

Brands in the Boardroom 2007

The advantages of the Community trademark system

Nederlandsch Octrooibureau

*A supplement to **Intellectual Asset Management** magazine*
www.iam-magazine.com
This text first appeared in the IAM magazine supplement 'Brands in the Boardroom 2007' April 2007

The advantages of the Community trademark system

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On 25th March 2007 the European Union celebrated its 50th anniversary. Numerous facts can be mentioned in this regard, both positive and negative, but one of the objectives of the EU is to reduce business costs by means of a free market economy. One of the results of this is the Community trademark (CTM). But does the CTM system actually lead to cost reduction? Has it delivered what was expected?

Prior to being able to register a CTM, two routes were available for trademark registration in the various countries of the European Union: the national route or the international route.

The national route is, of course, the most straightforward. Filing occurs in those countries where a market share is present or is anticipated. The national procedure of each country is followed. Any refusal or problems encountered in a particular individual country have no repercussions on procedures or protection in any of the other countries in which one may have filed an application. It is not a bad system, but neither is it cost efficient. This is due not only to the costs linked to every individual procedure, but also to the substantial expenditure linked to the internal costs of managing the processes and costs of maintaining the various national rights. It was precisely for this reason that the international route was frequently used prior to the introduction of the CTM.

The Madrid Treaty

The international route was created by the Madrid Treaty in 1891. The most important considerations for agreeing the Treaty were: "To offer a trademark owner the possibility to have his trademark protected in several member countries by simply filing one application directly with his own national or regional trademark office. The achieved registration has the same effect in the member country as a national registration".

The system thus enables protection of a trademark in a large number of countries by means of filing a single application. The system is open to any natural person or legal entity having a connection to a member state. More simply phrased in respect of companies, this means an international application may be filed as soon as residency is a fact. However, before doing this, a home registration must be achieved in the country of origin. An international application can be filed only on the basis of such a registration.

Upon filing the international application it is possible to designate every member state for which protection is required. Immediately upon filing the application, WIPO merely examines the application on formal grounds. If the formal requirements are met, the trademark is entered in the International Register and forwarded to all national authorities of the designated countries. At that point in time the trademark is further examined on the basis of the respective national legislatures. This can mean that the trademark is examined in the UK on both material and absolute grounds and, for example, in the Netherlands merely on material grounds.

If the authorities have grounds to refuse a trademark they must notify WIPO within 12 (or 18) months of the date on which WIPO forwarded the notification of registration of the trademark. WIPO in turn will forward this notification of refusal to the owner or its representative. The refusal procedure is handled by the local authority and, in most cases, a representative needs to be appointed in the relevant country to handle the case. If the procedure is successfully dealt with, the registration becomes a fact. If the procedure is not successful, the

trademark is not confirmed for the relevant country. The individual procedures do not influence one another.

All this occurs at reduced cost. A basic amount is paid for filing an international application and additionally a fee is paid for each designated country. Upon comparing this with the costs of national filings, a substantial cost reduction is realised.

Many countries have acceded to the Madrid Treaty. However, a number of countries with a vested interest did not become members as they could not agree to a number of treaty rules. In order to allow these countries to accede, a second treaty was designed – the Madrid Protocol. This contains a number of rules that are more flexible than those of the Madrid Treaty. For example: member states may determine their own fee to be paid when that country is designated; and the timeframe within which a trademark may be refused is not 12 months after notification, but 18 months.

Many countries have now become members of both treaties. Parties to both treaties can designate all member states. If this is not the case, close attention is required to determine which states may be designated.

Advantages and disadvantages of the international system

The advantages of the international system are the possibility of realising the filing of one application against reduced costs in numerous countries versus numerous individual applications. Maintenance advantages are also provided. After 10 years, only one request for renewal needs to be filed, also with reduced costs. Advantages are also present for mergers and acquisitions. The amendments to owner details or address details may be realised with one application, and again at reduced cost.

But the system appears more ideal than it actually is in reality. A number of rules may work to the disadvantage of applicants.

The international application is linked to the home registration for the first five years. This means that if the home registration is not maintained – for example, due to a local conflict – the complete international registration lapses. If it is based on the Madrid Treaty, no conversion is possible and refiling will have to occur in those countries where no problem is actually present. If it is based on the Protocol, the possibility of conversion remains. This means that the filing may be converted to national applications, retaining the filing date of the international application. Naturally, the higher costs of the national filing procedures are thereby incurred.

A further disadvantage lies in the fact that transfer of rights is available only to corporations with a factual presence in the relevant member states. This may be an undesirable business limitation.

However, these disadvantages are apparently outweighed by the advantage of filing a single application at reduced cost and the possibility of central renewal for a number of countries. These are *de facto* the only differences between the national and international registrations. If the trademark is refused or an opposition is filed, there are no differences. The risk analysis must have been favourable or else the above-mentioned disadvantages were insufficiently apparent to management, as the international system has seen a tremendous boom. In 2006 36,741 international applications were filed, while a total of 80 countries are party to the Treaty and/or the Protocol.

A system for Europe

It is clear what a central system for the European Union should focus on – the disadvantages of the international system. And it has: an open system has been created and anybody can file a European application.

In the international system it may be considered a disadvantage that each designated country will separately examine a trademark. If a trademark is, for example, refused in multiple countries, this implies different procedures in parallel with the concomitant external and internal costs. The CTM filing system does not have this. The application is handled by the office in Alicante (OHIM) and has a central procedure, as well as a uniform law to which the trademarks are subject. The trademark is filed and examined by OHIM on formal and material grounds. If there are reasons to refuse the application, OHIM handles this.

Opposition proceedings also take place at OHIM. If there are no irresolvable problems, a trademark is registered in the CTM Register within a year. The costs are relatively favourable. On average, it appears to be cost effective to file a CTM application if an applicant has an interest in four or more European states. So, besides the advantages of filing a single application and the renewal and recordal advantages the international system offers, the CTM offers the additional advantage of having a single procedure on the basis of uniform law. This means that a CTM owner does need not to use its mark in all 27 EU member states.

Use in one country is sufficient.

Of course this system also has its disadvantages. It is not possible merely to designate a number of states. An application is always for all 27. Should research into objectionable trademarks reveal a problem in one or more of them, these states cannot be isolated. A refusal or opposition has an impact on the complete application. This means that if an opposition procedure does not proceed positively and the objections outlined by the opponent are based on national rights in one EU state, for example, the complete application lapses. Conversion is possible; however, then the costs of the national or international registration procedures are still encountered. Another disadvantage is that the right is non-divisible. The trademark right cannot be transferred for a part of the European Union.

Europe and the Madrid system

Since 1st October 2004 it has been possible for member states of the Madrid Protocol to designate the European Union. If the rate is favourable and normal European filing is not done by e-filing, an external cost advantage of around Euros 450 is achieved. The question is whether the cost advantage outweighs the disadvantages. Apart from the disadvantages of the normal CTM procedure, the additional disadvantages of international filing are incurred – in particular, the five-year dependence on the home registration of the closed system. This means that the registration is transferable only to corporations with a factual company in one of the member states of the Treaty and/or the Protocol.

There are also a number of additional disadvantages to be mentioned. Third parties have nine months after publication in which to file oppositions to the European portion of the international application. This is a very long time. Of course, this has an impact on the final confirmation of the registration; but in particular, as it provides freedom for third parties to file objections during a period of nine months, this creates a very insecure legal position. In addition, if OHIM refuses the international trademark or an opposition is filed against it, a representative must be appointed within one month of the notification thereof within one of the European Union states. Should this be forgotten the international registration lapses for Europe.

So there are a lot of disadvantages for a profit of approximately Euros 450. Nonetheless, the option of designating the European Union via the international system is used quite regularly. In 2006 the European Union was designated 10,640 times. A reason could be that if the application for registration is carried out not directly but via a representative, the difference in costs may be higher than Euros 450 because the representative (the agent) has to use a European representative (agent) to carry out the CTM filing. However, even then the disadvantages outweigh the advantages, in my opinion.

Only one advantage can be seen regarding the possibility of designating the European Union based on the Madrid Treaty or Protocol and that is the opting-back clause. This means that, in case of a definite refusal of the trademark by OHIM or loss of the registration through opposition proceedings, the European states in which there are no problems may be designated on the basis of the international registration against payment of the fee for a territorial extension. These fees are lower than the filing fees. A basic fee is paid that is lower than that paid upon filing an international application. The costs per designated state are also generally lower. This generates a cost advantage *vis a vis* the other options – conversion in each separate state or filing an international application for the states that do not present a problem.

The best strategy for Europe

Based on the above, the best way to approach trademark applications for a number of European countries is to go for a separate CTM filing. The initial filing costs might not be the lowest, but they do not differ much from the cheapest option. The advantages in terms of both internal and external costs for carrying out a single procedure for a number if not all 27 states are so substantial that this most certainly outweighs the initial cost difference. In addition, the open system provides an advantage. The possibility of non-transferability to specific legal entities is not an issue. In addition, there are the communal advantages of a single application realising a register amendment for all 27 countries. Also, there is the fact that only one request for renewal is required after 10 years. In addition, the EU extension means (until now) automatic protection in the acceded states.

Because the right is indivisible, however, there are situations in which a CTM filing is not the ideal choice. This is clearest where a previous examination into objectionable

trademarks reveals that a problem actually exists in some European states. If the chances are higher than 75% that an opposition will prevail, it is not a good idea to make a CTM filing. In such cases, it is advisable to file an international application and designate the states individually.

The decision becomes more difficult when potential problems exist and the chances of a successful opposition are about 50%. In reality, this situation will occur a lot, because most examinations for objectionable trademarks show some of these trademarks. Of course, it is advisable to research the position of the other party, but if this does not change the position, what should one do – an international filing designating the individual states or a CTM filing? I would still go for the CTM filing.

In my opinion, it is preferable to deal with the problems centrally rather than dealing with them separately in each state. If you do the latter there are too many different factors that can play a role in influencing the outcome. Just think of the application of the supposedly EU-wide legislation by the various authorities and the independence of the various representatives. Additionally, the costs will be high. Carrying out a single procedure is thus advantageous. Should the procedure be lost, it will have become apparent in which states insurmountable problems prevail and thus one may proceed to international registration for those states not presenting such problems.

Of course, one may also choose designation of the European Union via the international system in order to be able to avail oneself of the opting-back procedure. In particular, this is an option if one wishes to keep initial costs to a minimum. I would not advise it, however. To my mind, this cost advantage does not outweigh the disadvantage of the risk of the five-year dependence on the home registration.

What can be done in the case of a weak trademark? Of course, it is possible to designate each state separately via the international system and to see where registration can be achieved. However, one must bear in mind the costs of each separate procedure, which also influence the internal costs. As the OHIM refusal policy according to European points of view may be considered very reasonable and average, yet again a CTM filing does not seem to be a bad option. The central handling at least provides a cost advantage. Should a definite refusal be the result, conversion to states where the trademark may have a chance is still possible. Also, here it is possible to consider designating the CTM via the international system in order to avail oneself of the opting-back clause. Here also the considerations regarding five-year dependency and costs will have to be taken into account.

Conclusion

Not all measures and results of 50 years of the European Union can be called positive. However, the introduction of the Community trademark has achieved its objective. Notwithstanding that there are situations in which a CTM filing is not the best option, it has turned out to be a transparent and relatively cost-advantageous system in comparison to the existing methods. It therefore exerts influence on the free market economy in Europe.



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