criminal liability and, by extension, high litigation costs and attorney fees; (c) the eventual need to redeploy the company's marketing

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<sup>109</sup> MPI study, p. 43, paragraph 4.13.

<sup>110</sup> In particular, as regards availability of administrative opposition and cancellation procedures – see examples given in box 3 above.

<sup>111</sup> See MPI study, p. 13, paragraphs 1.30 – 1.31, including a full overview of average registration times at individual offices. While most of national offices reported that the average registration time falls in the limits of either 3 to 6 months (11 offices) or 7 to 18 months (12 offices), in two offices the registration takes up to 2,5 and 4 to 5 years, respectively.

<sup>112</sup> See MPI study, p. 20, paragraph 1.46, including a full overview of average registration times at individual offices.

<sup>113</sup> The consultation via the EBTP (see footnote 21) revealed that more than 90% of the replying companies consider speed to be a very important or fairly important aspect when assessing the work of an IP office. This view was subsequently and widely manifested by trade mark users throughout the whole evaluation process.

<sup>114</sup> See above case study in box 7.

schemes and suffer additional costs, in case a given product has to be withdrawn from a specific territory or has to be re-branded in order to avoid legal conflict with existing rights of third parties.

Fifth, the different standards applicable in different jurisdictions lead to an increased danger of forum shopping, since companies are often tempted to use one system instead of another, not on the basis of their marketing needs, but rather on the basis of convenience criteria like the ease or speed with which trade mark registration can be obtained in a particular territory<sup>115</sup>. For example, it may be known among trade mark users that the examination practice is more rigorous in one Member State than in another, and that, consequently, the trade mark protection can be obtained more easily (or at all) at the latter IP office. The same is valid for the diverging classification practice of trade mark offices<sup>116</sup>, which, not only involves a great deal of legal uncertainty but may also encourage such forum shopping<sup>117</sup>. Moreover, the average time for registration and/or availability of an administrative opposition and cancellation proceedings, including their quality and speed, may play a role when deciding on the use of one trade mark system or another. Since all the above considerations significantly matter for a branding strategy, they may be eventually more important from the applicant's perspective than the territorial coverage originally intended. As a possible consequence thereof, the situations of some national offices might become unsustainable as they may not be able to keep pace with the development elsewhere in Europe. This would go against the intention of the EU legislator whereby national trade mark systems shall not be replaced by the CTM regime. Consequently, the fundamental principle of coexistence (including harmonious complementarity and free choice) between CTM and national trade mark system, which is so much supported by trade mark users, could be put at risk.

The above mentioned deficiencies not only limit the accessibility of the systems of trade mark protection, involve a great deal of legal uncertainty to cope with, and put the complementary relationship between the CTM and national trade mark systems at risk, but obviously also distort the level playing field for companies, with further negative consequences on the competitiveness of EU companies and the competitiveness of the EU as a whole.

It should also be noted that the above effects are more acute for SMEs and individual applicants, who are less capable of hiring expensive teams of international professional consultants to cater for their filing needs. This leads to discrimination and artificial barriers, since small companies find it increasingly difficult to compete with big multinationals. Characteristically, the INNO-tec report has come to the conclusions (a) that, overall, larger firms are more likely to convert a trade mark application into a registered trade mark and (b) that, already by 2003, large firms were less likely to face oppositions to CTM applications than smaller firms<sup>118</sup>.

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<sup>115</sup> For further indications as regards the adverse effects of low harmonization, see in Annex 4 to the MPI study (footnote 27) the contribution of European Community Trademark Association (ECTA) of 14 January 2010, pages 2-5.

<sup>116</sup> See explanations and examples provided above under 3.2.1.1, point a).

<sup>117</sup> So expressly the General Advocate in his opinion of 29 November 2011 in Case C-307/10, paragraph 42.

<sup>118</sup> See INNO-tec report, pages 27-32.

### 3.2.4. Baseline scenario

Without appropriate changes the current sub-optimal conditions for European businesses and the under-developed complementarity between the various trade mark systems are not likely to improve. On the contrary, the existing divergences and inconsistencies at IP offices in terms of practices and tools are likely to increase to the detriment of trade mark users.

It is true that there have been some promising attempts to find practical solutions for facilitating cooperation between OHIM and national trade mark offices.

Since 2005, a scheme for bilateral cooperation agreements between OHIM and national offices has been in place. These arrangements are aimed at financing specific information and advice services, relating to the CTM, provided by national offices, and may cover costs related to fairs, exhibitions and publications as well as organisation of seminars and workshops. In 2005, when the scheme started, 13 national offices participated; in 2011, all 25 offices were involved in some of the eligible activities.

The bilateral agreements have represented the first structured effort to enhance cooperation between OHIM and national offices. However, their bilateral nature and the kind of activities included in the agreements mean that their contribution to enhanced convergence is limited. Therefore, many multilateral<sup>119</sup> cooperation projects have been launched in 2010/2011 as part of the € 50 million OHIM Cooperation Fund. The creation of the Fund was agreed by OHIM governing bodies and the management of the Office, in September 2008, together with other measures, aimed at better balancing OHIM's budget<sup>120</sup>. The funds which stem from a budgetary surplus of OHIM are available for common actions between OHIM and national offices and should be used for the projects closely related to harmonization and the protection, promotion and/or enforcement of trade marks and designs<sup>121</sup>. In legal terms, the Cooperation Fund is a line in OHIM operational budget; accordingly, any related expenditure is governed by the Financial Regulation of the Office<sup>122</sup>. In addition, an advisory body (Management Board) has been established in order to assist the President of the Office, who is the authorising officer, on matters relating to the Cooperation Fund. The OHIM governing bodies (i.e. the Administrative Board and the Budget Committee<sup>123</sup>) are regularly informed, both by the Office and by the Management Board, about the selection of projects and their implementation. Finally, users are associated with the operation of the Fund.

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<sup>119</sup> Two of these multilateral projects, namely the "TM View" and "Euroclass", started already in 2006 but were later on integrated into the Cooperation Fund.

<sup>120</sup> According to the CTM Regulation, the budget of the Office should be balanced. However, over a number of years, OHIM was accumulating a significant surplus. The measures agreed in September 2008 were twofold. As regards the use of the accumulated surplus, these were the establishment of a reserve fund (currently kept at € 200 million) and the creation of the above Cooperation Fund. With a view to balancing the annual budget, it was agreed to reduce OHIM fees (applicable as of May 2009). Moreover, the idea of distributing a proportionate part of OHIM renewal fees to national IP offices was outlined in the context of the September 2008 agreement.

<sup>121</sup> See at <http://oami.europa.eu/ows/rw/pages/QPLUS/OHIMCooperationFund.en.do>.

<sup>122</sup> OHIM financial provisions are adopted, in accordance with Art. 143 CTMR, by the OHIM Budget Committee and aligned as much as possible with the financial regulations of the EU. See Regulation No CB-3-09 of the OHIM Budget Committee of 17 July 2009 laying down the financial provisions applicable to the Office ("Financial Regulation").

<sup>123</sup> The Administrative Board and the Budget Committee (ABBC), both composed of one representative of each Member State and one representative of the Commission and their alternates. Each representative has one vote except for the Commission which does not have the right to vote.

The Cooperation Fund initiatives include, for example, the project TMView, aimed at providing online search facilities connecting trade mark databases of national IP offices and of OHIM<sup>124</sup>, and the Euroclass project, used for establishment of a common classification database. The Cooperation Fund is also aimed at developing common software tools and at contributing to achieving full automation and e-business administration at all European IP offices (for the state of play in this area see chapter 3.2.2.1 above). The trade mark users very much welcome the initiatives under the Cooperation Fund and emphasise the importance of their quick and full implementation<sup>125</sup>.

At the same time, this recent experience reveals the clear shortcomings of the current legal, technical and financial framework for cooperation, as described above, and also confirms the shortcomings of cooperation achieved on a voluntary basis. It has to be stressed in this context that any common project can bring the desired results only if all IP offices participate. As an example, the common databases for searching purposes can be mentioned. Given the unitary character of a CTM (see explanation in box 7) such databases are useful only if they enable a trade mark applicant to check upfront all relevant registers with all possibly conflicting rights. Even though the preparation of the Cooperation Fund work programme followed a bottom-up approach, seeking views of all stakeholders, and having the support of both national offices and users, eventually only three out of 18 projects have been joined by all IP offices. As for the other multilateral projects<sup>126</sup>, the participation rates vary between 10 and 20 offices per project with a significantly lower implementation rate. Moreover, the involvement in a particular initiative depends at present on the choice of the office in question. Therefore, it cannot be guaranteed that those offices that would most benefit from a particular project will indeed participate.

It follows from all the above that despite existing cooperation initiatives, sustainable benefits are not secured. The current baseline thus has a double cost: the cost of possibly wasting the money and effort already invested in these projects and the loss of possible benefits if existing cooperation initiatives remain optional, uncoordinated and unsustainable.

It should be added that with regard to bilateral cooperation agreements between OHIM and national offices, it has taken 6 years to involve all EU offices in a bilateral mechanism representing a total investment of € 7 million. Because of the reasons explained above (see under 3.2.2.2), this mechanism is not sustainable per se, and therefore, results cannot be expected to stay. Such investment will definitively be lost without more stringent cooperation obligations.

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<sup>124</sup> The TMView has been operational since 2010 and currently provides full access to registers of OHIM, WIPO and of the offices of the following countries: Bulgaria, Benelux, Czech Republic, Denmark, Estonia, France, Italy, Lithuania, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

<sup>125</sup> As regards TMView, see the support expressed, for example, by AIM, ECTA, ICC and Marques in Annex 4 to the MPI study, p. 10-11, 108+115, 169 and 226, respectively; as for seniority databases, see, for example, contributions by ECTA, EFPIA and INTA, pages 108, 130 and 187, respectively.

<sup>126</sup> As regards the bilateral arrangements, where the involvement of all 25 offices was recently achieved, it should be clarified that these agreements are substantially different from the multilateral ones. They are not shared among several offices and should rather be seen as delegation of some services from OHIM to national offices. Therefore, the high participation rate should not be overestimated and perceived as a new trend in the area of cooperation, raising unfounded expectations as regards the other common projects.

As far as the Cooperation Fund is concerned, OHIM has conducted a “cost-benefit” analysis (CBA) of the investment represented by the various activities included. Details are to be found in Annex 8, which contains an explanation of how estimates for potential benefits generated by the Cooperation Fund projects have been derived and the underlying assumptions. In assessing benefits, the method applied was the “social cost-benefit analysis” which offers a methodology for “monetising” benefits which are not purely financial (such as improved service by a governmental institution).

Given the fact that these benefits will not materialise in the absence of further EU action, they are presented within the impact analysis of the relevant policy solution(s) (see sections 6.4.1.1. and 6.4.1.2.).

Some benefits of this programme are being generated already. For example, TMView: since its entry into service until March 2011, it has been used to search for 471,683 trade marks, meaning, in a 12-month period, some 257,282 trade marks.

The cost of searching this number of trade marks through a commercial provider<sup>127</sup> would have been more than € 500,000. This is part of the benefit derived from TMview: a reduction of approximately € 2 per trade mark searched. In other words, TMview could already serve to save businesses, in one year, € 0,5 million when searching for 0,25 million trade marks. It should be noted that this is a very conservative estimate since it ignores the fact that usage of TMView is increasing as more and more countries are added to the tool (all 25 EU IP offices are projected to be in the tool by the end of 2012), thus making the tool more useful and increasing the savings business can realise by using it.

The first-cut CBA indicated, that over a period of 10 years (starting from the first investment), the investment in the Cooperation Fund projects could yield some € 73 million in benefits for both users and IP offices. These benefits were monetised based on benefits that are most valuable for end users, such as reduced processing times or greater predictability in the service received. The CBA assessed the value that users would attribute to the improvements deriving from the projects in monetary terms, using a "willingness to pay approach".

The analysis identifies the following as the major benefits: improvement in efficiency (avoidance of errors in offices); enhanced IP protection for end users (easy to define a strategy and track portfolio); saving in legal fees; full range of business improvements possible via standardized procedures, improved transparency and predictability; easy access to information and improved consistency across the members of the network. Each project of the Fund has been analysed in how it contributes to yielding these expected benefits (for example, the Future software project of the Fund could yield some € 45 million in realised benefits to users and IP offices on a Net Present Value basis).

However, these benefits will actually represent a cost if the limited and voluntary cooperation capacity baseline continues as it is. In other terms, these benefits will represent “lost opportunities” and, therefore, concrete costs of the existing baseline, because the sustainability of the investment of cooperation requires that the national IP offices have the long term capacity to secure resources in order to properly run, maintain, repair and keep up to date the systems and solutions developed by the Cooperation Fund (e.g. IT tools). If not, the expected benefits will not materialise.

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<sup>127</sup> For purposes of this CBA, the rates for SAEGIS’ online searching have been considered (Source: <http://trademarks.thomsonreuters.com/price-list>, being the price 2,65 US Dollars per search.).

This is why the cost of the current “low cooperation” baseline is captured in the potential loss of benefits that the initial investment is expected to yield.

It should also be noted that the risk of upsetting the overall balance of the system is acute, in the sense that even if only a limited number of national IP offices fail to finance the continued operation of their part, the common tools will underperform as a whole. For instance, even if a small number of national IP offices fail to update their part of TMView, all the benefits stemming from a free, rapid and reliable EU-wide search or trade mark clearance will immediately disappear, since the timeliness and reliability of the search remains dependent on the slowest and less reliable office. In other words, the failure of only some offices may effectively cancel the cumulative benefits from the investment of all other offices put together.

In addition, it is clear that the further national IP offices (due to their non-involvement in cooperation projects with OHIM) fall behind in terms of automation, timeliness, reliability, predictability and user-friendliness, the less attractive they become compared to the CTM system, with the risk that trade mark owners cease to use them altogether, opting for a CTM instead. In the long run, this may threaten the viability of dysfunctional national systems, contrary to the goal of preserving national trade marks alongside CTMs in a system of harmonious and complementary coexistence which ensures the principle of free choice.

Finally, the current status of harmonisation already achieved at the international level is not sufficient (i.e. EU action remains necessary). The main international treaties administered by WIPO destined at simplifying and harmonizing the administrative procedures in respect of national applications (in particular Trademark Law Treaty (TLT), Singapore Treaty on the Law of Trademarks, Madrid Agreement and Protocol, see also section 5.1.1 below and footnote 134), either fall short from dealing with procedural issues in a comprehensive manner, or have not been ratified by all the Member States (for instance, whereas TLT, which mainly seeks to harmonise formal requirements has been ratified by 18 Member States, the Singapore Treaty, which is aimed at enlarging and advancing this harmonisation further, has only been ratified by 13 Member States).

Furthermore, while “harmonization” initiatives have been launched under the aegis of WIPO, none of them have resulted in the type and depth of results that the OHIM-led initiatives will yield (e.g. no global trade mark search tool currently exists that combines trade mark information from major trading partners in the world, users having to make recourse to commercial services for covering such needs).

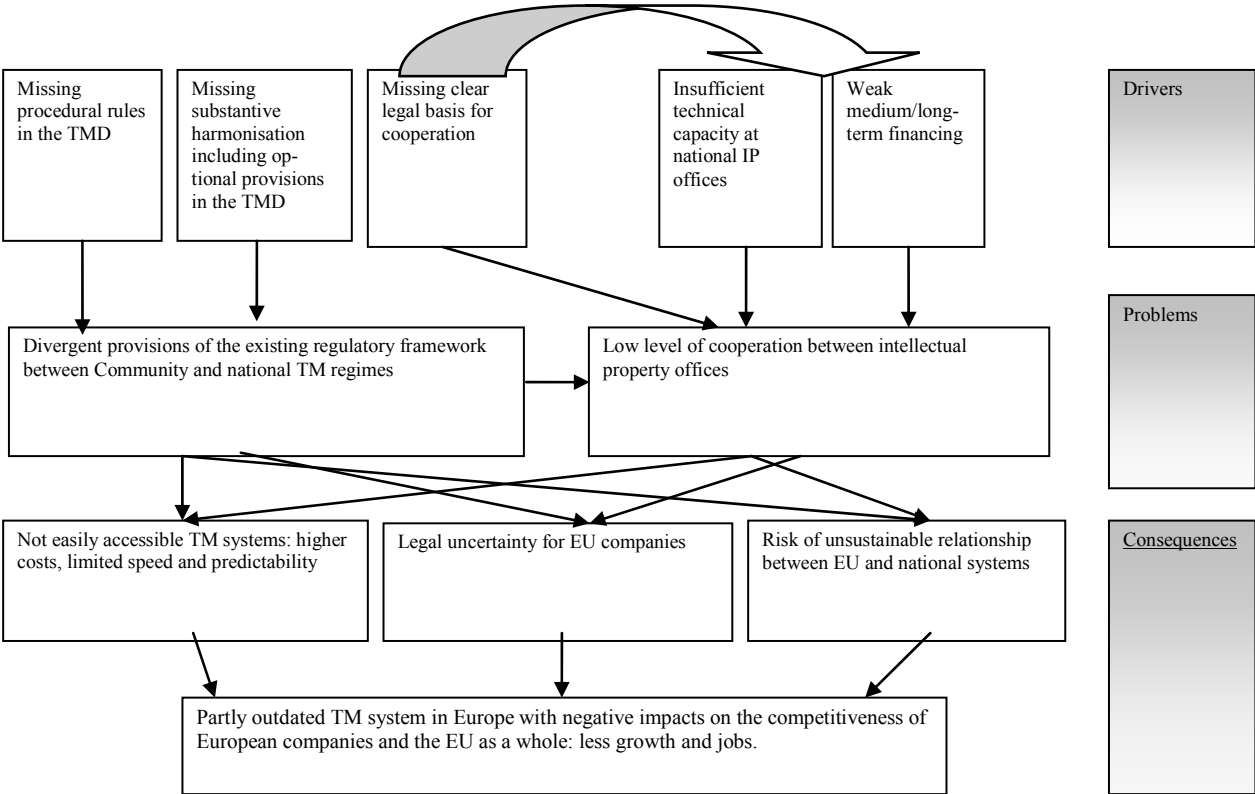
However, by developing tools like TMview, the European Union paves the way for more global convergence: a number of third countries (US, Japan, Korea, Russia, etc.) are exploring how to use TMview functions and render their trade mark data accessible through such a tool. This would render the tool even more attractive, thus generating further benefits to right holders: the more countries make their data accessible free of charge, the greater the savings realised by businesses in search costs and associated effort.

For the sake of completeness, the present baseline scenario takes into account the positive synergies that may be expected by the takeover of the European Observatory on Infringements of Intellectual Property Rights by OHIM. In fact, the Observatory's impact assessment identified some similar problems in relation to IPR enforcement, for example,

insufficient coordination and exchange between responsible authorities in the Member States on best practices as well as insufficient use of technologies to prevent counterfeiting<sup>128</sup>. Accordingly, the Observatory Regulation<sup>129</sup> entrusts the Office with some tasks and activities in this regard, aimed, for example, at providing mechanisms which help to improve the online exchange, between Member States' authorities working in the field of intellectual property rights, of information relating to the enforcement of such rights, and fostering cooperation with and between those authorities (see Article 2(1)(g)).

It can be expected that there will be some positive interference between OHIM tasks carried out under the Observatory Regulation and the cooperation activities considered in the present report, for example, use of the established networks with national IP offices and/or of developed patterns for cooperation projects. Such an interference, however, should not be overestimated given the different subject matter of both initiatives (IPR enforcement versus core business, comprising the registration and administration of Community Trade Marks and Community Designs).

**Figure 6: Problem tree**



<sup>128</sup> See the document referred to in footnote 17; chapter 3.1.3, p. 8, and chapter 3.1.6, p. 9, respectively.  
<sup>129</sup> Regulation (EU) No 386/2012 of the European Parliament and of the Council of 19 April 2012 on entrusting the Office for Harmonization in the Internal Market (Trade Marks and Designs) with tasks related to the enforcement of intellectual property rights, including the assembling of public and private-sector representatives as a European Observatory on Infringements of Intellectual Property Rights



### **3.3. The EU's right to act**

In the context of the establishment and functioning of the internal market, Article 118(1) TFEU empowers the European Parliament and the Council to establish measures for the creation of European intellectual property rights to provide uniform protection of intellectual property rights throughout the EU, including the setting up of centralised Union-wide authorisation, coordination and supervision arrangements.

Furthermore, Article 114(1) TFEU 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.

The CTM is a self-standing EU intellectual property title which has been created by an EU Regulation. In as much as the analysis carried out as part of this impact assessment proved that the modification of certain provisions of the Regulation is necessary in order to improve and streamline the CTM system, only the EU legislator is entitled to make the necessary amendments. The same goes for (simultaneously) necessary amendments of corresponding provisions which form already part of the TM Directive.

Moreover, taking into account 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, it is 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 TM Directive can only be taken at EU level, all the more so given the need to ensure coherence with the CTM system.

It has to be considered in this context that the CTM system is embedded in the European trade mark system which is built on the principle of coexistence and complementarity between national and Union-wide trade mark protection. While the CTM 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 TM 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 trade mark protection in Europe with substantially similar substantive rules and at least principal procedural provisions which are compatible.

Finally, it needs to be noted that OHIM is a regulatory agency of the EU with legal, administrative and financial autonomy, which was created by the Council to administer the CTM system (and later also that of the Community design).

As identified above, there are certain unfavourable framework conditions which impede effective cooperation between OHIM and national IP offices even though such cooperation is essential to contribute to ensuring complementarity and interoperability between the CTM and national trade mark systems. It is clear again that a solution for this problem can only be found at EU level, including acknowledging the supporting and coordinating role OHIM has to play in this context.

The above needs for EU action were also expressly recognised by the Competitiveness Council in its conclusions of May 2010 on the future revision of the trade mark system in the European Union<sup>130</sup>.

#### **4. OBJECTIVES**

##### **4.1. General, specific and operational objectives**

General objective: To modernise the trade mark system in Europe, thereby enhancing EU companies' competitiveness by

- Improving accessibility of TM systems = decrease costs; increase speed and predictability
- Providing legal certainty for all businesses in the EU
- Ensuring coexistence and complementarity between EU and national systems

Specific objectives:

- Increase convergence of the TM Directive with the CTM Regulation
- Increase level of cooperation between OHIM and national trade mark offices

Operational objectives:

- Achieving greater approximation of trade mark procedures and substantive issues
- Providing adequate regulatory incentive for cooperation
- Technical cooperation capacity building at national TM offices
- Secure long term financing for cooperation activities.

##### **4.2. Consistency with existing EU policies and horizontal objectives**

It follows from the above that, in addition to the aim of taking the level of legislative harmonisation of the EU trade mark system a decisive step forward in terms of consistency, efficiency and legal certainty, the objective of the review is to set the conditions enabling the creation of a true cooperation network between OHIM and all national offices. This cooperation network will permit further improvements of the Internal Market conditions by reinforcing interconnection and interoperability among national trade mark systems (being by definition territorial in scope) and between them and the CTM system, and, by facilitating access to the network for all users (notably SMEs). It is clear in this context that a truly integrated market requires a seamless connection between all its component parts. To support this, relevant framework conditions need to be both created (legal base), equipped (tools) and supported (funding).

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<sup>130</sup> See under 3.2.1 above, last paragraph, and, under 6.1.2 below, last paragraph.

As regards coherence with other EU policies, it should be noted that the EU has taken such an approach for policy intervention in areas such as, for example, infrastructure and because of the need to close interoperability gaps. This is why the Trans-European Network (TEN) was created. Cross-border physical interconnections were lagging behind in the EU. Missing links between national infrastructure components caused dividing lines to grow between centre and peripheries. These effects were the result of authorities tending to prioritise projects of primary national relevance, while leaving cross-border projects as secondary priorities. The EU intervention behind the “TEN” policy provides the framework conditions to overcome such effects, in terms of facilitation of investment through sharing best practices and direct funding facilities.

It can be argued that the current low cooperation, derived from the cooperation capacity problem of members of the EU network, between coexisting trade mark systems, is causing systematic gaps similar to those that the TEN tries to overcome. Therefore, creating the framework conditions to overcome the results of limited cooperation capacity are at the core of an intervention to overcome the costs of the current baseline scenario.

In addition, the above objectives are clearly in line with the 2008 "Small Business Act", the 2008 Communication on an Industrial Property Rights Strategy for Europe (including the announcement concerning the accession to the Singapore Treaty on the Law of Trademarks), the 2010 Commission Communication Europe 2020 and the 2011 IPR strategy<sup>131</sup>. Moreover, these objectives conform to the Europe 2020 agenda, especially with the idea to promote smart and inclusive growth. They aim at making full use of information and communication technologies in trade mark offices. They try to ensure that once innovative ideas are turned into new products, trade marks can help secure protection for these. This is particularly relevant for SMEs, which make up 99% of all EU businesses and in the past 5 years have created 80% of the new jobs. Therefore, if this trend continues, these objectives should contribute indirectly to fostering a high-employment economy delivering territorial and social cohesion.

## 5. IDENTIFICATION OF POLICY OPTIONS

In the following, various options are explored with a view to the achievement of the operational objectives identified in section 4.1.

### 5.1. Divergent provisions of the existing regulatory framework

#### 5.1.1. *Approximation of trade mark laws and procedures*

When it comes to consideration of available policy options the necessary level and focus of approximation of national laws should be assessed. The options under consideration are the following:

- (1) No further approximation of trade mark laws and procedures (**baseline scenario**).
- (2) Expansion of the approximation of national laws and their coherence with the CTM system. This option ("partial approximation", **option 2**) would encompass a selected

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<sup>131</sup> For reference of all the mentioned communications see section 1.2 'political context' above.

number of trade mark law aspects which were kept out of the "first" harmonisation in 1989, namely<sup>132</sup>

- Alignment of the principal procedural rules with the relevant provisions of the CTM Regulation, including those where existing divergences cause major problems from the users' perspective and which are deemed indispensable<sup>133</sup> for creating a harmonious, complementary system of trade mark protection and administration in Europe, taking also into account relevant harmonisation already achieved at least partly through international instruments<sup>134</sup> (in particular Trademark Law Treaty, Singapore Treaty on the Law of Trademarks, Madrid Agreement and Protocol). The areas where further approximation and coherence of trade mark laws at national and Community level is urgently needed were identified during the 2010/2011 consultation process and some examples<sup>135</sup> are described above in section 3.2.1.1 of the problem definition. Users<sup>136</sup> identified the incoherence of these procedures as the most problematic and thus in a need for alignment.
- Alignment of further substantive law aspects in accordance with the provisions of the CTM Regulation, which are not yet addressed in the TM Directive, unless differences are justified by important legal principles and traditions in Member States<sup>137</sup>.
- Reducing the number of optional provisions in the TM Directive in alignment with the CTM Regulation and to the extent appropriate by rendering them mandatory.

(3) Full approximation of national trade mark laws and procedures (**option 3**). This approach would be based on option 2, encompassing its above components, but include all remaining aspects of substantive trade mark law and procedures<sup>138</sup>.

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<sup>132</sup> For details see list of proposals in Annex 2, point 9.2.1.

<sup>133</sup> The harmonisation of the principal procedural rules is also proposed by the MPI study (see p. 232, point 2.49), but an exception is made in respect of ex-officio examination of relative grounds (see issue described above under 3.2.1.1, point (c)). In that regard, the study admits that goods reasons speak in favour of abandoning such examination all over but that Member States should nevertheless be entitled to continue it. By contrast, the presented option of partial approximation would include the alignment of this issue, being considered indispensable for creating a harmonious and complementary European trade mark system overall, so that ex officio examination of a trade mark application is limited to absolute grounds both at CTM and national levels. This would be in line with the current trend (e.g. reflected in the corresponding amendment of the Spanish trade mark law in 2001, the similar modification of the UK law in 2007 and the recent change of the Bulgarian law), which is to abandon ex-officio examination of relative grounds in order to create a level playing field between the CTM and national systems and so also to ensure that businesses, that opt for the national registration procedure are not treated worse than those that choose the CTM route.

<sup>134</sup> This harmonisation at international level covers inter alia the filing date requirements of a trade mark application, the possibility to divide a trade mark application or registration, the classification of goods and services, and the duration and renewal of registration. None of these issues are currently addressed in the TM Directive (see listed in Annex 2 under point 9.2.1.1).

<sup>135</sup> These areas are classification, ex-officio examination of relative grounds, opposition and cancellation.

<sup>136</sup> These issues were in particular addressed in the submissions of user organisations in the context of the MPI study and at the Commission hearing on 26 May 2011.

<sup>137</sup> As already mentioned under 3.2.1.2 this is also favoured by the MPI study (see footnote 93).

<sup>138</sup> For example the alignment of all deadlines, fee structures, representation before the office, examination of formal requirements, publication of the application, content of a notice of opposition, examination of

When it comes to options 2 and 3 it should be furthermore assessed how such an approximation could be pursued. Even though this question touches upon the choice of legal instrument (chapter 7), it is considered that this issue is of crucial importance to addressing the effectiveness and efficiency of both policy options and should be tackled here.

- It could be envisaged that the approximation would be carried out on a voluntary basis (**sub-options 2a** and **3a**, respectively). In such a case, there would be no further approximation in formal terms, i.e. no changes to the harmonising TM Directive. National offices would be encouraged, by non-legislative means, to align their trade mark laws and procedures. To this end, the Commission would issue a Communication (Recommendation) and/or Member States would agree to approximate their national laws on a voluntary basis.
  - Alternatively, the approximation could be mandatory, i.e. driven by an EU legislative measure which would oblige Member States to align their trade marks laws (**sub-options 2b**<sup>139</sup> and **3b**, respectively).
- (4) A single trade mark rulebook (**option 4**) which would entirely replace Member States' trade mark laws by setting uniform rules across the EU. As a result, all national IP offices would apply identical provisions when it comes to their national trade marks. However, this option would be clearly disproportionate in view of the demonstrated needs. It would not take into account at all the historical development of laws in Member States and would unduly deprive them from any kind of flexibility at national level. Accordingly, this option will not be considered any further.

#### 5.1.2. *Missing clear legal basis for cooperation*

The options for consideration are the following:

- (1) No specific legal base for cooperation between IP offices in Europe (baseline scenario).
- (2) Establish a clear legal base allowing national IP offices and OHIM to cooperate with each other (optional cooperation) with the aim of harmonising practices and developing common tools and databases (including identification and sharing of best practices etc.).
- (3) The same as in option 2, except that the legal base would oblige national offices and OHIM to cooperate with each other (obligatory cooperation).

## 5.2. **Cooperation capacity building**

Apart from the question of the missing clear legal basis, which due to its regulatory nature is already dealt with in the context of existing divergences of the legal framework, the problem definition chapter identified inappropriate framework conditions, in terms of technical

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the opposition, multiple oppositions, registration of the trade mark including certificate of registration, appeals etc.

<sup>139</sup> For details on the proposed amendments see Annex 2, point 9.2.

equipment and financial resources, as the main obstacles for cooperation between OHIM and national offices. Accordingly, the below consideration of available policy options focusses on how to strengthen the technical capacity of IP offices to cooperate and how to secure long term financing of their common activities.

#### *5.2.1. Technical facilities*

The options with regard to missing facilities and tools are the following:

- (1) Leave it for each IP office to procure and develop the required facilities and tools. This option corresponds to the “status quo”.
- (2) Make possible that the required facilities and tools are accessible to IP offices within a framework of voluntary cooperation which pursues the very aim of harmonising practices and developing common tools (including common software tools and standards and practices required to achieve convergence and interconnectivity between procedures and systems etc.).
- (3) Same as option 2, but ensure that the required facilities are accessible through an obligatory cooperation framework. This option overlaps with the respective 3<sup>rd</sup> options retained with regard to the missing clear legal basis and the financing of cooperation activities.

#### *5.2.2. Funding in general*

The options for financing cooperation activities between OHIM and national offices are the following:

- (1) Under this first option, each national office and OHIM would bear the entire cost of their cooperation activities.
- (2) Alternatively, the cooperation activities of national IP offices and OHIM would be financed from the EU budget. An appropriate legal base would be established according to Article 310(3) of the Treaty on the Functioning of the European Union, on which basis a new budget line would be created as part of the DG MARKET budget for the period of the relevant multiannual financial framework.
- (3) Finally, the cooperation activities would be financed from the budget of OHIM. A part of OHIM annual revenue would be dedicated to financing common cooperation projects with national IP offices. Such a financial mechanism would cover both the setting up and running cost on a long term basis. In this context, it should be recalled that, in view of the revision of the CTM Regulation, the Commission was invited by the Competitiveness Council to establish a legal basis for distributing a certain amount of OHIM income to national IP offices to be used for specific, trade mark related purposes. Should this last option 3 be retained (see section 6.3.2.1), the present IA report would also assess, when comparing the available options and analysing the impact of the selected one, the means and source of funding within the OHIM budget (see section 6.3.2.2).

## 6. COMPARISON OF OPTIONS AND ANALYSIS OF IMPACTS

In this section, the following score system is used for the analysis of impacts of the options:

- Positive effect: from slightly positive (+) to strongly positive (++)
- Negative effect: from slightly negative (-) to strongly negative (--)
- Uncertain result (?)
- No impact: 0

### 6.1. Divergent provisions of the regulatory framework: comparison of options

#### 6.1.1. *Approximation of trade mark laws and procedures – comparison of options*

The current scope of harmonisation of trade mark laws in Europe is significantly restricted as the Directive follows a minimum harmonisation approach by limiting its scope to substantive law aspects, including several optional provisions (**baseline**). However, the persisting negative effects associated with this option have been clearly described under the 'problem definition' section above.

The 2010/2011 consultation clearly revealed the most relevant areas for further harmonisation. Accordingly, the approximation exercise should focus on the most significant divergences in trade mark laws and procedures causing problems to the users at both national and EU levels, as described above in section 5.1.1 (**option 2**). Since only a limited scope of changes would need to be done in Member States' laws (usually in the form of mere adjustments of existing provisions and not by creating new rules), it is expected that the alignment exercise could be done within a reasonable period of time. Furthermore, to the extent necessary such an approximation of Member States' laws could be pursued together with identical modifications to the CTM regime which would ensure coherence between the two systems. This was not possible at the time of the adoption of the TM Directive as the CTM Regulation was still at a draft stage and was only adopted 5 years later. In the meantime, the CTM system has proved well its merits and should therefore serve, as much as possible and appropriate, as a benchmark for future alignment of national laws<sup>140</sup>.

Under **option 3**, the scope of the approximation exercise would not be limited to particular aspects of trade mark laws but would encompass the whole range of provisions on substantive law, procedures and practices. Accordingly, the trade mark systems in Europe would evolve from partially coherent and aligned to fully harmonised regimes. However, the analysis of existing problems (chapter 3.2.1) has not demonstrated an apparent need for a full scale approximation of all trade mark provisions. As a result, option 3 would be disproportionate to the actual needs. Moreover, such a scenario would necessitate far reaching changes at Member States' level, involving not only amendments to national trade mark laws but possibly also to civil, administrative and other laws.

When it comes to the implementation of options 2 and 3, one could consider that the desired approximation of trade mark laws and procedures could be achieved without a legislative intervention at the EU level. In this case, Member States would have to agree on a common

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<sup>140</sup> See MPI study and its Annex 4, as referred to in footnote 27.

approach/benchmark and align, accordingly, their laws and procedures on a voluntary basis (**sub-options 2a and 3a**). However, the achievement of the operational objectives identified in section 3 is highly unlikely. Firstly, such a process would be very lengthy given the wide range of existing divergences between national laws. The duration and outcome of such an exercise would fully depend on the commitment of all Member States and their willingness to find common approaches. It is questionable how strong the incentives for this would be, taking into consideration that further harmonisation is called for by industry but not by national administrations. Moreover, it would be very difficult to arrive at a unanimous decision among the 27 Member States. Therefore, the process would more likely result in lowest common denominator solutions than the most appropriate ones. Moreover, it might be easier to find a common approach on the less controversial issues whereas there would not be any guarantee that the most serious problems would be properly addressed. Finally, the objective of achieving coherence between national laws and the CTM system would remain out of the reach of this exercise.

Accordingly, it appears more appropriate to pursue harmonisation by means of an EU-driven action, i.e. a legally binding instrument, to ensure the achievement of the identified objective as regards substantive trade mark laws and procedures (sub-options 2b and 3b).

**Figure 7: Objective 1 – approximation of trade mark laws – comparison of options**

Options	Assessment criteria				
	Effectiveness (achievement of objectives)	Efficiency			Overall assessment
Approximation of laws and procedures	Greater approximation of TM laws and procedures	Time needed	Overall cost	Proportionality	
<b>1. Baseline</b>	0	0	0	0	0
<b>2. Partial approximation focused on main problems ("top priorities")</b>					
2a. Voluntary partial approximation	?	--	-	+	-
2b. Mandatory partial approximation	++	+	-	+	++
<b>3. Full approximation (option 2+)</b>					
3a. Voluntary full approximations	?	--	--	-	-
3b. Mandatory full approximation	++	--	--	--	+/-
<b>4. Single rulebook</b>	++	--	--	--	+/-

#### 6.1.2. Missing clear legal basis for cooperation – comparison of options

The analyses performed as part of the problem definition have demonstrated that the primary obstacle to an effective and efficient cooperation between OHIM and national offices is the absence of a clear legal basis. The analysis has further clearly shown the shortcomings of cooperation achieved on voluntary basis (**options 1 and 2**). As long as there is no legal obligation for IP offices in the EU to cooperate, it cannot be expected that all offices would



participate in common cooperation projects, as is absolutely required for convergence of their practices and development of common tools<sup>141</sup>.

Therefore, a proper legal framework must be adopted in order to create favourable conditions for cooperation at national and EU level, i.e. national offices and OHIM have to be obliged to cooperate with each other (**option 3**). The objectives of such cooperation should be clearly specified in order to enable monitoring of their achievement.

As a result, participation of all national offices would be ensured and it would become easier for them to justify to their budgetary authorities the allocation of financial and human resources for common projects with other IP offices.

It should be added in this context that the Competitiveness Council called on the Commission to introduce, when presenting a proposal for the revision of the CTM Regulation, a specific provision defining the framework for cooperation between OHIM and the national offices. In the same context, the Council also requested the Commission make explicit that harmonization of practice and tools is an aim which all trade mark offices in the EU should pursue and that efforts in this area should be supported and facilitated by OHIM.

**Figure 8: Objective 2 – providing adequate legal basis for cooperation**

Options	Assessment criteria				
	Effectiveness (achievement of objectives)	Efficiency			Overall assessment
	Greater incentive for cooperation	Time needed	Overall cost	Proportionality	
<b>1. Baseline</b>	0	0	0	0	0
<b>2. Legal basis for optional cooperation</b>	?	+	+	?	?
<b>3. Legal basis for obligatory cooperation</b>	++	+	+	+	+

<sup>141</sup> In other areas of EU legislation an obligation on Member States to cooperate among themselves to ensure the efficient application of EU policies is recurrent. For example, Council Regulation (EU) No 904/2010 of 7 October 2010 on administrative cooperation and combating fraud in the field of value added tax (recast) or Council Regulation (EC) No 2006/2004 on Consumer Protection Cooperation, which lays down the framework and general conditions under which Member States are to cooperate. Such obligation is sometimes followed by an obligation to cooperate using a specific instrument (e.g. IT system). In this respect, the recent Commission proposal for a Regulation of the European Parliament and of the Council on administrative cooperation through the Internal Market Information System ('the IMI Regulation') (COM(2011)522) require Member States to use a certain IT system in the application of certain Union acts governing the free movement of goods, persons, services and capital in the internal market which require Member States to cooperate and exchange information with one another and with the Commission.

## **6.2. Divergent provisions of the regulatory framework: impact of the selected option on stakeholders**

### *6.2.1. Impacts as regards the approximation of trade mark laws and procedures*

The following sections analyse the impacts of option 2b (mandatory partial approximation) on various stakeholders, namely users of national and Community trade mark systems, national IP offices and OHIM.

#### 6.2.1.1. Trade mark users (including SMEs)

The objectives identified on the basis of the problem definition are driven by the business needs of trade mark users in Europe. They aim at modernising the framework for trade mark protection at both EU and national levels, improving the level playing field for companies, especially SMEs, and thus enhancing their and Europe's competitiveness. Accordingly, the options selected to best contribute to the achievement of these objectives, in terms of enhancing harmonisation of trade mark laws and procedures, are expected to have a overwhelmingly positive effect on all users of the trade mark system. This can be anticipated, for example, on the basis of the great support from user organisations who represent both large and small trade mark owners, as well as their agents<sup>142</sup>.

Moreover, there are indications that the impact of the proposed changes will be even more significant and positive for SMEs than for LSEs. As described in the chapter 3.2 (problem definition), given the current low level of harmonisation, companies who seek trade mark protection under several national laws depend to a large extent on external expertise. In this context, it is generally perceived, on the basis of contacts with stakeholders, that SMEs, that do not have in-house IP experts, often pay more than double the amount in "advisers" fees compared to larger companies which have experienced in-house employees.

The introduction of the one-class-per-fee system will also be beneficial to trade mark users and SMEs in particular. The new fee structure will be more adapted to their needs since they will not be obliged to pay for additional classes of goods and services which they do not need. Indeed, in line with the preferred option, the majority of user organisations indicated during the consultation phase that unnecessary claims to three classes should be discouraged by adjusting the fee so that each class, in addition to the first, costs the applicant more<sup>143</sup>. Furthermore, users will also benefit from the anti-cluttering effect of the new system which is presumed to limit the space occupied by trade marks in the registers and thus to increase the amount of potentially available signs.

As a result, the selected option anticipates significant benefits for the user community and it is not expected that there would be any obstacles preventing trade mark users from complying with the proposed changes once they have been implemented.

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<sup>142</sup> MPI study p. 32 and 232, para. 2.47 and 2.49; for details: Annex 4 to the MPI study (as referred to in footnote 27). Examples of representatives of large companies (International Trademark Association – INTA), small brand owners (European Brands Association – AIM) and agents (European Communities Trademark Association – ECTA)

<sup>143</sup> MPI study, p. 38, para. 2.41

### 6.2.1.2. National IP offices

Option 2b would imply the obligation for Member States to adapt, accordingly, their national legislations. Considering the heterogeneity in trade mark systems, it is impossible to draw a general conclusion, for example, as to whether these adaptations would be more burdensome for small national offices than for big ones or *vice versa*. The below table, however, provides an overview indicating which offices would need to change their current systems as regards the identified top priorities in terms of harmonisation of procedures.

**Figure 9: Current situation at national offices – top priorities for harmonisation**

	Classification (class headings)		Availability of administrative procedures		Ex-officio examination of relative grounds	Fee system <sup>144</sup>	
	"covers all"	"means what it says"	Opposition	Cancellation		1 class	3 classes
Austria		X	Yes	Yes	No		X
Benelux		X	Yes	No (court)	No		X
Bulgaria	X		Yes <sup>145</sup>	Yes	No <sup>146</sup>		X
Cyprus		X	Yes	Yes	Yes	X	
Czech Republic		X	Yes	Yes	Partly Yes <sup>147</sup>		X
Germany		X	Yes	Yes	No		X
Denmark		X	Yes	Yes	No		X
Estonia		X	Yes <sup>148</sup>	No (court)	Yes	X	
Spain		X	Yes	No (court)	No	X	
Finland	X		Yes	No (court)	Yes		X
France		X	Yes	No (court)	No		X
UK		X	Yes	Yes	No	X	
Greece	X		Yes	Yes	Yes	X	
Hungary	X		Yes	Yes	No		X
Ireland		X	Yes	Yes	Yes	X	
Italy	X		Yes	Yes <sup>149</sup>	No	X	
Lithuania	X		Yes	No (court)	No	X	
Latvia		X	Yes	No (court)	No	X	
Malta	X		No	No (court)	Yes	X	
Poland		X	Yes	Yes	Yes		X
Portugal		X	Yes	Yes	Yes	X	
Romania	X		Yes	No (court)	No	X	
Sweden		X	Yes	No (court)	Yes	X	
Slovenia		X	Yes	No (court)	No		X

<sup>144</sup> Number of classes covered by the application/registration fee.

<sup>145</sup> In alignment with the CTM system opposition procedures were introduced by the recent amendments to the Bulgarian trade mark law that entered into force on 10 March 2011. See information provided under [http://www.country-index.com/articles/article\\_103.pdf](http://www.country-index.com/articles/article_103.pdf).

<sup>146</sup> Together with the introduction of administrative opposition procedures the ex-officio examination of relative grounds was abolished. For source see footnote 145.

<sup>147</sup> Ex-officio examination of relative grounds is only available in relation to identical earlier trade marks which were applied or registered for identical goods and services. Accordingly, ex-officio examination would not cover similar trade marks and/or similar goods and services.

<sup>148</sup> In Estonia, oppositions are not handled by the IP office but by a specialised appeal body at the Ministry of Economic Affairs and Communications, see MPI report, p. 20, paragraph 1.45, third bullet point

<sup>149</sup> In Italy, however, the administrative cancellation procedure is available on the basis of a court request after a judgment concerning relative grounds.

Slovakia		X	Yes	Yes	Partly Yes <sup>150</sup>		X
OHIM	X		Yes	Yes	No		X

Source: MPI study and OHIM data

In terms of cost, because of the heterogeneity of national trade mark systems, it is assumed that certain national offices would bear variable additional costs linked to further harmonisation efforts in the short to medium term. Such costs and/or cost savings for each and every national trade mark system can only be calculated at national level in the light of the peculiarities of each trade mark system. However, most changes in the EU legislation would essentially bring more clarity, consistency and legal certainty without any significant impact on resources and structures (see Annex 2, section 9.2). While being in favour of reducing areas of divergence within the trade mark system as a whole<sup>151</sup>, national offices expressed concerns about the speed and scope of harmonisation of procedural rules<sup>152</sup>. These concerns were considered when assessing various options.

The few changes that might have a significant impact on some national systems relate to the setting up of administrative opposition or cancellation procedures in the Member States where such administrative procedures do not already exist, to the limitation of ex-officio examination to absolute grounds in the Member States also examining relative grounds on that basis, and to the introduction of a one-class-per-fee system (see for the three issues data provided in Figure 9).

However, the cost linked to the setting-up and functioning of administrative opposition and cancellation procedures would be more or less compensated by the (parallel) alleviated burden for national Courts. As regards the proposed abolition of ex-officio examination of relative grounds, it is reasonable to expect, from the experience of Spain and the UK<sup>153</sup>, that there would not be a huge rise in oppositions, hence, the savings, to the relevant IP offices, from not dealing with prior rights *ex-officio*, would (clearly) outweigh the costs in dealing with additional oppositions. Therefore, in the long term, option 2b would contribute to improving the efficiency and effectiveness of procedures at European IP offices and eventually lead to significant cost savings. As such, it would also increase the competitiveness of national offices and allow them to extend the scope of cooperation with OHIM and other IP offices to the procedural areas concerned. Data supporting such costs and/or cost savings are however not available.

Finally, the need to change the fee structure, so that the application fee covers only one class of goods or services in future<sup>154</sup>, leaves national authorities free to set the overall level of fees in such a manner as to avoid financial loss. Moreover, the anti-cluttering effect of the measure should diminish the number of unnecessarily broad specifications of goods and services

<sup>150</sup> See the reasoning given for Czech Republic, footnote 147 above.

<sup>151</sup> Conclusions on the future trade mark review, document referred to in footnote 11, paragraph 14, last bullet point. Also in contributions of national offices to the MPI study (not publicly available).

<sup>152</sup> MPI study, p. 232, para. 2.48 – 2.49.

<sup>153</sup> The background for the legislative changes in Spain and the UK concerning ex-officio examination of relative grounds including its economic and commercial relevance is described in detail in a reference study conducted by OHIM for the reviewers of the trade mark law of the People's Republic of China. The document is available under [http://www.ipr2.org/storage/OHIM\\_Trademark\\_Examination\\_Systems\\_in\\_EU973.pdf](http://www.ipr2.org/storage/OHIM_Trademark_Examination_Systems_in_EU973.pdf).

<sup>154</sup> Such a move was explicitly supported by a number of national offices during the consultation phase, in particular for its anti-cluttering effect; source: contributions of national offices to the MPI study (publicly not available).

covered by trade mark registrations, and thus reduce the conflict potential between them. This would strengthen the coexistence of the trade mark systems in the Union and ensure a more balanced and harmonious trade mark system overall.

Further, linking the move to a one-class-per-fee system at OHIM level with a reduction of the basic application fee would not put coexistence at risk<sup>155</sup>. Lowering the application fee, covering one class proportionally (so as to be € 775)<sup>156</sup>, but leaving the price of a CTM application covering three classes of goods or services unchanged, constitutes a necessary and fair adjustment to the reduced range of goods or services covered by a CTM application.

It is true that this further fee cut would bring the CTM application fee level closer to the application fee level of national offices for domestic filings. However, taking into account that the average fee to be paid in the Union for a national application covering one class only accounts for € 143<sup>157</sup>, a further reduced CTM application fee would still keep a clear and sufficient distance from the comparable fee at national level<sup>158</sup>. The aforesaid also applies if one considers the highest current national fees for one class applications which exceed € 200<sup>159</sup>. Those national offices<sup>160</sup> currently charging an application fee including three classes of goods and services<sup>161</sup> would be free to follow the example of the OHIM and of other national offices and to adjust their fee levels accordingly (by reducing the basic application fee covering one class) and ensure a more favourable ratio compared to the OHIM basic application fee.

### 6.2.1.3. OHIM

In general, the approximation of laws and procedures under option 2b (i.e. using the CTM system as far as possible, and appropriate, as a benchmark for the alignment of national laws through corresponding amendments to the TM Directive (see above under 6.1.1)) would be clearly beneficial to OHIM. Such further harmonisation would also facilitate OHIM's task of supporting and coordinating efforts in converging practices and tools with national offices. To the extent that the harmonised approach would not match with current OHIM practice and, thus, have an impact on the Office, it is expected that any potential changes would be manageable, provided that sufficient time (e.g. corresponding to the transposition period for Member States) is left for a smooth transition.

Furthermore, the introduction of the "one-class-per-fee" system requires an adjustment of OHIM fees to take into account the diminished scope of trade mark protection (one class instead of three), and also to better address the potential risk of cluttering. The new fee structure should follow some essential principles. First, it must be simple and transparent. The

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<sup>155</sup> The level of OHIM fees is generally considered to be one of the key elements for a balanced coexistence of systems, as stressed by a number of national offices in their contributions to the MPI study (publicly not available).

<sup>156</sup> See in detail in figure 10 under next point 6.2.1.3.

<sup>157</sup> For the calculation of this average amount the application fee levels of all national offices operating with an application fee covering one class of goods or services were considered.

<sup>158</sup> Annex 4 (section 9.4) provides an exact overview of the trade mark application and registration fees charged in the Union.

<sup>159</sup> This is the case for the application fee in Sweden (€ 209), the UK (€ 211) and Ireland (€ 247).

<sup>160</sup> As also reflected in figure 9, this is the case for the offices in Austria, Benelux, Bulgaria, Czech Republic Denmark, Finland, France, Germany, Hungary, Poland, Slovakia and Slovenia.

<sup>161</sup> The average amount of fees covering three classes is obviously higher than the average amount of fee for a one class application and consequently would come closer to a further reduced CTM application fee level.

model should be the same for both application and renewal fees, i.e. the basic fees should contain one class, and a separate class fee should be paid as of the second class. Second, the class fees should be set so as to continue to dissuade against filing unnecessary classes. Third, the level of application/renewal fees should be adapted for the new fees to cover one and two classes. Fourth, the new fee structure should take due account of the principle of coexistence and the need to keep a sufficient distance from comparable national fees. Finally, the new system should be well balanced as regards the ratio between the application and renewal fees. It is considered that the renewal fee could be decreased to some extent to come closer to the level of the application fee.

The example of possible fee levels<sup>162</sup>, as shown in figure 10, would fulfil all the above criteria.

**Figure 10: Current and potential OHIM fee structure**

		Current	New
<b>Application fee</b>		<b>900 (3 classes)</b>	<b>775 (1 class)</b>
Class fees	2nd class	--	50
	3rd class	--	75
	4th and subsequent classes	150	150
Total amounts	Application fee (1 class)	900	775
	Application fee (2 classes)	900	825
	Application fee (3 classes)	900	900
<b>Renewal fee</b>		<b>1350 (3 classes)</b>	<b>1000 (1 class)</b>
Class fees	2nd class	--	100
	3rd class	--	150
	4th and subsequent classes	400	300
Total amounts	Renewal fee (1 class)	1350	1000
	Renewal fee (2 classes)	1350	1100
	Renewal fee (3 classes)	1350	1250

The impact of the above fee structure on OHIM budget is displayed in figure 11 (the effects of the fee model are included as of 2013). The calculations illustrate that the adjustment of fees would lead to negative budgetary results in 2013 – 2015 and OHIM budget would be in balance again in 2016. Taking into account the financial reserve that the Office has accumulated over the past years short-term negative budgetary results would not be critical for OHIM operations, notably, as is the case below, if they were of temporary nature and not leading to long-term, structural deficits.

**Figure 11: Impact on OHIM budget – adjustment of fees**

	2012 (m €)	2013 (m €)	2014 (m €)	2015 (m €)	2016 (m €)
Budgetary revenue	174,9	160,7	167,1	177,8	202,8
Budgetary expenditure	202,0	216,5	223,0	198,7	186,5
<b>Operating result</b>	<b>-27,1</b>	<b>-55,8</b>	<b>-55,9</b>	<b>-20,9</b>	<b>16,3</b>
To be excluded from above result:					
Ad hoc expenditure	32,4	29,6	35,3	18,7	6,2

<sup>162</sup> These fee levels could be further combined with a discount to the CTM application fee for applicants using a common classification tool (see 6.4.1.3 and 6.5).

Operating result excluding ad hoc expenditure	5,3	-26,2	-20,6	-2,2	22,5
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## 6.2.2. Impacts concerning the legal base for cooperation between IP offices

### 6.2.2.1. Trade mark users

The objectives related to convergence of practices and tools at IP offices evidently follow the expectations of trade mark users in Europe. The users expressed their support for closer cooperation between offices to enhance harmonisation of practices and development of common tools throughout the consultation process<sup>163</sup>. Therefore, it may be assumed that the selected option 3, which aims at establishing a clear and obligatory legal framework to facilitate cooperation between all IP offices, would have a primarily positive effect on the European users' community, as quantified below under 6.4.1.1 in relation to technical facilities and tools. The additional benefits include making the basis and objectives of cooperation between OHIM and national IP offices themselves more transparent.

### 6.2.2.2. National IP Offices

Establishing the above legal framework for cooperation according to option 3 would result, in short to medium term, in an increased workload for all IP offices in the EU. In the medium to long term, this option would lead to significant gains in efficiency and cost (see example of the Euroclass tool in 6.4.1.2). In spite of the need to deal with new projects and the increased workload it is considered that national offices are already prepared for such a development. Many cooperation activities aimed *inter alia* at developing common tools have already been successfully launched, in particular, in the context of the Cooperation Fund. Therefore, national offices would be able to build on this experience and further develop and extend the existing framework which would certainly contribute to a smooth transition. During the consultation phase<sup>164</sup>, all national offices strongly supported the incentive for cooperation with OHIM. They confirmed their involvement in certain forms of cooperation which they consider important and worth maintaining, but in need of further improvement.

### 6.2.2.3. OHIM

Option 3 would lead to enlargement of the current scope of common projects with national offices. This might imply an increase in staffing and other needs due to the management of these projects and thus re-deployment of existing workforce and/or some new recruitment at OHIM. Based on the experience so far with cooperation activities, notably the Cooperation Fund, the Office clearly demonstrated its capacity to deal effectively, and within a short timeframe, with such large scale projects. Given the largely positive budgetary situation of OHIM, no difficulties for the Office would therefore be expected as regards the managing of new tasks under option 3. At the same time, the Office may also benefit from the common tools, by increasing its efficiency and decreasing cost (see 6.4.1.3).

<sup>163</sup> MPI study, p. 33, para. 2.11 – 2.13; Annex IV to MPI study (as referred to in footnote 27)

<sup>164</sup> MPI study p. 23, chapter II.

### 6.3. Cooperation capacity: comparison of options

#### 6.3.1. Technical facilities – comparison of options

Under option 1, it would be left for national offices to procure and develop the necessary technical means. This option corresponds to the status quo, where technical capabilities are the result of resource constraints and policy decisions at national level, in view of domestic priorities, which may not necessarily drive offices towards increased automation.

Therefore, it is clear that the first option does not meet the set objectives. To meet the objectives, there would have to be some conditions in the way offices are equipped. While option 2 would only offer offices the possibility of enhancing their technical capabilities within a framework of voluntary cooperation, option 3 would ensure that all offices benefit and commit to the development of common tools and databases.

Interoperability requires, as a starting point, common standards in areas such as development of new filing tools, use of teleconference equipment, or sharing of search tools built using common data indexing schemes for pooling data (e.g. TMview). The use of videoconferencing facilities, for example, illustrates this. Options 1 and 2 would for example not necessarily ensure a large degree of interoperable equipment between offices, each being free to adopt this or that solution. This may render travelling between European capitals more frequent. Option 3 would, however, articulate a convergent solution in the use of equipment that can save monies and reduce the climate impact of hundreds of business trips among the different offices of the network.

**Figure 12: Objective 3 - Technical capacity building at national TM offices**

Options	Assessment criteria				
	Effectiveness (achievement of objectives)	Efficiency			Overall assessment
Providing regulatory incentive	Greater security for obtaining facilities	Time needed	Overall cost	Proportionality	
<b>1. Baseline</b>	0	0	0	0	0
<b>2. optional access to tools</b>	?	?	+	+	?
<b>3. mandatory access to tools</b>	++	+	+	+	+

#### 6.3.2. Funding

##### 6.3.2.1. Financing in general – comparison of options

Under **option 1**, the experience so far with regard to bilateral and multilateral cooperation projects<sup>165</sup>, as well as the Cooperation Fund, has revealed that some national offices would not be able to invest any funds in cooperation activities. At present, this difficulty is further accentuated by the on-going financial crisis and is not expected to improve in the near future.

<sup>165</sup> See Annex 6 (section 9.6).

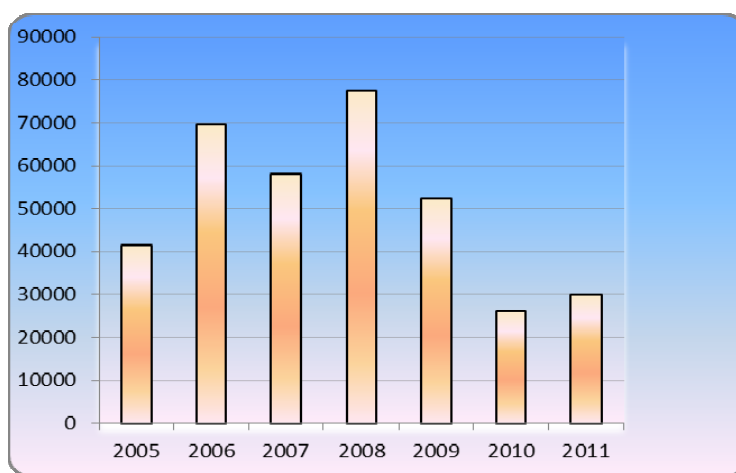


As a result, it would be impossible for some Member States to take part in cooperation schemes and, accordingly, this option would not provide an effective response to the identified objectives.

Alternatively, funding from the EU budget (**option 2**) would ensure the implementation of the cooperation objectives. At the same time, however, there would be a number of obstacles which would render this option very difficult if not unfeasible. In particular, it would be highly unlikely that (i) a substantial contribution from the EU budget could be made available, considering the current budgetary restrictions, and that (ii) any new posts could be allocated to DG MARKT in order to manage the programme given the zero growth policy. In the light of this, even if such a programme was created, it is far from certain that the entire sum needed would be made available.

By contrast, common cooperation activities of national offices and OHIM could be financed from the OHIM budget (**option 3**). Over the past years, the Office has accumulated a substantial surplus, part of which is already used for cooperation projects with national offices within the framework of the Cooperation Fund. Moreover, OHIM annual budgetary results constantly exceed, by several million, the operational expenditure of the Office (see Figure 13 below). Accordingly, the new cooperation activities could either be financed from the annual income and/or from the existing surplus, thus ensuring the availability of sufficient financial means. At the same time, OHIM could build on its extensive experience in managing large cooperation projects in the field of trade marks and designs, including employment of highly qualified staff, as well as on the existing networks with national offices. This would be a further added value of option 3, compared to options 1 and 2.

**Figure 13: OHIM annual budgetary results ('000 €)**



Source: OHIM

It is estimated that the cost of cooperation activities between OHIM and national offices would amount to € 17 – 20 million a year<sup>166</sup>. This is equivalent to about 10% of OHIM yearly income. The forecasts featuring in figure 17 in section 6.4.2.3 ("Impact on OHIM budget – funding of cooperation activities") show that option 3 would not cause an imbalance in OHIM budget.

<sup>166</sup> Source: OHIM; for more details refer to Annex 6 (section 9.6).

In addition, one should keep in mind that the cooperation activities constitute mutual services of 'Community' nature. They do not only reflect the coexistence between the Community and the national trade mark systems but contribute to ensuring their complementary relationship and necessary interoperability, on which the European trade mark system as a whole depends. As already pointed out, the development and maintenance of efficient and all-encompassing common tools and databases, such as the online search facilities for trade marks of all IP offices in the EU or the required common seniority database<sup>167</sup>, entirely depend on the active participation of all national IP offices. Without the contribution of the latter, *inter alia* by providing and permanently updating the relevant data sourced from their national registries, these common projects are neither feasible nor sustainable.

Obviously, under this option, safeguard and control mechanisms would have to be introduced in order to ensure that the relevant OHIM funds are effectively used by the national offices for the specific earmarked purposes and subject to compliance criteria. This could be achieved, for example, by using grants to finance the common activities. This issue is addressed more specifically in the following further analysis of this option as regards the mechanism and source of funding within the OHIM budget.

**Figure 14: Objective 4 — Secure long term financing for cooperation activities**

Options	Assessment criteria			Overall assessment
	Effectiveness (achievement of objectives)	Efficiency		
Securing long term financing	Greater security of financing	Time needed	Overall cost	
<b>1. Financing from MS</b>	0	0	0	0
<b>2. Financing from EU budget</b>	?	?	0	-
<b>3. Financing from OHIM budget</b>	++	++	0	++

#### 6.3.2.2. Financing from the OHIM budget – comparison of sub-options

As the selected **option 3** implies the establishment of a financing mechanism using the budget of the Office, the following chapter provides its further analysis, notably as regards the mechanism and source of funding within the OHIM budget.

The analysis also takes due account of the conclusions of the joint meeting of the OHIM Administrative Board and Budget Committee (ABBC) in September 2008<sup>168</sup>, endorsed by the Competitiveness Council in May 2010<sup>169</sup>, that OHIM should share part of its renewal fees with national offices "for the purposes closely related to the protection, promotion and/or

<sup>167</sup> For further examples see figure 5 in chapter 3.2.3 above.

<sup>168</sup> Conclusions of the OHIM Administrative Board and Budget Committee of 18 and 19 September 2008 as regards agenda item "How to better balance OHIM's budget – the way forward", available at: [http://oami.europa.eu/ows/rw/resource/documents/OHIM/institutional/ABBC/summary\\_joint-meeting-18-09-2008\\_en.pdf](http://oami.europa.eu/ows/rw/resource/documents/OHIM/institutional/ABBC/summary_joint-meeting-18-09-2008_en.pdf).

<sup>169</sup> See reference in footnote 11

enforcement/combat counterfeiting of trade marks". The Council called on the Commission to include in the revision of the CTM Regulation "the creation of a legal basis for distributing an amount equivalent to 50 % of OHIM's renewal fees to the National Offices in accordance with fair, equitable and relevant distribution criteria, to be defined in a way which would guarantee, inter alia, a minimum amount for each Member State, as well as the introduction of appropriate mechanisms which have due regard to the financial arrangements applicable to individual National Offices, to ensure that these funds will be available to the National Offices and will be used for purposes closely related to the protection, promotion and/or enforcement of trade marks, including combating counterfeiting".

### **Funding mechanism**

There are two possible funding models. On the one hand, contributions can be allocated as lump sums on the basis of agreed distribution criteria (**sub-option 3.1a**), on the other, the funding mechanism can be project driven and based on grants (**sub-option 3.2a**).

**Sub-option 3.1a** would first require the creation of a distribution key. There are several alternatives regarding how to distribute the available sum among national IP offices. Either to divide the overall amount into equal shares of which each office would receive one or to differentiate the individual share for each office according to a quantitative criterion, such as the number of trade mark applications and/or registered trade marks, size of the country, its GDP, votes in the Council etc. Moreover, these two basic options could also be proportionally combined. The MPI study indeed suggested to combine both approaches and to base the distribution key on two different elements<sup>170</sup>. Should the option 3.1a be retained further consideration will be given to possible allocation criteria.

Under this option, the amount available for cooperation in a given year would then be distributed among national offices in accordance with the agreed key. The concrete contributions would be paid in exchange for offices' participation in cooperation activities but their amount would not depend on the cost of these projects, i.e. there would not be a direct link between the cost of the activity and the money paid. The model would also imply the establishment of precise compliance criteria (e.g. key performance indicators) and control mechanisms to check that funds are used for the earmarked purposes. In case of failure, payments could be (partly or fully) suspended or annulled.

**Sub-option 3.2a** would follow a grant procedure. After the decision on projects to be run and financed during a given period, the terms for participation (including financing, compliance criteria and control mechanisms) would be defined in accordance with the Financial Regulation. The concrete contributions to national offices would be determined along with these terms and be in relation with the cost of the respective cooperation activity.

In relation to sub-option 3.2a, it was also considered whether grants would be the most appropriate instruments or whether the financial contributions could follow another procedure of the Financial Regulation. The analysis showed that public procurements could also be envisaged for some cooperation projects; however, given the objectives to be achieved and the nature of these activities, financing via grants appears more suitable overall. Such a

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<sup>170</sup> The MPI believed that the key should be composed of a "minimum amount" distributed on an equal share to all Member States and a "proportionate amount", based on the numbers of national trade mark applications in that respective country. The amounts dedicated for (i) and (ii) would represent each 50% of the overall available sum.

conclusion is consistent with the EU approach on financing of comparable common actions involving national authorities in the area of European statistics<sup>171</sup>.

Comparing both options, the first difference is the accuracy of the payment. A scheme based on a distribution key (option 3.1a) would be more rigid and therefore less suitable to appropriately cover the specific funding needs of each IP office. It might imply some risk that national offices would not receive the required funding, inasmuch as they could get less than needed or vice versa.

Furthermore, the procedures would be substantially different. A model based on grants (option 3.2a) would follow a standard funding procedure, ensuring simple processes, sound financial management of EU money as well as a high degree of transparency. The grant procedure provides for flexible arrangements to meet the funding needs. For example, for simplification purposes grants awarded to the national offices may take the form of lump sums, in particular to cover costs incurred by the national offices while participating in cooperation projects related to existing databases, search tools etc. In option 3.1a, the funding mechanism would need to be created which would not only render the whole exercise very complicated but could also cast doubt upon its processes and methods.

**Figure 15: Use of OHIM budget – funding mechanism - comparison of options**

Options related to the financing from OHIM budget Funding mechanism	Effectiveness (objective: securing long term funding)	Efficiency		Overall assessment
		Accuracy of funding	Complexity and transparency	
1a. Lump sums based on distribution key	+/-	-	-	-
2a. Project driven funding based on grants	++	++	+	++

### Source of funding within OHIM budget

There are three sub-options to be considered as possible sources for funding: financing from OHIM operational budget in general, funding from a specific OHIM income and further use of the accumulated financial reserve.

Firstly, cooperation activities could be financed from OHIM's general budget as any other operational expenditure of the Office (**sub-option 3.1b**). In such a case, the financial needs would be covered by OHIM annual income generated from fees and other revenue, as forecasted when adopting the budget. The final expenditure would depend on concrete cooperation projects in a given year.

Alternatively, funding could come from a specific OHIM revenue stream, generated in the previous budgetary year, for example, the CTM renewal fees, as mentioned in the 2010 Council Conclusions (**sub-option 3.2b**). Under such an option, the available funds would be known upfront and the concrete cooperation activities for the coming year, in particular, as regards development of new projects, could be shaped and decided accordingly.

Finally, it could be envisaged that the cooperation projects would be financed from the accumulated OHIM surplus (**sub-option 3.3b**), e.g. by extending the Cooperation Fund,

<sup>171</sup> See COM(2011) 928 final and Regulation (EC) No 223/2009

currently allocated with € 50 million. This option might be suitable – for the time being – for cooperation initiatives aimed at development of new tools and/or the launch of new projects, but would be inappropriate for long-term financing of running costs. Moreover, in spite of the currently high volumes of OHIM's financial reserve these funds are expected to be used for other purposes<sup>172</sup> and, in general, would not be able to serve as a never-ending source of funding. As a result, the sub-option 3.3b would not meet the identified objectives with a view to achievement of a proper, stable and long-lasting cooperation capacity of national IP offices and OHIM and was excluded from further analysis.

Comparing sub-options 3.1b and 3.2b means confronting two approaches that imply either an ex-ante or an ex-post calculation. In option 3.1b, the upfront selection of cooperation projects would determine the financial envelope in the year to come; in option 3.2b, the envelope would be known in advance (being a part of OHIM revenue collected in the previous year) and the scope of common activities would be shaped in accordance with the available money. As a result, option 3.2b could imply a risk of inappropriate and/or excessive funding. It might lead to situations where the scope of cooperation activities is not driven by cooperation needs but the amount of money available. This could be an incentive to artificially inflate the common activities, by adding further projects with no or limited added value, only to justify the use of all available funds.

Another critical feature of sub-option 3.2b lies in assigning a specific part of OHIM income to a specific spending. First, OHIM budget is not based on an "assigned revenues" system in which the income from concrete fees would be spent for particular expenditures. Option 3.2.b would hence be in contradiction with this budgetary principle. Second, there is no pertinent link between cooperation with national offices and OHIM renewal fees (nor any other OHIM income) except for the fact that the estimated cost of cooperation would broadly correspond to 50% of renewal fees' income. The choice of a specific fee income appears therefore fully arbitrary and not justified in the given context. Third, using an OHIM fee to fund activities of national offices might be perceived as an (inadmissible) tax levied on companies. Fourth, as repeatedly highlighted by user representatives, if the renewal fees were tightly associated with a permanent expenditure it would be very unlikely that these fees would decrease in future. Last but not least, combined with the above option 3.1a (funding based on a distribution key), the option 3.2b could be interpreted as an "automatic" entitlement of national IP offices to receive a share of OHIM renewal fees which has been seen very critically from the perspective of EU financial and budgetary rules.

Finally, due consideration was given to the impact of both options on the OHIM budget. In this regard, option 3.1b based on budgetary forecasts appears slightly riskier than option 3.2b which would operate with actual financial results, minimising thus the risk of putting at stake OHIM budgetary equilibrium. Moreover, a large volume of cooperation projects under option 3.1b could also have a major impact on OHIM budgetary results. Both risks could be mitigated by setting a cap (a limit) for yearly spending on cooperation. Taking into account the estimated cost of cooperation activities (€ 17 – 20 million a year<sup>173</sup>), it might be appropriate to set this cap at 10% of OHIM annual income which (i) would match with the financial needs for cooperation and (ii) would be bearable by the Office while keeping its budget in balance (see figure 17 in section 6.4.2.3).

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<sup>172</sup> See under 6.4.2.3. as regards projects under the OHIM strategic plan.

<sup>173</sup> Source: OHIM; for more details refer to Annex 6.

**Figure 16: Use of OHIM budget – source of funding – comparison of options**

Options related to the financing from OHIM budget Source of funding	Effectiveness (objective: securing long term funding)	Efficiency			Overall assessment
		Accuracy of funding	Relevance (source vs. purpose)	Risk for OHIM budget	
1b. Funding from operational budget	++	+	0	+/-	+
2b. Funding from specific income (renewal fees)	++	-	-	0	0
3b. Use of surplus (increase in allocation to the Cooperation Fund)	--	+	0	0	-

Taking into account all above considerations, it appears more appropriate to finance the cooperation activities from the OHIM general budget and not to draw a link to a particular OHIM income and to its actual revenue.

### **Combined effect of selected sub-options**

Based on the above comparison, combined sub-options **3.2a** and **3.1b** appear fittest to achieve the identified objectives. Furthermore, it is believed that these options would be in line with the May 2010 Conclusions of the Competitiveness Council. The approach suggested by the Council was carefully analysed and accommodated, where necessary for legal and budgetary reasons, while fully preserving the aim of the future financial scheme. Also the allocation of funds remains consistent. As mentioned above, it is estimated that the cost of cooperation activities between OHIM and national offices would amount to € 17 – 20 million<sup>174</sup> a year which corresponds to the "cap" to be set at 10% of OHIM annual income. At the same time, this amount is also equivalent to 50% of income from trade mark renewal fees<sup>175</sup>.

Finally, having discarded the financing from a specific OHIM income (renewal fees), including the need to establish a distribution key, the Commission services did not further consider suitable (relevant, fair and equitable) distribution criteria.

## **6.4. Cooperation capacity: impact of the selected option on stakeholders and mitigating measures**

### *6.4.1. Technical facilities/tools*

Convergence in the way offices use and have access to technical facilities, from examination tools to conference equipment is expected to produce a positive impact on stakeholders, in as much as technology creates efficiencies in labour intensive processes such as those involved in IP rights examination and registration.

<sup>174</sup> See Annex 6 (section 9.6)

<sup>175</sup> It is expected that the income from OHIM renewal fees should be close to € 40 million a year. Over years, the renewal rate remains stable at 55%.

#### 6.4.1.1. Trade mark users

Users can expect to face convergent, technologically updated IT solutions, where the same user experience is enhanced thanks to a certain degree of harmonised solutions, both at “front office” and at “back office” level. Common tools can enhance cooperation in the way offices serve the interests of users, such as for example, the way technology can improve performance indicators from offices cooperating in developing and installing common e-filing tools. Moreover, the fact that users when dealing with IP offices at national and Community level are using common tools will result in increased accessibility, enhanced efficiency and reduced costs. In their contributions to the MPI study, user organisations were unanimous that all offices should further improve and harmonise their use of technology, especially as regards IT tools<sup>176</sup>.

It is important to recall in this context the very telling and positive outcome of the cost benefit analysis (CBA) OHIM conducted in relation to the cooperation projects financed through the Cooperation Fund (see specified in more detail in Annex 8 ). This CBA indicated, that over a period of 10 years (starting from the first investment), the investment in the CF projects could yield in excess of € 935 million in benefits for both users and IP offices. These benefits were monetised based on benefits that are most valuable for end users such as reduced processing times or greater predictability in the service received.

#### 6.4.1.2. National offices

IP Offices can benefit from enhanced cooperation thanks to improved access to IT development. Individually developed systems do not generate the same economies of scale that cooperation in a large development project brings. This view is broadly shared by national offices who consider the modernisation of IT facilities and tools as one of the main areas where cooperation should be further improved<sup>177</sup>. As already mentioned in the previous chapter in relation to users, the potential benefits to national offices were impressively substantiated by the relevant CBA, conducted by OHIM in connection with the Cooperation Fund, an explanation of which is to be found in Annex 8.

The expected gains in efficiency and cost is demonstrated by the example of a common database for classification of goods and services ("Euroclass")<sup>178</sup>, being developed under the Cooperation Fund framework. The tool contains a comprehensive list of pre-validated terms for goods and services which are guaranteed to be accepted when filing a trade mark application. Accordingly, when the Euroclass tool is used, the IP office does not need to examine the terms describing the goods and services for which trade mark protection is sought. This significantly reduces the administrative examination and can considerably speed up the registration procedure.

#### 6.4.1.3. OHIM

There can be no doubt that this option would be beneficial also to OHIM. The possibility for OHIM to successfully play a supporting and coordinating role in achieving and ensuring a true

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<sup>176</sup> MPI study, p. 33, para. 2.13; Annex IV to the MPI (as referred to in footnote 27).

<sup>177</sup> For example, MPI study, p. 24.

<sup>178</sup> In 2012, the Euroclass database was available to users of OHIM and of 8 national offices who adopted the harmonised list of goods and services (currently containing 90.000 terms). The remaining national offices are expected to join by the end of 2013.

complementarity and interoperability between the CTM and national trade mark systems essentially depends on the use of standard technological facilities shared by all national offices.

The example of the common classification database, as mentioned under 6.4.1.2., will have an additional positive effect on OHIM. Since the database aims to contain the same set of terms in all official EU languages, it will be able to automatically translate the goods and services for a given CTM application. For OHIM, obliged to publish CTM applications in all EU languages (Art. 120 CTMR), this would mean major savings in terms of translation costs and time. Accordingly, a more frequent use of the classification tool could be expected and/or promoted. For example, the significant cost and efficiency gains could be taken into account when adjusting OHIM fees. It could be envisaged, for instance, that database use could be encouraged (and rewarded) by a discount to the application fee (e.g. € 50<sup>179</sup>; for details see chapter 6.5).

#### 6.4.2. *Financing of cooperation*

The following sections analyse the impacts of the selected option 3 (financing from OHIM budget) on various stakeholders, namely users of national and CTM systems, national IP offices and OHIM.

##### 6.4.2.1. Trade mark users

As stated above under 6.2.2.1 in relation to the necessary regulatory incentive for cooperation, the pursued objectives, related to convergence of practices and tools at IP offices, clearly follow the expectations of trade mark users in Europe. However, given the financial implications of option 3, some consideration must be given to possible side effects of this solution.

During the 2010/2011 consultation exercise, the idea of distributing a part of OHIM income to national offices was repeatedly tested with users' representatives<sup>180</sup>. Most user organizations maintain that any transfer of funds should not be automatic but should be substantiated by appropriate tasks which benefit the users. Examples of such tasks coincide with lacunae in the current system identified as part of the problem definition, for example, maintenance of seniority databases by the national offices, developing e-tools and e-capabilities. These users' expectations largely meet the goals of the selected options. As described above, the contribution to national offices through OHIM financial contribution would indeed enable the financing of specific cooperation projects and initiatives.

The effect of additional expenditure from the OHIM budget on the overall financial needs of the Office and on its fee structure should also be assessed. The analysis carried out in section 6.4.2.3 clearly demonstrates that the Office would be able to take on these additional budgetary obligations without any major difficulties. Accordingly, there is no risk that OHIM income (i.e. fees paid by users of the system) would need to increase in order to cover this spending.

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<sup>179</sup> Combined with the new fee structure, following the introduction of the one-class-per-fee system (see 6.2.1.3), the application fee (covering one class) with the discount for using the classification tool would be € 725, the fee covering two classes € 775 and three classes € 850.

<sup>180</sup> See MPI study, p. 34, paragraph 2.17; Annex IV to the MPI study: Statements of User Organizations – contributions from AIM, APRAM, ECTA, EFPIA, FICPI, ITMA and VFA. The issue was also discussed at the Commission's hearing with user organisations on 26 May 2011.



#### 6.4.2.2. National IP offices

The fact that sufficient funds would be provided to finance the cooperation activities would allow national IP offices to participate in and commit to common cooperation projects on a long-term basis.

In the context of this option, the impact of the new funding mechanism for cooperation activities on the financing of national offices also has to be assessed. Indeed, some representatives of users have expressed their concerns that these funds would disappear within the budget of the respective national office or in the general budget of that Member State, in the case of financially non-autonomous offices, and never be used for harmonisation projects<sup>181</sup>. However, these concerns might be mitigated by (i) the legal obligation of national offices to take part in cooperation activities and (ii) clear earmarking of these funds, both in the legislation and when it comes to their implementation (following the grant procedures), including the establishment of effective monitoring mechanisms.

#### 6.4.2.3. OHIM

The structured and long term financing of the cooperation activities would have a significant impact on OHIM budget. Annex 6 (section 9.6) deals in detail with the particular aspects of such a financing mechanism, notably the estimation of the cost of cooperation activities.

Based on these calculations, the impact on the overall OHIM budget can be assessed. The below figure 17 shows the estimates for OHIM operational revenue and expenditure. When evaluating the capacity of OHIM to finance cooperation with national offices, the following should be considered. First, the amount of 10% of OHIM annual income is reduced from the respective annual budgetary result as of 2015 when the mechanism could be first put in place, following the adoption of the amendment to the CTM Regulation. Second, there will be a number of ad hoc costs, related to the implementation of OHIM's strategic plan, e.g. construction of a new building, and of the Cooperation Fund which can be covered from the accumulated surplus<sup>182</sup>. Accordingly, these specific investments should not be included when considering the impact of the new funding mechanism on OHIM operational budget and have been excluded from the below figure. Third, as regards the Observatory, transferred to the Office as of 2012, its running cost has been fully integrated in the forecasted expenditure.

**Figure 17: Impact on OHIM budget – funding of cooperation activities**

	2012 (m €)	2013 (m €)	2014 (m €)	2015 (m €)	2016 (m €)
Budgetary revenue	174,9	180,7	187,7	200,2	231,2
Budgetary expenditure	202,0	216,5	223,0	198,7	186,5
<b>Operating result</b>	<b>-27,1</b>	<b>-35,8</b>	<b>-35,3</b>	<b>1,5</b>	<b>44,7</b>
To be excluded from above result:					
Ad hoc expenditure	32,4	29,6	35,3	18,7	6,2
<b>Operating result excluding ad hoc</b>	<b>5,3</b>	<b>-6,2</b>	<b>0,0</b>	<b>20,2</b>	<b>50,9</b>

<sup>181</sup> Accordingly, as part the study, the contractor analysed the financial status in interviews with the national offices and discussed possible accounting mechanisms: MPI study, p. 5, 29 – 30 and 263. Contributions of national offices to the MPI study (publicly not available).

<sup>182</sup> In budgetary terms, this spending will be part of a single expenditure heading together with the "regular" operational expenditure. As a result, the operating result (annual income/annual expenditure) is expected to be negative for a couple of years – see line 4 in figure 17. However, given the accumulated surplus (which appears in the budget on the revenue side as "title 3: balance from previous financial year") the total budget will remain balanced.

<b>expenditure</b>					
10% of annual income				-20,0	-23,1
<b>Result after deduction of 10% income to finance cooperation</b>	<b>5,3</b>	<b>-6,2</b>	<b>0,0</b>	<b>0,2</b>	<b>27,8</b>

It should be noted that the launch of the funding scheme in 2015 coincides with the Cooperation Fund investment. This coincidence is explained by the fact that the Cooperation Fund investment cycle is estimated to conclude in 2015, when the last phases of the programme cycle are exhausted, namely (i) the integration of tools developed in 2012 and 2013 in the IP offices and (ii) the final development and integration of the last work packages of the software programme. At the same time, Cooperation Fund projects that have been implemented in the IP offices by 2014/2015 will already require maintenance expenditure from that years onwards. It is crucial that the contribution to the financing of the ongoing operations of the Cooperation Fund projects is in place as soon as the investment phase of each project is finished. Otherwise, there is an acute danger that the projects would wither and die, thus depriving users and national offices of the very significant benefits outlined in Annex 8.

It can be concluded that the OHIM budget would be able to take the additional expenditure related to cooperation with national offices from its annual operational results. Accordingly, option 3, sub-options 3.2a and 3.1b, would not cause an imbalance in OHIM budget.

## 6.5. Interaction between selected options

The selected options will complement and reinforce each other. The further approximation of trade mark laws and procedures will create even more favourable framework conditions for fruitful cooperation between OHIM and national IP offices. This enhanced cooperation between OHIM and national IP offices in the core business will also profit from the cooperation framework to be set up in the context of the takeover of the European Observatory on Counterfeiting and Piracy by OHIM (and vice versa). Moreover, the new cooperation scheme will help to remove persisting divergences between IP offices in Europe which could not, for practical reasons, be achieved when harmonising national laws by means of a legal instrument.

Overall, the retained options will also enhance the complementary relationship between the CTM and the national systems. As confirmed by all stakeholders in a remarkably unanimous manner, the principle of coexistence between Community and national trade mark rights is fundamental and necessary for the efficient functioning of a trade mark regime that meets the requirements of companies of different sizes, markets and geographical presence. The use of both systems is continuous and high, as demonstrated by the filing statistics at both national offices and OHIM<sup>183</sup>, as well as the number of trade marks in their registers<sup>184</sup>. While SMEs have become important users of the CTM system<sup>185</sup> they still regularly tend to prefer national systems<sup>186</sup>. Indeed, for SMEs and local companies, national trade marks would generally

<sup>183</sup> In 2011, yearly filings amounted to 550.000 altogether – OHIM received over 105,000 CTM applications and Member States' offices about 435,000 national trade mark applications. See also section 3.1.2, footnotes 37 and 38.

<sup>184</sup> There are 9,8 million of trade marks in registers of European IP offices – almost 1 million of CTMs at OHIM and almost 9 million of national trade marks at Member States' IP offices (2013). See also section 3.1.2, footnotes 37 and 38.

<sup>185</sup> As regards new CTM owners, SME largely prevail; see figure 1 in section 3.1.4.

<sup>186</sup> E.g. MPI study, p. 234.

better meet their business needs. Moreover, while the CTM would be a natural choice for companies with activities at the scale of the EU, for those of them who may not obtain a CTM due to its unitary character<sup>187</sup> national trade marks provide the indispensable alternative. The existence of 26 trade mark registers, covering different geographical areas, increases the accessibility of and the opportunity for IP protection. Also, the limitation of the geographical scope diminishes the vulnerability of trade marks registered locally vis-à-vis subsequent applications inasmuch as any trade mark has to be genuinely used (in the relevant territory) to enjoy legal protection. Accordingly, the duality of the trade mark system in Europe offers to users a number of choices. Users indeed exploit these opportunities<sup>188</sup>, both when determining their trade mark strategies and when aiming to protect or enforce their existing rights.

The selected options will significantly improve the shortcomings in the current situation where the CTM and national systems coexist, being closely linked and interacting with each other, but without a number of important common grounds<sup>189</sup>. The new measures will provide for a genuine European trade mark system, based on a harmonious complementarity of different regimes. These measures will primarily serve the Union interest<sup>190</sup> and be beneficial for users of either trade mark regime. As a consequence, the new setting will improve access to trade mark protection for all users, regardless of their location, size or market. It will also contribute to increasing legal security, limiting the risk of litigation, and improving the level playing field for European business, thus enhancing the competitiveness and attractiveness of the EU internal market.

Finally, some of the selected options will have an impact on the OHIM budget, notably the adjustment of OHIM fees, the discount for use of classification tool and the funding of cooperation activities<sup>191</sup>. The combined effect of these options on the budgetary results of the Office is shown in the below figure 18. The temporary deficits in 2013 – 2015 and budgetary recovery in 2016, as described in relation to the adjustment of OHIM fees, can be observed also in the combined model. As regards the discount of € 50 (see section 6.4.1.3) the calculation is based on the assumption that 50% of applicants would use the electronic classification tools. Under such a scenario, the budgetary results appear slightly in deficit but still within the limits of a balanced budget. In reality, however, more positive outcomes could be anticipated, taking into consideration the cost savings at OHIM and therefore some decrease in its expenditure. Overall, it can be concluded that the budget of the Office would be able to bear the consequences of the selected options while preserving its budgetary equilibrium.

**Figure 18: Combined impact on OHIM budget: adjustment of OHIM fees, including the discount for use of common classification database, and funding of cooperation activities**

	2012 (m €)	2013 (m €)	2014 (m €)	2015 (m €)	2016 (m €)
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<sup>187</sup> See footnote 2 and section 3.1.6.1.  
<sup>188</sup> 21% of SMEs and 30% of LSE owning trade marks at OHIM, confirm that their prevailing practice is to apply for both national and CTM protection; see section 3.1.6.2, figure 2.  
<sup>189</sup> E.g. Non-existent regulatory framework for cooperation between IP offices in Europe, missing Union wide databases.  
<sup>190</sup> The foreseen measures, both cooperation activities and harmonisation efforts, will primarily serve the Union interest and not that of the national offices or OHIM. E.g. a common trade mark database does not provide a particular added value for a single IP office, if seen in isolation. For its users, however, as economic operators on the internal market, these databases will make a significant difference, allowing them to properly evaluate the situation and to make informed choices when determining trade mark strategies.  
<sup>191</sup> Sections 6.2.1.3, 6.4.1.3 and 6.4.2.3, respectively.

Budgetary revenue	174,9	158	164,3	174,9	199,8
Budgetary expenditure	202,0	216,5	223,0	198,7	186,5
<b>Operating result</b>	<b>-27,1</b>	<b>-58,5</b>	<b>-58,7</b>	<b>-23,8</b>	<b>13,3</b>
To be excluded from above result:					
Ad hoc expenditure	32,4	29,6	35,3	18,7	6,2
<b>Operating result excluding ad hoc expenditure</b>	<b>5,3</b>	<b>-28,9</b>	<b>-23,4</b>	<b>-5,1</b>	<b>19,5</b>
10% of annual income				-17,5	-20,0
<b>Result after deduction of 10% income to finance cooperation</b>	<b>5,3</b>	<b>-28,9</b>	<b>-23,4</b>	<b>-22,6</b>	<b>-0,5</b>

## 6.6. Further possible impacts of the selected options

The following sections analyse the impacts of the selected options on other stakeholders.

### 6.6.1. Consumers

As mentioned above in the introduction (see under 1.1), trade marks enable consumers to distinguish products from different undertakings. In this context trade marks help them to recognize a product as one which they have liked or disliked in the past and thereby allow them to make an informed choice when purchasing goods or services. Being the principal instrument used by undertakings for advertising their products, trade marks offer a guarantee that all the goods originating from the same producer have a certain quality. Therefore, trade marks allow consumers to lower their search costs. Moreover, in as much as trade marks foster product differentiation, they allow consumers to benefit from a wider variety of products. Against this background, it may be concluded that the modernisation of the trade mark system in Europe will also have an indirect positive impact on consumers.

### 6.6.2. EU budget

OHIM is a regulatory EU agency. It is fully financed from fees paid by its users and does not receive any subsidy from the EU budget. OHIM enjoys a full financial independence, its budget is not part of the EU budget and its budgetary authority is the Budget Committee. Against this background, the selected options will have no impact on the EU budget.

### 6.6.3. Social impact

Because of the new cooperation activities, the selected options may have an impact on the staffing needs at national offices, resulting in an increase of their employees dealing with these cooperation matters. At the same time, the proposed measures aim at improving the level of efficiency and effectiveness of trade mark procedures which, in turn, should result in decreased staffing needs in these core business departments. All in all, it can be expected that in the medium to long term the employment rate at national offices would remain stable but there would be a shift in allocation of human resources.

### 6.6.4. Environmental impact

The selected options will not have any direct environmental impact.

### 6.6.5. International

All selected options aim exclusively at the internal market and are therefore not meant to produce any direct effect beyond the EU borders. However, any economic operator from

outside the EU will benefit from the proposed measures in the same way as Europeans. Accordingly, since the business environment in the trade mark field is expected to become more favourable for companies, the position and attractiveness of the EU as foreign sales market and investment location would be increased.

The selected options do not imply changes to the functioning of the procedural mechanism for the registration of international marks provided under the Madrid system<sup>192</sup>. However, taking into account the close interconnection existing between this system and the CTM and national trade mark systems of EU Member States<sup>193</sup>, it is expected that the international trade mark system administered by WIPO would indirectly also benefit from the modernisation of the European trade mark system as a whole.

In addition, the approximation of trade mark laws and procedures under option 2b would render the European trade mark system as a whole (i.e. at EU and national levels) more consistent with the existing international legal framework on trade marks, and so also facilitate the ratification of, or the accession to, the relevant treaties in place, such as in particular the Trade Mark Law Treaty and the Singapore Treaty on the Law of Trademarks (see above under 1.2 on the 2008 IPR Communication which makes reference to that international dimension).

## **7. CHOICE OF THE LEGAL INSTRUMENT**

This chapter considers what legal instruments would be most appropriate for each of the selected options.

### **7.1. Approximation of trade mark laws and procedures**

The analysis carried out in chapter 6.1.1 clearly showed that the achievement of the identified objective cannot be ensured by non-legislative means (options 2a and 3a). Moreover, the options 3b and 4, that would imply a maximum harmonisation Directive and a Regulation, respectively, have been discarded as disproportionate.

The selected option 2b aims at mandatory, (further) approximation of some aspects of national trade mark laws; therefore, a Directive would be the most suitable legal instrument for its implementation. Since national trade mark laws have already been partially harmonised, this further approximation should be done by means of a recast of the existing TM Directive<sup>194</sup>.

Moreover, if the harmonisation of national laws did not match with the current CTM system, the CTM Regulation would also need to be amended accordingly, for the sake of

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<sup>192</sup> See referred to above under point 1.1 (c).

<sup>193</sup> The major link is reflected in the fact that, on one hand, an international trade mark registration is obtained by extending trade mark protection to countries being party to the Madrid system on the basis of a national basis application or registration (including a CTM) and, on the other, that the protection of a foreign (i.e. non EU) trade mark application or registration can be extended to cover the territory of one or more Member States of the EU or the latter as a whole.

<sup>194</sup> For details on the necessary amendments see Annex 2, point 9.2.

consistency<sup>195</sup>. Finally, the OHIM fee regulation<sup>196</sup> should also be adapted to the new fee structure.

## **7.2. Cooperation capacity building**

As established in the sections 6.1.2 and 6.3, there is a need to establish a clear legal, technical and financial framework for mandatory cooperation between the OHIM and the national IP offices in order to facilitate convergence of practices and tools.

The necessary legal basis would best be achieved by explicit provisions in the CTM Regulation. Such a rule would also serve as a basis for the funding from OHIM budget in terms of financial regulations. These primary provisions to be introduced into the CTM Regulation should be further complemented by corresponding amendments to the TM Directive.

## **8. MONITORING AND EVALUATION**

The methods and timetable for monitoring and evaluation would depend on the objective to be achieved and the choice of legal instrument.

### **8.1. Approximation of trade mark laws and procedures**

Three years after the expiry of the transposition deadline, Member States should submit to the Commission a report on the implementation of the Directive. On the basis of these inputs, the Commission could draw up a report on the application of the new provisions of the Directive, including an assessment of the effectiveness of the measures taken. OHIM and national IP offices would provide the Commission with any assistance it may need when drawing up such a report.

The Commission report could then be transmitted to the European Parliament, the Council and the European Economic and Social Committee. It may be accompanied, if necessary and in the light of developments in the EU legal order, by proposals for amendments to this Directive.

### **8.2. Cooperation capacity building**

If a decision is taken to establish at OHIM a funding mechanism with a view to facilitating cooperation activities with national IP offices, then the use of this money will need to be monitored and evaluated in order to ensure that it has achieved its intended objectives, in accordance to the financial rules applicable to the Office, notably as regards grant procedures. In addition to the requirements stipulated by the Financial Regulation, the OHIM Administrative Board and the Commission will be informed and involved in the procedures, as appropriate, and a summary report will be prepared by OHIM on an annual basis.

Furthermore, five years after the entry into force of the amendments to the CTM Regulation, the Commission will review the new legal framework for cooperation, with particular

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<sup>195</sup> This concerns the main criteria for the classification of goods and services, see Annex 2, point 9.2.1.1, footnote 199.

<sup>196</sup> See footnote 46.

attention to the grants based funding scheme. To this end, the Commission shall establish an evaluation report and transmit it the European Parliament and to the Council.

This report would be composed of:

- (1) An assessment of the results that will be published by the Office in its annual reports;
- (2) An assessment of the funding model as such;
- (3) Any audit reports carried out by OHIM on its cooperation activities with national offices;
- (4) Any public surveys of trade mark users on their perception of progress with regard to the convergence of practices and tools at OHIM and national offices.

**Figure 19: Indicators**

Objectives	Indicators
Objective 1: Approximation of trade mark laws and procedures	<ul style="list-style-type: none"> <li>– Number of remaining differences between national laws (transposition check)</li> <li>– Evolution in companies' direct cost for IP advice</li> <li>– Average time needed to register a trade mark (including average time needed for an opposition procedure) – possible benchmark: average time in 5 best performing offices</li> </ul>
Objective 2: Increased cooperation capacity	<ul style="list-style-type: none"> <li>– Number of running and new cooperation projects</li> <li>– Number of IP offices participating in cooperation projects</li> <li>– Number of IT tools used by all and/or several IP offices</li> <li>– Number of common training schemes</li> </ul>

## 9. ANNEXES

### 9.1. Annex 1: Glossary

#### 9.1.1. *European Observatory on Counterfeiting and Piracy*

The European Observatory on Counterfeiting and Piracy was launched in 2009. Its main objectives are to collect and report data on the economic and societal implications of counterfeiting and piracy and to create a platform for representatives from national authorities and stakeholders to exchange ideas and expertise on best practices. The initial work of the Observatory has triggered positive responses from the European Parliament, the Member States and private-sector stakeholders but also showed that there is need to expand the current work.

However, under the original set-up, the Observatory was unable to fulfil its full potential and to take on new tasks. In May 2011, therefore, the Commission presented a proposal for a

Regulation transferring the Observatory to OHIM in order to provide it with a more sustainable infrastructure and thus allow it to fulfil a broadened range of tasks. The Observatory Regulation<sup>197</sup> was adopted in April 2012 and came into effect on 5 June 2012.

In the future, the Observatory should focus increasingly on operational tasks, such as organising training for enforcement authorities (customs, police and judicial authorities etc.), setting up a database of national and European case law and fostering cooperation with and support for those third countries which are particularly vulnerable to counterfeiting and piracy and are used by complex criminal networks as manufacturing and distribution bases.

#### *9.1.2. Technical terms relating to trade marks*

Absolute grounds for refusal: These grounds constitute the first type of grounds on which registration of a trade mark may be refused. They are due to the lack of inherent registrability of the mark and do not depend on the existence of prior rights of third parties ("absolute"). These grounds are set out in Article 7 CTMR (Article 3 TMD) and are examined ex officio during the registration procedure. The main absolute grounds are that the mark lacks any distinctive character or that it is descriptive as to an essential characteristic of the goods or services applied for.

Cancellation: Trade mark rights can be revoked (Article 51 CTMR/Article 12 TMD) or be declared invalid (Articles 52, 53 CTMR/Articles 3, 4 TMD). 'Cancellation' refers to both types of proceedings. A registered trade mark can inter alia be revoked in the absence of genuine use. Furthermore, it may be declared invalid on application to the Office where it has been registered contrary to absolute (including acting in bad faith when filing the application) or relative grounds for refusal. OHIM has exclusive jurisdiction with regard to direct revocation or invalidity applications. Courts in Member States of the European Union, however, may revoke or declare a CTM invalid when the issue is put to them as a counterclaim in an infringement action based on the CTM.

Clearance of prior rights: Prior to the registration and use of a trade mark in any jurisdiction, it is vital that appropriate trade mark clearance is conducted to ascertain whether the mark is available for such purposes. Its main objective is to make sure that the proposed use of the mark does not infringe prior trade mark rights of others.

Collective trade marks: This category of trade marks is to be differentiated from individual trade marks, which are used by an individual company to distinguish its own goods or services, from those of its competitors (see also 'types of trade marks'). By contrast, a Community collective mark is a mark which is used collectively by members of an association to indicate that they form part of that group.

Conversion: The mechanism of conversion (Art. 112 – 114 CTMR) allows CTM applicants (or proprietors) to convert their CTM applications (or registrations) that cannot be registered (or maintained) at EU level into a national trade mark application while preserving the original filing date of the first application. Conversion may be requested in two cases. Firstly, when the CTM application is (fully or partly) refused or withdrawn, for example, because of the existence of a similar prior national trade mark registered for identical goods and services. In such a case, the applicant may convert its CTM application into a national trade mark application in those Member States where there is no conflict with an older trade mark.

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<sup>197</sup> For reference see footnote 129.



Secondly, conversion into a national trade mark may be requested when a CTM registration ceases to have effect, for example, when the rights of the proprietor have been revoked on the grounds of non-use in the Community pursuant to Art. 51 CTMR. As the CTM may have fulfilled the requirements of genuine use in a Member State, it does not have to disappear from the market but may be converted into a national trade mark.

Genuine use: A trade mark has to be put to genuine use within a period of five years following registration. Otherwise the trade mark proprietor may not invoke his rights against third parties (non-use defence).

Opposition: This refers to the legal procedure that allows third parties to oppose the registration of a trade mark application by submitting a notice claiming that it conflicts with their earlier rights (see "relative grounds for refusal"). Under the CTMR (Article 41), opposition may be lodged within three months following the publication of the trade mark application. In the absence of an opposition or in the event of refusal of an opposition, the trade mark application proceeds to registration. Although holders of earlier rights may also object to such registration thereafter within the framework of invalidity proceedings (see "cancellation"), there is an interest in preventing the inclusion of such later, conflicting trade mark in the CTM register by means of the opposition procedure.

Registration: The formal procedure through which a new trade mark is entered in the Register. The registration of a trade mark has the effect of securing its proprietor the exclusive right to use it for the goods and/or services that it covers and to prevent third parties to use, without consent, the same or a similar mark for identical or similar goods and/or services as those protected by his mark.

Relative grounds for refusal: These grounds constitute the second type of grounds on which registration of a trade mark may be refused. They are based on a likely conflict with certain earlier rights, especially trade marks, as set out in Article 8 CTMR (Article 4 TMD). Contrary to the situation in some Member States where relative grounds for refusal are examined *ex officio* in addition to absolute grounds<sup>198</sup>, in the CTM system an earlier right can only cause a bar to the subsequent registration of a trade mark if the owner of the earlier mark files a formal "opposition" (see "opposition").

Seniority: The seniority system can be described as the possibility of "merging" earlier, identical trade marks registered in one or more Member States into CTMs. It enables the duplication of registrations to be avoided, but not the loss of the earlier national registration date. CTM applicants who are already owners of an earlier national trade mark may switch to the CTM system by claiming the seniority for the same trade mark and for the same goods or services. The effect of seniority is that if and when an earlier trademark is surrendered or allowed to lapse (for example, when the registration of an earlier national trade mark is not renewed for a further period of 10 years), the rights provided by this prior trade mark are maintained in the Member State of its national registration, provided the CTM remains in force.

Seniority database: The Seniority database includes the data of any earlier trade mark registered in a Member state or in the Benelux countries, or registered under international arrangements having effect in a Member state for which seniority has been claimed while filing a CTM. National Offices need to maintain the records of those national filings to ensure

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<sup>198</sup> See chapter 3.2.1.1.(b).

full transparency of the legal situation and since the invalidity or revocation of an earlier mark may be established after it has been allowed to lapse (Article 14 TMD).

Types of trade marks: The European concept of a trade mark (both as to the TMD and CTMR) has an open nature. It may consist of all signs that may be used to distinguish the goods and/or services of one undertaking from those of other undertakings, such as verbal marks (consisting of words, including personal names, letters and numerals), figurative marks (consisting of designs, logos and labels), colour marks (being a figurative mark in colour or comprising a colour per se in the abstract), or sound marks (being an audible sign such as music or vocal sounds).

Unitary character: The essence of a CTM is that it is given uniform protection and that it has effect throughout the entire territory of the EU. A CTM can only be registered, surrendered, transferred, revoked, or invalidated for the entire territory of the EU (Article 1(2) CTMR). This means that if there are circumstances (related to absolute or relative grounds for refusal) that prevent protection in just one Member State, no CTM can be obtained or maintained for the other states either.

## **9.2. Annex 2: Proposals to be covered by the revision of the regulatory framework**

### *9.2.1. Approximation of trade mark laws and procedures (addressed in the problem definition)*

#### 9.2.1.1. Principal procedural rules of the CTMR to become also part of the TM Directive

- Regulate requirements for obtaining a filing date;
- Regulate main criteria for the classification of goods and services including the use and interpretation of class headings<sup>199</sup>;
- Regulate that ex officio examination of a trade mark application is limited to absolute grounds for refusal;
- Regulate that it must be possible for third parties to submit to the office prior to registration of a trade mark application observations, explaining on which absolute grounds the trade mark shall not be registered;
- Regulate that it must be possible to oppose a trade mark application in proceedings before the office (mandatory administrative opposition procedure);
- Regulate that it must be possible to request the invalidation or revocation of a registered trade mark in proceedings before the office (mandatory administrative cancellation procedure);
- Regulate that it must be possible to raise the defence of absence of genuine use both in opposition and cancellation proceedings;
- Provide for rules on duration of protection and renewal;
- Regulate that it must be possible to divide a trade mark application and registration.

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<sup>199</sup> As the relevant CTM provisions are incomplete, this will require also amendments of the CTM Regulation.

#### 9.2.1.2. Further substantive rules of the CTM Regulation to become part of the TM Directive

- Clarify the provisions of the CTMR in relation to Geographical Indications (see also 9.2.4 below) and insert corresponding provisions in the TM Directive;
- Complement the TM Directive by a body of rules addressing trade marks as objects of property (transfer, licensing, rights in rem, levy of execution and insolvency);
- Provide for a set of specific provisions concerning the registration of collective marks.

#### 9.2.1.3. Reduction of optional provisions in the TM Directive

- Render mandatory, with regard to cancellation proceedings, the optional absolute ground for refusal of bad faith applications;
- Render mandatory the relative ground of refusal applying in case of conflict with a trade mark with reputation;
- Render mandatory the trade mark rights concerning extended protection for trade marks having a reputation.

#### 9.2.2. *Cooperation capacity building (addressed in the problem definition)*

- Establish in the CTM Regulation a clear legal, technical and financial framework for mandatory cooperation between the OHIM and the national IP offices in order to facilitate convergence of practices and tools.
- Complement the above amendments to the CTM Regulation by corresponding amendments to the TM Directive.

#### 9.2.3. *Amending or removing outdated provisions (not addressed in the problem definition)*

- Definition of a trade mark (Art. 4 CTMR, Art. 2 TMD): A registered (Community) trade mark may only consist of signs capable of being represented graphically. The requirement of graphic representability is only apt for conventional trade marks which are visually perceptible, such as words or designs. For new types of trade marks, such as those which are perceived by the sense of hearing (i.e. sound marks), representation by other than graphical means (e.g. by sound recordings) allow for a more precise identification of the mark. Therefore, it is appropriate to replace the requirement of graphic representability both in the TM Directive and the CTM Regulation by the more flexible criteria established by the CJEU in the Sieckmann case (C-273/00).
- Filing of CTM applications through national offices (Art. 25 CTMR): The option to apply for a CTM through a national IP office has been foreseen by the CTM Regulation as a temporary measure (see Art. 25(5)). The gradual decline of relevant national filings has reached a point where applications received through national offices have become near extinct. Therefore, the option of filing a CTM through national offices should be abolished.
- National and community searches (Art. 38, 155 CTMR): The search regimes on prior CTMs and national trade marks do neither provide a reliable trade mark clearance tool, nor a fully comprehensive watch of the Register. Therefore, the relevant provisions in the CTMR should be deleted.

- Registration fee (Article 45 CTMR): The registration fee was de facto abolished by the 2009 fee reduction when its level was set at € 0. Since then, the simplified fee structure with an application fee only has proved successful with both OHIM and its users. Accordingly, the provision on a registration fee has become redundant.

#### 9.2.4. *Clarifying legislation and removing ambiguities (not addressed in the problem definition)*

- Geographical indications as absolute and relative grounds for refusal: The scope of absolute and relative grounds related to protected geographic indications contained in the CTM Regulation is partly unclear and inconsistent with specific legislation protecting such indications.
- Rights conferred by a trade mark (Art. 9 CTMR, Art. 5 TMD), including for goods in transit: The provisions laying down the rights conferred by a (Community) trade mark are not completely clear. For the sake of legal clarity it is necessary, inter alia, to clarify the scope of trade mark rights as regards goods in various situations throughout the EU customs territory as well as to spell out that the rights conferred are without prejudice to the rights of proprietors of earlier rights acquired before the filing date or the priority date of the (Community) trade mark.
- Limitation of the effects of a trade mark
- Intervening rights of the proprietor of a later trade mark (Art. 57(2), (3) CTMR, no provisions in the TMD)

#### 9.2.5. *Implementation of case law (not addressed in the problem definition)*

- Protection of trade marks with reputation (Article 8(5) CTMR, Art. 4(3) TMD): The Court of Justice clarified in its Judgments in *Davidoff* (C-292/00) and *Adidas* (C-408/01) that the extended protection for trade marks with reputation apply also in case where the goods or services under comparison are identical or similar. Both the TM Directive and CTM Regulation need to be amended to reflect this.

### 9.3. **Annex 3: Online services and degree of automation at national offices (figures 3 and 4)**

#### 9.3.1. *Availability of online services*

The following e-services were considered in the context of the evaluation referred to in section 3.2.2.1: e-Searching – availability and maturity of online search capabilities and functionality for users, e.g. different search functionalities for trade mark and designs, also simple and extended professional searches; e-Filing – electronic process for the application of trade marks and designs registrations online; e-Opposition – availability to file an opposition electronically and further electronic process support for the user; e-Renewal – electronic process to renew online, also included e.g. electronic reminders to users and online availability of status of renewals and deadlines; e-Payment – possibility to pay registration and renewal fees electronically; e-Enforcement – if the office has any enforcement powers, this would mean that there is electronic support for processes; otherwise electronic support for awareness campaigns of IP enforcement etc.; e-Access – availability of all documentation online regarding registered trade marks and designs. Electronic support for communication between users and national offices or between national offices, e.g. standardised email-

communication; e-Administration – all electronic processes inside the national office to support the trade mark and design handling; e-Authentication – possibility to work with electronic signatures inside the national office or as a user.

### 9.3.2. Degree of automation at national offices

The assessed processes were: trade mark examination - the process of examination (absolute grounds / relative grounds) to determine if the trade mark application is valid and can be registered; trade mark opposition - the process of opposition in which an user (or trade mark holder) files an opposition against an announced registry of a trade mark; trade mark cancellation - the process of cancellation of already approved trade marks; trade mark similarity search - the process (or service) that determines the degree of similarity of the trade mark application with the already registered trade marks; trade mark renewal - the process of renewal of already registered trade marks; design examination - the process of examination to determine if the design application invalid and can be registered; design invalidation - since there is no opposition process for designs, it is possible to do an ‘invalidation’ to declare the design invalid throughout the life-cycle of a design; design renewal - the process of renewal of already registered designs; fee management - the process of management of the user fees of the provided services by national offices (e.g. registry, renewal, additional services like similarity searches); appeals - the process of the handling of user or trade mark holder appeals against a made decision by the national office; recordals - the process of administration of the owner details for trade marks and designs.

## 9.4. Annex 4: Overview of trade mark application and registration fees

**Figure 20: Trade mark application and registration fees<sup>200</sup> charged in the EU**

Offices with one-class-per-fee system				Offices with application fee covering three classes	
	Application + registration fee covering 1 class	Fee for any additional class	Total amount of fees for 3 classes		Application + registration fee covering 3 classes
Cyprus <sup>201</sup>	€26	€26	€78	Austria <sup>202</sup>	€359
Estonia <sup>203</sup>	€185	€45	€275	Benelux <sup>204</sup>	€240
Greece <sup>205</sup>	€110	€20	€150	Bulgaria <sup>206</sup>	€278
Ireland <sup>207</sup>	€247	€70	€387	Czech Republic <sup>208</sup>	€199
Italy <sup>209</sup>	€101	€34	€169	Denmark <sup>210</sup>	€315
Latvia <sup>211</sup>	€180	€29	€237	Finland <sup>212</sup>	€215

<sup>200</sup> Listed amounts of fees concern the cheapest filing option by electronic means where available and are rounded to the nearest euro.

<sup>201</sup> [http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/trade\\_mark\\_charges\\_en/trade\\_mark\\_charges\\_en](http://www.mcit.gov.cy/mcit/drcor/drcor.nsf/trade_mark_charges_en/trade_mark_charges_en)

<sup>202</sup> [http://www.patentamt.at/Media/Infoblatt\\_Gebuehren.pdf](http://www.patentamt.at/Media/Infoblatt_Gebuehren.pdf)

<sup>203</sup> [http://www.epa.ee/client/default.asp?wa\\_id=953&wa\\_object\\_id=1&wa\\_id\\_key](http://www.epa.ee/client/default.asp?wa_id=953&wa_object_id=1&wa_id_key)

<sup>204</sup> <https://www.boip.int/wps/wcm/connect/6b3cf080474b73a8b9ddb5f78c655cb7/BnlTariffs200701.pdf?MOD=AJPERES&CACHEID=6b3cf080474b73a8b9ddb5f78c655cb7>

<sup>205</sup> [https://www.marques.org/class46/default.asp?D\\_A=20121109](https://www.marques.org/class46/default.asp?D_A=20121109)

<sup>206</sup> <http://www.realandintellectualproperty.com/wp-content/uploads/2011/08/TARIFF.pdf>

<sup>207</sup> [http://www.patentsoffice.ie/en/trademark\\_schedule.aspx](http://www.patentsoffice.ie/en/trademark_schedule.aspx)

<sup>208</sup> <http://www.upv.cz/en/ip-rights/trade-marks/fees.html>

<sup>209</sup> [http://www.uibm.gov.it/index.php?option=com\\_content&view=article&id=2005075%3Acome-richiedere-la-registrazione-di-un-marchio&lang=it](http://www.uibm.gov.it/index.php?option=com_content&view=article&id=2005075%3Acome-richiedere-la-registrazione-di-un-marchio&lang=it)

<sup>210</sup> <http://iprights.dkpto.org/trademark/prices-and-payment.aspx>

<sup>211</sup> <http://www.lrpv.lv/index.php?lang=EN&id=28>

Lithuania <sup>213</sup>	€70	€35	€140	France <sup>214</sup>	€200
Malta <sup>215</sup>	€116	€116	€348	Germany <sup>216</sup>	€290
Portugal <sup>217</sup>	€120	€30	€180	Hungary <sup>218</sup>	€264
Romania <sup>219</sup>	€150	€50	€250	Poland <sup>220</sup>	€121
Spain <sup>221</sup>	€140	€91	€322	Slovakia <sup>222</sup>	€166
Sweden <sup>223</sup>	€209	€105	€419	Slovenia <sup>224</sup>	€250
UK <sup>225</sup>	€211	€62	€335		
<b>Average</b>	<b>€143</b>	<b>€55</b>	<b>€253</b>	<b>Average</b>	<b>€241</b>
				OHIM	€900

### 9.5. Annex 5: Procedural issues – opinions of the Impact Assessment Board

A draft of this impact assessment was submitted to the IAB on 21 September 2011 and discussed at the Board's meeting on 19 October 2011. The IAB issued an opinion on 21 October 2011 finding that the draft report should be significantly improved in several important aspects. The report has been substantially revised, improved and extended in order to completely comply with the opinion of the IAB.

The IAB indicated that the report should better explain the scope of the report by particularly explaining why the current OHIM fee levels appeared to be appropriate overall. In this respect, the relevant section was extensively amended and restructured to make reference to the commitment made in the previous impact assessment on the fee reduction, and to provide details on the assessment of OHIM's fees and fee structure carried out within the framework of the Max Planck Institute (MPI) Study<sup>226</sup>. Moreover, the relation to the Observatory's impact assessment is clarified, and the measures aligning the TM Directive are now covered by the scope of the present report.

The IAB also recommended that all the problematic legal issues should be presented upfront, distinguishing them clearly from the capacity-related issues and corroborating them better, using evaluation and consultation results. To this effect, the problem definition section, including the problem tree at the end, was substantially restructured, modified and expanded by better defining, distinguishing and substantiating the relevant problem drivers, the corresponding problems and the adverse consequences they cause. The drivers relating to the divergences of the regulatory framework (including the missing clear legal basis for cooperation) are kept clearly apart from those concerning the cooperation capacity of IP offices. With regard to the technical cooperation capacity of offices, the revised draft now

212 <http://www.prh.fi/en/tavamerkit/hinnasto/hakemusmaksut.html>  
213 [http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=151225&p\\_query=&p\\_tr2=2](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=151225&p_query=&p_tr2=2)  
214 <http://www.inpi.fr/fr/marques/deposer-une-marque/combien-coute-un-depot.html>  
215 [https://secure2.gov.mt/ipo/Intellectual\\_Property\\_Office\\_Malta/FAQ.aspx?ct=1](https://secure2.gov.mt/ipo/Intellectual_Property_Office_Malta/FAQ.aspx?ct=1)  
216 [http://www.dpma.de/english/trade\\_marks/fees/index.html](http://www.dpma.de/english/trade_marks/fees/index.html)  
217 [http://www.marcaspatentes.pt/files/collections/eng\\_US/28/29/30/Table%20of%20Industrial%20Property%20Fees%202012-2013.pdf](http://www.marcaspatentes.pt/files/collections/eng_US/28/29/30/Table%20of%20Industrial%20Property%20Fees%202012-2013.pdf)  
218 [http://www.hipo.gov.hu/English/vedjegy/vedjegy\\_dijtablazat\\_en.pdf](http://www.hipo.gov.hu/English/vedjegy/vedjegy_dijtablazat_en.pdf)  
219 [http://www.osim.ro/index3\\_files/trademarks/amountt.pdf](http://www.osim.ro/index3_files/trademarks/amountt.pdf)  
220 <http://www.uprp.pl/oplaty-zgloszeniowe/Lead05,173,1755,4,index.pl,text/>  
221 [http://www.oepm.es/export/sites/oepm/comun/documentos\\_relacionados/Tasas/Tasas\\_Signos\\_Distintivos\\_1\\_Julio\\_2012.pdf](http://www.oepm.es/export/sites/oepm/comun/documentos_relacionados/Tasas/Tasas_Signos_Distintivos_1_Julio_2012.pdf)  
222 <http://www.indprop.gov.sk/?administrative-fees-trademarks>  
223 <http://www.prv.se/en/Trademarks/Fees-and-payment/>  
224 <http://www.uil-sipo.si/sipo/addition/resources/fees/trademarks/>  
225 <http://www.ipo.gov.uk/types/tm/t-formsfees.htm>  
226 See footnote 23.

provides substantial evidence (reflected in the new figures 3 and 4) demonstrating the limited availability of e-services at national offices and their low degree of automation.

The IAB further recommended that the report present a full baseline scenario that reflects the established practice of OHIM to cooperate with national offices bilaterally, the improvements generated by the Cooperation Fund, and the synergies created by the takeover of the above Observatory by OHIM. The relevant baseline section was significantly amended to this effect, and all the aspects recommended by the IAB are now addressed therein.

The IAB also recommended that the subsidiarity section should better demonstrate the need for further harmonisation of the trade mark systems in Europe and alignment of the TM Directive with the CTM Regulation. The relevant section was substantially revised and extended to meet that request.

The IAB as well recommended that the report present policy objectives and options that better correspond to the identified problem drivers in order to establish a clear intervention logic. The relevant objectives section was redrafted to more clearly indicate the scope and goals of the proposed revision of the European trade mark system. Both the newly defined operational objectives and the respective options offered now entirely correspond to the identified problem drivers. As further recommended by the IAB in this context, the specific measures included in each of the policy options are now described in greater detail. Moreover, as regards the related recommendation to consider additional options, the revised report now considers the option of redistributing the remaining surplus by increasing the budget of the Cooperation Fund. In compliance with a further recommendation, the revised report now also makes clear (not least by reference to a new Annex 2) for each element of the policy options, if a modification of the CTM Regulation and/or the TM Directive is necessary. As further recommended by the IAB, the available options on financing cooperation activities from the OHIM budget are now presented as self-standing options and their analysis structured accordingly.

The IAB also recommended that the impacts of the selected options be better analysed. To this effect, the relevant sections of the revised report now fully justify the need to make the cooperation between national IP offices and OHIM mandatory, and demonstrate better that the preferred policy option would not cause an imbalance in the OHIM budget. Moreover, particular focus was given on strengthening the important international impacts.

The revised draft of this impact assessment was submitted to the IAB on 10 Januar 2012. The IAB issued a second opinion on that revised draft on 3 February 2012, confirming that the report had been improved to a significant extent along the lines of the IAB's first opinion. The report has been further revised and improved in order to address the remaining points raised by the IAB.

The IAB recommended that the problems related to the problem drivers (i.e. non-harmonised substantive law issues and optional provisions in the TM Directive) should be explained and corroborated with evidence, as is done in the case of the missing procedural rules in the TM Directive. To this effect, the relevant section explaining the insufficient level of harmonisation as regards substantive law, including optional provisions, was substantially extended so as to substantiate the individual problems related to the protection of geographical indications, the rules applicable to trade marks as objects of property, the provisions concerning collective trade marks, and optional provisions. The IAB further recommended making clearer the provisions not addressed in the problem definition due to their limited

impact. In this respect, Annex 2 was improved in order to make it clearer which proposed amendments are addressed in this impact assessment and which are not. Moreover, in response to the recommendation to better explain the aspect of predictability of trade mark systems, a detailed definition of predictability was added in a new footnote, the first time it is referred to in the text.

With regard to the cost-benefit analysis carried out by OHIM in relation to the Cooperation Fund projects, the IAB further recommended that the report should explain in detail how the estimates for potential benefits have been derived, and should list the underlying assumptions. To this effect, a new Annex 8 was added to chapter 9. Moreover, the IAB recommended to present those benefits within the impact analysis of the relevant policy solutions. The text in the relevant sections was adjusted accordingly. Furthermore, the baseline scenario was complemented by detailed explanations of the benefits generated by the projects already launched under the Cooperation Fund, as further advised by the IAB. Upon recommendation of the IAB, the base line scenario was finally also revised to make reference to the harmonisation already achieved at the international level.

The IAB further advised better justification of the lack of alternative policy solutions. To this effect, it was clarified in the text of the chapter identifying the options that the latter resulted from the outcome of the evaluation of the overall functioning of the European trade mark system. Moreover, upon recommendation of the IAB, the correlation between the launch of the new funding mechanism for cooperation activities and the apparent ongoing existence of the Cooperation Fund was better explained.

Overall, the report has been revised in order to provide greater transparency on the views of stakeholders, as recommended by the IAB. Both appropriate cross references to the MPI Study and an extra Annex 7 summarising the most relevant statements made by user associations were added.

Finally, the impact assessment took into account recommendations from DG BUDG regarding the parts dealing with financial matters and OHIM's budget. The options related to funding of cooperation under the OHIM budget were reconsidered. The revised report took into account further (legal and budgetary) elements which resulted in a change in the originally preferred option (i.e. funding from the OHIM operational budget by means of grants instead of a distribution mechanism based on renewal fees). Moreover, to the problem definition part, non-harmonisation of trade mark procedures, new paragraphs were added dealing with drawbacks linked to potential congestion of registers. The analysis of available options was completed accordingly (new element: harmonisation of number of classes of goods and services to be covered by a single trade mark application, including the necessary adjustment of some OHIM fees). The preferred option remained the same in this case.

## 9.6. Annex 6: Cost of cooperation activities

When estimating the cost of future cooperation activities between OHIM and national offices, aimed at convergence of practices and development of common tools, the cost of several existing frameworks was taken into consideration.

- **Bilateral cooperation agreements:** These arrangements are aimed at financing specific information and advice services related to the CTM. They may also cover costs related to fairs, exhibitions and publications as well as organisation of seminars, workshops etc. Finally, some national offices co-fund by these means their



seniority databases. Bilateral cooperation agreements between OHIM and national offices first started in 2005 when 13 offices participated. The below table shows the expenditure related to these activities in the past years as well as the number of participating offices.

**Figure 21: Expenditure for bilateral cooperation agreements in 2009 – 2012**

	2009	2010	2011	2012 (estimated cost)	
	OHIM contribution (80%)	OHIM contribution (80%)	OHIM contribution (80%)	Overall cost	OHIM contribution (80%)
Number of participating offices	20	22	25	25	25
<b>TOTAL</b>	1,818,721.43	2,371,147,58	2,113,590.48	3,052,238.45	2,441,790.76

Source: OHIM

- **Cooperation Fund:** As mentioned in previous parts of this report, the creation of the Cooperation Fund was agreed in 2008, including its allocation of €50 million. The implementation of first projects under this Fund, including financial engagements, started in 2011 and it is expected that the final project will be completed by 2015. The Cooperation Fund itself covers only the operational cost of particular projects. The cost related to the management of the programme as a whole and of each particular project are borne by OHIM from its operational budget. The Office estimates that this additional management cost will amount to approximately €5 million in total (€1 million a year). Moreover, the overall cost of the agreed projects<sup>227</sup> may exceed the original budget of € 50 million. The Office has committed to allocate further money to to this programme, if needed.
- **Multilateral cooperation projects:** In parallel to the above bilateral agreements, a number of multilateral projects between OHIM and national IP offices have been launched since 2006, namely TMView and Euroclass. As these initiatives have been taken over by the Cooperation Fund the cost of their set up is not specifically included when calculating the current expenditure on cooperation. In this context, only their "running" cost is taken into account. The running (or maintenance) cost is the expense which offices participating in a particular cooperation project incur, once it has reached its cruising speed. In principle, this cost is due to the need to maintain available data (e.g. via website services) and to update them regularly. It may encompass expenditure related to IT administration (staff managing the servers, supporting incidents and solving problems), hardware acquisition (renting or depreciation of hardware cost), maintenance support for hardware (maintenance of servers, 24x7 support, utilities such as space, power and cooling) as well as regular (daily) communication of data from national offices to the central hub (database) at OHIM. Based on the OHIM calculations, the running cost for a big project (such as the TMView) amounts on average to € 132.000 a year. Accordingly, if all 25 national

<sup>227</sup> In total, 18 cooperation projects have been identified to be financed out of the Cooperation Fund. However, the overall cost of the whole programme cannot be precisely forecasted at this stage since it would depend to a large extent on the numbers of national offices participating in each particular project. It should be noted in this context that national office do not need to participate in all projects and are able to join also in the course of the project's implementation.

offices participate in such a project their running costs in total will be € 3,3 million a year.

The overall cost linked to the ongoing cooperation activities is summarised in the below table.

**Figure 22: Overview of current cost of cooperation (rounded figures in million €)**

	Overall cost (where applicable)	Cost per year
Bilateral agreements		3,0
Cooperation Fund – projects	50,0+	10,0+
Cooperation Fund – management		1,0
Multilateral projects – running cost		2,0+ per project (e.g. 3,3 for TMView )
<b>TOTAL</b>		<b>16,0++</b>

Source: OHIM

With a view to the future cooperation scheme, the following issues should be clarified:

First, the Cooperation Fund and existing bilateral and multilateral cooperation projects will cease to exist with the launch of the new funding mechanism for cooperation, based on grants. It is foreseen that the current common actions will be covered from this income in the future. In terms of cost, it is expected that the expenditure related to the current bilateral agreements will remain at the same level (€ 3 million a year).

Second, it is planned that with the funds already allocated to the Cooperation Fund the development of a number of valuable projects will be finalised. In order to ensure that these common databases and other tools really achieve the intended objective and remain "alive" (see section 3.2.2.2) it is of utmost importance to ensure their stable and long-term financing in order to cover the "running cost". Accordingly, upon the completion of the Cooperation Fund there may be a significant change in the funding needs. It is expected that the expenditure on development will decrease (depending on the number of new common initiatives, see below) and the running cost increase. For example, if only five projects, currently under development, were up and running upon the closure of the Fund, their funding needs by then could be estimated, based on current experience, at € 10 million a year.

Third, the implementation of the Cooperation Fund has revealed that the current common projects are limited to a number of selected initiatives. When preparing the work programme for the Cooperation Fund, for example, proposals for 126 cooperation actions (including overlaps) were submitted from user organisations and national IP offices. Eventually, the Fund was deemed to be able, mainly for budgetary reasons, to encompass only 18 initiatives. This experience indicates that the finalisation of the Cooperation Fund will not be an end point, but that there will be need for additional common projects in the future. It is not expected, however, that these new initiatives will be as great as the Cooperation Fund. When estimating the cost of future cooperation activities, therefore, only one third of the related current expenditure (setting up plus management cost) was taken into account (€ 3 million a year). Last but not least, many national offices have not been able so far to join several cooperation projects for the reasons of budgetary and/or other restrictions. Therefore, it might be expected that as soon as an appropriate legal, technical and financial framework is provided the participation rate will significantly increase which in turn may further increase the cost of setting up new projects.

Based on the above figures and other considerations, it might be estimated that the overall amount needed to finance cooperation activities between OHIM and national IP offices would slightly increase compared to today's situation and be in terms of € 17 – 20 million per year and possibly higher.

## **9.7. Annex 7: Summary of the main statements made by user associations**

### *9.7.1. General position regarding the coexistence of the trade mark systems in Europe*

User organizations agree that the coexistence of CTMs and national trade mark rights is fundamental and necessary for the efficient functioning of a trade mark system capable of meeting the needs of businesses. Despite the generally positive view on the structure of the two systems, a number of user organizations express concerns that the relationship between these two systems is not well balanced. It is noted that following the current legal regulation and practice, users have been encouraged to seek exclusive rights in Community trade marks beyond their realistic scope of interests, i.e. without the intention and possibility of using them in the whole of the EU (ECTA, COAPI, FICPI). User organizations indicate several issues which should be reviewed in order to facilitate a proper balance between the systems. (Source: MPI study, Chapter 2, paragraphs 2.2 - 2.3).

### *9.7.2. National trade mark systems*

According to user organizations significant divergences between the national systems still exist. These divergences are due to the optional provisions in the TM Directive and the fact that the Directive does not cover procedural aspects and rules on trade marks as property (e.g. assignment, licensing). Furthermore, national offices tend to interpret legal provisions differently. User organizations unanimously state that further harmonization of national trade mark laws, with regard to both substantive law and procedural issues, is needed. Regarding substantive law, user organizations suggest that the currently optional provisions of the TMD should be made mandatory (AIM, AIPPI Belgium, APRAM, ECTA, FICPI). According to MARQUES, provisions governing the possibility to base an opposition or a request for cancellation on a well-known national mark (Article 4 (4) (a) TMD) should be made mandatory; ECTA indicates that Article 3 (2) (d), Article 3 (3) and Article 4 (4) (a) TMD should in particular be made mandatory. According to INTA, harmonization of provisions relating to trade marks as property should also be considered, including such aspects as recordal in the trade mark register of assignments and licenses, or the right of the licensee to take legal action against trade mark infringements (source MPI study, paragraphs 2.4-2.5 and 2.8).

Regarding procedural issues, user organizations suggest the harmonization of inter alia (a) whether relative grounds are examined ex-officio or only upon opposition (e.g. AIM, AIPPI Belgium, MARQUES propose the abolition of examination of earlier rights ex-officio; ECTA also suggests that national offices should only examine absolute grounds); (b) whether a system of pre-registration or post-registration opposition should be adopted (most user organizations generally express support for pre-registration oppositions (AIM, AIPPI Belgium, APRAM, COAPI, FICPI, GRUR, ITMA, LESI); (c) the possibility to deal with opposition, revocation and cancellation proceedings at the national offices without having to refer to long and costly court procedures (APRAM, ECTA, INTA); user organizations indicate the necessity of uniform guidelines concerning registrability and proof of use requirement (MARQUES). ECTA proposes to provide for request for proof of use in cancellation proceedings and opposition proceedings (MPI study, paragraphs 2.9-2.10).

Besides legal aspects, user organizations stress the necessity of better harmonisation of national offices' practices, processes and procedures as well as the interpretation of legal rules by the courts. A number of particular measures have been suggested to facilitate the harmonization of practices throughout the EU, including closer cooperation and the development of common guidelines; creation of a single repository for all CTM court decisions to be translated into the major languages of the EU; establishment of common performance standards between the offices; education and seminars, better communication and exchange of information, development of common tools etc. Regarding E-business tools user organizations are unanimous that all national offices should further improve and harmonize their use of technology and their accessibility to users, thereby becoming more transparent in their procedures. Such E-business tools should include unique online systems providing options for e-filing, online access, e-renewal, e-payment and e-oppositions as well as easily searchable databases. The possibility of a single EU databank which contains all trade mark rights or "one-stop" online searching should also be considered (ECTA, INTA) (MPI study, paragraphs 2.11-2.13).

#### *9.7.3. National offices and cooperation with OHIM*

All user organizations agree that the main role and mission of the national offices and OHIM should be the fast and efficient delivery of a legal title to trade mark protection, and the resolution of conflicts amongst trade marks, as well as related rights by handling opposition proceedings, cancellation and invalidation requests, in a timely and cost efficient manner. ECTA, AIM, MARQUES stress the importance of financial autonomy of national offices as it provides a stimulus to seek improvement of services rendered at the best cost / benefit ratio (e.g. by the use of new common IT-tools (AIPPI Belgium, MARQUES). Most user organizations maintain that any distribution of part of the OHIM renewal fees to national offices should not be automatic but should be substantiated by appropriate tasks to the benefit of the users (AIM, APRAM, ECTA, EFPIA, FICPI, ITMA, VFA (MPI study, paragraphs 2.14 and 2.17).

#### *9.7.4. Community trade mark system*

Regarding the issue of graphical representation of trade marks, COAPI and ECTA state that the requirement should be maintained. In that context it is suggested to think about how non-traditional trade marks (e.g. olfactory marks, taste marks, etc.) could be represented (e.g. GRUR, MARQUES). AIM, APRAM, GRUR, INTA propose that the system should be opened to other possibilities or the establishment of new conditions to represent new forms of trademarks (e.g. sound file as computer file). FICPI is also in favour of a broader definition. INTA indicates that currently there seem to be inconsistencies in the application of standards for registration and requirements for graphic representation that vary between national offices and OHIM (MPI study, paragraph 2.22).

Most user organizations (AIPPI Belgium, COAPI, ECTA, EFPIA, FICPI, GRUR, INTA, ITMA, LESI, MARQUES) do not support the OHIM's practice of encouraging lists of goods and services corresponding to the Nice class headings, indicating that it leads to unnecessarily broad specifications of goods and services for which the applicant has no intention to use the mark, or they claim at least that further conditions should apply so as to ensure a precise and uniform use of the classification system (AIPPI Belgium). On the other hand, AIM is of the opinion that the current practice should not be changed as it meets business needs (MPI study, paragraph 2.28).

Most user organizations are in favour of the current OHIM practice whereby no ex-officio examination of relative grounds is being performed (AIM, AIPPI Belgium, ECTA, EFPIA, GRUR, LESI, MARQUES, VFA), although different opinions also exist. The majority of user organizations are also in favour of the current preregistration opposition system, as opposed to post-registration opposition (AIM, APRAM, COAPI, ECTA, FICPI, LESI, ITMA,). INTA has expressed a general position that systems which only examine for absolute grounds should maintain pre-registration opposition systems to ensure that relative grounds can be considered prior to the registration of trade marks (MPI study, paragraph 2.34).

## 9.8. Annex 8: Findings of a Social Cost Benefit Analysis

This is an excerpt from the Social CBA analysis carried out by OHIM between July 2010 and June 2011 for the Cooperation Fund projects. As any CBA analysis, it is intended to be an estimate based on assumptions and parameters which may not always prove to be accurate. The estimate can only be considered a first approach to identifying possible social benefits of investments, without giving either a guarantee or a commitment for specific benefits.

This CBA adopted the point of view of society. This means that it considered not only tangible results, such as cost-savings, but also indirect impacts on beneficiaries, such as satisfaction and time-saving for businesses. It also assessed how cost and benefits would be distributed among stakeholders: OHIM, national IP offices and businesses using their services. The CBA was carried out for two groups of projects, both of which were launched in 2011 (January and September). These projects are currently in the implementation phase. Only two projects have been closed out to date: IT architecture and seniority projects. The time span used for the first group CBA was 15 years. This was then revised to 10 years for the second group, which was considered to have a shorter payback period. In both cases the yearly discount rate is 5%. The CBA used conservative estimates and assumptions, e.g. on expected process improvements, increases in business volume or number of national IP offices participating.

The CBA concluded that all projects would produce a net benefit to society and would be therefore worth going ahead with. It also suggested foreseeing "gates" within each project to refine the analysis based on more updated information and fewer assumptions. These gates would allow for a project to stop if it appears no longer feasible.

Each CBA started by considering the benefits that would accrue to the businesses registering trademarks, to the IP offices, and to OHIM. For example, in the case of e-filing, the project is meant to achieve three major objectives:

- Improve the **experience of businesses**, with a reduction of time spent, a more predictable and transparent outcome, fewer errors and lower legal costs.
- Ensure **efficiency savings** for IP offices. The interests of IP offices and businesses often coincide: for example, faster processing time are an efficiency gain for IP offices and a benefit for businesses which use their services.
- These efficiency gains in turn could translate into a **reduction of fees or improved services for businesses**, as in the long term IP offices are assumed to operate on a non-profit basis.

### 9.8.1. Packet 1 projects

The table below provides an overview of the results of both CBA broken down by project.

**Figure 23: Final overall CBA table for all Packet 1 projects**

	Cost	Benefit OHIM per year	Benefit IP offices per year	Benefit businesses per year	Total benefit per year	Net Present Value over 10 years
<b>Search Image</b>	-1,118,000	194,435	1,944,355	3,889,908	6,028,698	23,642,448
<b>Seniority</b>	-722,000	58,324	1,173,539	887,925	2,119,788	6,970,156
<b>Quality</b>	-485,000	415,549	415,549	1,952,956	2,784,054	9,375,875
<b>Designview</b>	-2,257,000	265,000	500,000	1,370,000	2,135,000	6,123,727
<b>Similarity</b>	-823,000	162,000	545,541	1,327,205	1,872,746	5,353,448
<b>CESTO</b>	-1,522,000	295,000	1,745,000	2,848,357	4,545,945	15,583,640
<b>Architecture and Standards</b>	-874,000	50,000	150,000	Not calculated	200,000	620,000
<b>E-learning</b>	-1,130,000	36,000	105,853	243,696	385,549	5,751,173
<b>TOTALS</b>	<b>-8,931,000</b>	<b>1,476,308</b>	<b>6,579,837</b>	<b>12,520,047</b>	<b>20,576,192</b>	<b>73,420,467</b>

Source: OHIM

The figure above shows that this package of options would produce net benefits far outweighing the costs. In the first case a cost of approximately € 9 million would yield a net benefit above € 73 million over 10 years. This means that each Euro of cost would yield over € 8 of net benefit. The ratio between cost and net benefit of most individual projects over 10 years is in line with the 6% average and ranges between 1% and 9%.

Note: Two very conservative assumptions have been made: one, that 10 offices implement each of the tools (we have received expressions of intent to implement for far higher numbers); and, two, that tools only deliver benefits for a ten-year period including the development time. This excludes the long-term benefits of harmonisation. All these figures are work in progress and will be updated on a regular basis.

The above table shows that most of the net benefit accrues to businesses.

### 9.8.2. Packet 2 projects

The table below shows the costs and benefits for Packet 2 projects. The first column contains the costs of each project, while the subsequent four columns show the average annual benefits for OHIM, the participating IP offices, the businesses, and the total. Finally, the last (highlighted) column shows the Net Present Value of the net benefits of each project, discounted over 10 years using a discount rate of 5%.

**Figure 24: Final overall CBA table for all Packet 2 projects**

	Cost	Benefit OHIM per year	Benefit IP offices per year	Benefit businesses per year	Total benefit per year	Net Present Value over 10 years
<b>Future Software Package: E-filing for Trademarks</b>	-4,399,150	45,000	949,689	8,876,329	9,871,018	45,337,752
<b>Database supporting Enforcement of IP Rights and Counterfeiting</b>	-1,798,940	900,000	470,800	132,307,704	133,678,504	666,556,678

<b>Intelligence Support Tool</b>						
<b>Harmonised User Satisfaction Survey</b>	-645,754	120,000	2,675,062	0	2,795,062	15,793,074
<b>Common Gateway for Applications</b>	-790,691	675,000	15,650,800	238,750	16,564,550	96,376,700
<b>Common Call Centre Tool</b>	-1,388,508	990,000	3,942,070	3,637,500	8,569,570	27,229,170
<b>TOTAL:</b>	<b>-9,023,043</b>	<b>2,730,000</b>	<b>23,688,421</b>	<b>145,060,283</b>	<b>171,478,704</b>	<b>851,293,374</b>

Source: OHIM

Packet 2 would cost approximately € 9 million and produce a net benefit to society worth a staggering € 171 million yearly with a present value of € 851 million over 10 years. The CBA revealed that the most efficient project would be a database supporting enforcement of IP rights and counterfeiting intelligence support tool: it would cost approximately € 1,8 million and produce alone almost 80% of the total net benefits. This means that one Euro of cost on this project would produce € 371 of net benefit over 10 years. Other projects are comparatively less efficient, but still definitely worth going ahead with, as on average one euro of cost compares with approximately € 26 of net benefit.

In relation to the TMview and Euroclass projects, launched before the kick-off of the Cooperation Fund, an ex-post simplified CBA analysis has been conducted which provides the following estimates:

**Figure 25: Overview for TMView and Euroclass**

	<b>Cost</b>	<b>Benefit IP offices per year</b>	<b>Benefit businesses per year</b>	<b>Total benefit per year</b>	<b>Net Present Value over 10 years</b>
<b>TMView</b>	2,330,798	1,909,600	1,672,925	3,582,525	5,108,184
<b>Euroclass</b>	5,880,692	694,444	923,710	1,618,154	5,353,198
<b>TOTAL:</b>	<b>8,211,490</b>	<b>2,604,044</b>	<b>2,596,635</b>	<b>5,200,679</b>	<b>10,461,382</b>

Source: OHIM

Note: The above simplified CBAs for TMview and Euroclass is based on tools with 25 offices participating in. It is based on the following assumptions:

TMview: end users benefit from reduced commercial search service costs<sup>228</sup> (since use of TMview is free of charge) and reduced national search reports fee payments when filing CTMs, plus reduced labour costs related to the time needed for conducting searches (TMview being a single search tool with results in seconds); offices benefit from OHIM's subsidy of their running costs derived from servicing TMView

<sup>228</sup> For purposes of this CBA, the rates for SAEGIS' online searching have been considered (Source: <http://trademarks.thomsonreuters.com/price-list>, being the price 2.65 US Dollars per search.). The national search fee cost for CTM applicants is 120 euros per CTM application for which applicant requests a national search.

Euroclass: end users benefit from a decrease of refusal decisions, thanks to the pre-filing use of Euroclass search results, while offices benefit from reduction in time of examination due to use of pre-accepted terms shown in Euroclass for classification purposes, thus gaining efficiency.

### 9.8.3. Assumptions underlying benefit calculations

The key assumptions used to calculate the benefits for each project are outlined below. In general, the benefits to OHIM and the IP Offices consist of efficiency gains due to the reduction in the number of calls and e-mails and other streamlining of processes, and in most cases a modest increase in the number of trademark applications filed as a result of improved user experience or increased perceived value of a trademark once stronger enforcement tools are deployed. For businesses, the main sources of benefits are a reduction of harm from counterfeiting and piracy, as a result of more efficient enforcement tools, a reduction in legal expenses to conduct various proceedings before OHIM and the other IP offices, and a reduction in *inter-partes* cases, such as oppositions resulting from more effective search and information tools provided at the time or before filing of the application.

**Figure 26: Main assumptions behind benefit calculations**

	<b>OHIM</b>	<b>IP Offices</b>	<b>Business</b>
<b>Future Software Package: E-filing for Trademarks</b>	– 10% reduction in number of calls, e-mails and complaints.	Reduction of the number of examiners (1.3 FTE per office); 1% increase in number of TM applications; 15% reduction in number of calls, e-mails and complaints.	50% reduction in refusals on Absolute Grounds and formalities; 10% reduction in the number of oppositions; 5% reduction in the number of cancellations Increase of 3 percentage points in the number of applications filed without using intermediary; 5% reduction in the number of calls, e-mails and complaints filed with IP offices.
<b>Database supporting Enforcement of IP Rights and Counterfeiting Intelligence Support Tool</b>	1% increase in number of CTM filings.	1% increase in number of TM filings.	1% reduction of revenue lost due to piracy and counterfeiting; 10% reduction in the number of legal actions.
<b>Harmonised User Satisfaction Survey</b>	Savings in consultant costs to carry out survey.	Avoided cost to develop and run own survey; Savings in consultant costs to carry out survey; 1% increase in number of TM filings due to higher customer satisfaction.	No direct benefits.
<b>Common Gateway for Applications</b>	1% increase in the number of CTM filings; 20% reduction in examiner training cost due to on-going best practice exchange and	1% increase in number of TM filings; Avoided cost of “look and feel” adaptations of individual applications; Avoided cost of “label	10% reduction in the number of calls, e-mails and complaint filings.



	knowledge transfer.	translations” for individual applications; 20% reduction in examiner training cost due to on-going best practice exchange and knowledge transfer.	
<b>Common Call Centre Tool</b>	20% reduction in the number of calls, e-mails and complaints forwarded from other IP offices; 1% increase in the number of CTM filings.	Avoided costs of developing own call centre solution; 1% increase in number of TM filings.	Efficiency gains due to reduction in time spent (by intermediaries) on obtaining information from OHIM and other IP offices.
<b>Common assumptions;</b>	Time horizon is 10 years; Discount rate used to calculate NPV is 5%; On average, 10 IP offices participate in each project.		

Source: OHIM

#### 9.8.4. *Comments on broader social impacts*

- As far as legal costs for enterprises are concerned, taking into account that 99.8% of companies in EU27 are SMEs, and that overall they don't have big market power, it can be assumed that a significant part of their savings would be transferred to consumers via lower prices. This conclusion, however, depends on the specific market conditions in each sector.
- Conversely, the legal profession is among the "losers" of some of these projects, as legal costs savings would mean the reduction in the use of this intermediary. Such intermediaries would need to transition towards provision of higher value-added services to their clients to make up for the lost revenue.
- Employment effect: the CBA carried out by OHIM calculated that some of the efficiency gains would materialise through a potential re-deployment of staff, particularly information centre employees dealing with customer inquiries and even examiners. This would allow offices to focus their resources on improving service provided to business. In terms of quality of work, the image boost for IP offices would translate into higher commitment and motivation of employees.