

# AIM POSITION PAPER

## INITIAL COMMENTS ON THE PROPOSALS TO REVISE THE EUROPEAN TRADE MARK SYSTEMS

AIM TRADE MARK COMMITTEE

MAY 2013

## Initial comments on the proposals to revise the European Trade Mark Systems: AIM Trade Mark Committee

The Trade Mark Committee of AIM, the European Brands Association<sup>1</sup>, commends the European Commission on the proposals to modernise the European trade marks systems, as published on 27<sup>th</sup> March 2013<sup>2</sup>.

We set out below some comments which we trust will assist the European Parliament and EU Council in their deliberation of this important package, which includes many generally positive steps to enhance the entire systems of trade marks in Europe and support European brand holders in their essential contribution to the growth and competitiveness of the EU.

We focus these initial comments on the most important aspects of the proposed package, with which we are broadly in favour, but will of course return to you with further points as appropriate. For the time being, we have restricted ourselves to some headline issues in the texts as written, together with a number of additional positive suggestions which we hope will allow us to maximise this key opportunity to further improve the trade mark systems.

### 1. Terminology

The proposal to amend the name of OHIM to the “European Union Trade Marks and Designs Agency” is clearly positive; the current name is rather confusing for the wider public. “European” as opposed to “Community” Trade Marks also makes sense, although we suggest that “European Union Trade Mark” would be preferable for legal certainty.

For clarity, in the following comments we refer to “the Agency”/“OHIM” and “EUTMs”/“CTMs” as appropriate, the “CTMR” for the draft amending Regulation and the “TMD” for the draft recast Directive.

### 2. Fees & funding

#### 2.1 Fees

AIM is very pleased that the Commission recognises that **fees before the Agency should be reduced**. As we have consistently stressed, registration of a trade mark is an essential first step for any aspiring brand holder, as only thereafter can they start safely to invest in developing and building their brand. The value of the trade mark is in it being a badge of origin for the benefit of the consumer, but only once it is recognised; consumer trust, rightly, takes time to establish. We are also pleased that the proposals recognise that lower EUTM fees will not take business away from NPTOs. Users do not primarily choose between Offices based on fee levels but on business need, including geographical coverage. We support the efficient dual system, underpinned by efficient National and European Offices.

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<sup>1</sup> AIM is the European Brands Association. It represents brand manufacturers in Europe on key issues which affect their ability to design, distribute and market their brands. AIM’s membership groups some 1800 companies of all sizes through corporate members and national associations in 21 countries. EU consumers spent €640 billion euro on food, drink, home and personal care brands alone in 2012.

<sup>2</sup> COM(2013) 161 & 162 final

Fees need to be commensurate with the service given. We therefore fully support the aim of the package, as stated, to be:

*“to foster innovation and economic growth by making trade mark registration systems all over the EU more accessible and efficient for businesses in terms of lower costs and complexity, increased speed, greater predictability and legal security”<sup>3</sup>.*

However, the proposed **reduction in renewal fees** does not go far enough to meet this goal. It is difficult to understand why renewal – a very simple administrative process – should cost more than the entire application and registration procedure for a trade mark. For branded businesses, including SMEs, their trade mark registration is one of the absolute necessities for their business survival; non-renewal is simply not an option.

## 2.2 Surplus

It is well-known that due to the unanticipated popularity of the CTM system, and the efficiency with which OHIM has been managed over the years, **a surplus has accrued contrary to the legal provisions of the CTMR** laying down the principle of the Office operating on a balanced budget. Retaining renewal fees at an artificially high rate does nothing to solve this issue. Maintaining artificially high fees so that the Agency can then divert monies from EUTM applicants/owners to national level is clearly not a workable option.

We are pleased to see in Article 144(2) CTMR that:

*“The amounts of the fees referred to [above] shall be fixed at such level as to ensure that the revenue in respect thereof is in principle sufficient for the budget of the Agency to be balanced while avoiding the accumulation of significant surpluses. Without prejudice to Article 139(4), the Commission shall review the level of fees should a significant surplus become recurrent”.*

However, we question the equity of the following sentence:

*“If this review does not lead to a reduction or modification in the level of fees which has the effect of preventing the further accumulation of a significant surplus, the surplus accumulated after the review shall be transferred to the budget of the Union”.*

As the surplus has been amassed solely from CTM Users, who paid for a specific set of services related to CTM registration, renewal and administration, under a system that, by law, should have been based on the balanced budget principle, then should not the first reaction (if the surplus is not reduced by other legal, transparent means for the benefit of the CTM/EUTM system) be to return those monies to those Users? A simple mechanism was drafted by the previous management of OHIM that showed that this would be both straightforward (the ownership of all CTMs is known) and inexpensive.

We are very pleased to see that a close eye will be kept on EUTM fee levels to prevent any such surplus accruing again, and look forward to seeing the Commission’s analytical paper on the treatment of surpluses expected later in the year, even though it will deal only with partially self-financed agencies<sup>4</sup>. We must, however, stress that in particular in these difficult economic times, Europe’s brand

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<sup>3</sup> Para 1.2, explanatory memorandum, CTMR

<sup>4</sup> [http://europa.eu/agencies/documents/2012-12-18\\_roadmap\\_on\\_the\\_follow\\_up\\_to\\_the\\_common\\_approach\\_on\\_eu\\_decentralised\\_agencies\\_en.pdf](http://europa.eu/agencies/documents/2012-12-18_roadmap_on_the_follow_up_to_the_common_approach_on_eu_decentralised_agencies_en.pdf)

holders of all sizes would use any such rebates to reinvest in innovation, skilled employment and quality products and thus play an even stronger role in enhancing the growth and competitiveness of the EU.

Diverting monies paid to a European body for a specific, technical purpose to the general EU budget would, we feel, be both legally problematic and difficult to explain to both the wider public and media.

**OHIM was never supposed to operate at a profit and it was certainly never intended to act as an additional revenue collector for the Union, or indeed national, budgets.** As we have repeatedly stressed to the Commission and OHIM itself, AIM fully supports the maintenance of a reserve within OHIM, the amount of which should be determined in line with standard accounting practice. We also actively supported the establishment of, and have expert volunteers within, the Cooperation Fund where projects related to enhancement of European trade mark systems are developed and financed.

However, as the Commission itself noted in the Impact Assessment accompanying this package<sup>5</sup>, care has to be taken in any such financing scenario to ensure both efficiency and transparency. As such, at page 59, the Commission specifically, and quite rightly, rejects the idea mooted in the 2010 Council Conclusions that renewal fees be diverted to national level as this *“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”*.

It goes on to say that *“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”*.

All of this applies mutatis mutandis to the accumulation, and treatment, of any surplus, existing or future.

The following point raised by the Commission is particularly pertinent to the suggestion that any accumulated surplus should be diverted to the general Union budget: *“using an OHIM fee to fund activities of national offices might be perceived as an (inadmissible) tax levied on companies”*.

In summary, everything should be done to ensure that trade mark owners are not being over-charged for the services at the Agency and so that no surpluses are created in future. As for the current surplus it must either be refunded to those from whom it was collected, or used in the interests of the Users of the CTM/EUTM system. As ever, we look forward to assisting the OHIM/Agency in either case.

## 2.3 Funding mechanism

Related to this is the potential **funding mechanism** whereby the National IP Offices would receive grants from the Agency’s budget for common projects.

Firstly, we strongly commend the Commission for recognising that a simple diversion of monies from the Agency to national level, be that of European renewal, or indeed,

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<sup>5</sup> SWD(2013) 95 final

any other, fees would have been both legally and practically unacceptable, as detailed above. Funding for defined projects for the benefit of the entire European trade mark systems, in a strictly monitored and managed way, is clearly the preferred approach.

Given the importance of financial governance, especially in the current economic climate, we trust that this funding mechanism will be operated under strict and transparent KPIs and timelines (in a very similar way to the existing Cooperation Fund, for which we commend OHIM). So as to ensure that such “common projects” are of practical benefit to both Users and Offices, we also look forward to working with the Agency on elaborating and agreeing on the projects to be included and in defining the financial criteria for funding and the measurement of outcomes.

### 3. Procedures

We very much support the **simplification and harmonisation of procedures and practices** throughout all EU IP Offices, which will advance Internal Market goals in ensuring that Users of the trade mark systems are offered the same services, at a similar quality, wherever they choose to apply for registration.

#### 3.1 Specifically, we support:

- The proposal to remove the requirement for **graphical representation** so that trade marks can be represented by appropriate technological means, which clearly brings the system into line with today’s digital economy as well as facilitating sound and smell marks.
- The full recognition of **geographical indications** as absolute grounds for refusal.
- Abolishing the **ex-officio examination of relative grounds**, as such examinations are burdensome and cause delays. It should be the duty of applicants to ensure that there are no infringements and the privilege of rights holders to decide whether or not to act against a potentially conflicting trade mark application using simple and reasonably priced defence avenues. We trust, however, that Users, particularly SMEs, will be given direct and timely warnings that such ex-officio examinations are to cease so that they can manage their expectations of the service provided. Perhaps this could be made clear on application forms and websites?
- Ensuring that an **administrative procedure to challenge validity of a registration** is available everywhere, rather than requiring expensive and slow court action. However, we do submit that the terminology relating to national cancellation procedures (Article 47 TMD) be harmonised with opposition procedures (Article 45 TMD), so that both are required to be “*efficient or expeditious*”.
- Clarification of the **relationship between the CTMR and the Misleading and Comparative Advertising Directive** to specify that trade mark owners may prevent the use of their trade marks in comparative advertising where it does not satisfy the requirements of Article 4 of that Directive.
- Reference to the inclusion of use of **trade names** as an infringement of a trade mark in the TMD and CTMR.
- The extended protection for **trade marks with a reputation** foreseen by Articles 5 and 10 TMD to bring the treatment of national marks into line with that granted to EUTMs under Articles 8(5) and 9(2)(c) CTMR.

### 3.2 However, we are concerned about the following proposals:

- Article 4(5) TMD: Allowing **evidence for acquired distinctiveness** up to the date of registration. Changing the relevant date for gathering supporting evidence from the application date to the registration date means that no fixed date will apply (since the latter depends on each individual case) and an applicant could deliberately stall and hope to provide new evidence of continuing use. This will disadvantage third parties and add uncertainty to the process. We would prefer to retain the application date or, if there is a proven need to change the current system, to move to another precise date, e.g. 2 months after the application date. If an applicant is unable to prove acquired distinctiveness under the current system, it can always file a new application. It is feared that this proposed change will encourage speculative filings of descriptive marks as soon as they are used, which may act as deterrents to third parties, particularly SMEs, so distinctiveness would become a *fait accompli*.
- Article 28 CTMR: while fully appreciating the need to implement the IP Translator decision of the COJ into the legislation and practices of the Offices, we sound a note of caution as concerns current registrations which were accepted and filed for entire **Nice Class Headings**. Such registrations, which date from before the change in OHIM's classification practice (to comply with that Court decision), were of course made in good faith and in line with the (then) accepted law and OHIM practice.

Article 28(8) CTMR provides that such proprietors “*may*” make a declaration of their intention as to what protection they wanted under that Class Heading “*within 4 months from the entry into force of this Regulation*”. Failing this, their registered trade marks will be unilaterally amended in scope: “*European trade marks for which no declaration is filed within the period referred to in the second subparagraph shall be deemed to extend, as from the expiry of that period, only to goods or services clearly covered by the literal meaning of the indications included in the heading of the relevant class*”.

We submit that this is problematic, as it will involve a huge time and cost burden for proprietors of marks (who, we repeat, acted in full compliance with the law and practice at time of registration); as the majority of CTMs are owned by SMEs, they will also face exacerbated issues including the costs of external legal assistance (most SMEs not having internal IP departments so rightly depending on the services of attorneys). While we are sure that the Agency will do all that it can to publicise this requirement, we also foresee spurious cancellation and infringement litigation being brought, with issues for seniority and to the detriment of the entire system.

To avoid the above, may we submit two potential solutions:

- Current marks be retained in scope with no retroactive amendments until the proprietors request amendment or apply for renewal, at which time such clarifying declarations must be submitted; or



- The Agency unilaterally amends all registered CTMs to include the entire alphabetical list under the Class Heading (in line with Article 40 TMD), leaving it open for the proprietor, at renewal, to reduce that if appropriate.
- Article 4(2)(b) TMD: extending the absolute grounds for refusal to include cases where a *“trade mark in a foreign language is translated or transcribed in any script or official language of the Member States”*. The wording of this Article is unclear and we suggest that some re-drafting may be required. Our current reading of this section leads us to believe that a term which is descriptive in any language – be that an EU official language or not – would be inadmissible for registration. We submit that this is both disproportionate and unworkable. As has been proved with both the CTM and International systems, such anomalies can be dealt with by designating appropriate jurisdictions. While we fully understand the Commission’s concern that national marks should not segment the Internal Market, allowing such marks to be registered as national trade marks in countries where it can be proven that the mark is recognised by consumers as distinctive should not prevent others using the same word descriptively. Examples are multitude but obvious ones would include chocolat, cola, donut and queso – descriptive in some languages, wholly non-descriptive (or indeed, comprehensible) in others.

#### 4. Transit

We thank the Institutions for recognising the **importance of the transit channel** and fully support, with the suggested amendment as highlighted, Article 9(5) CTMR which would allow proprietors of a European trade mark to be *“entitled, with the assistance of the relevant national authorities, to prevent all third parties from bringing goods, in the context of commercial activity, into the customs territory of the Union without being released for free circulation there, where such goods, including packaging, come from third countries and bear without authorisation a trade mark which is identical to the European trade mark registered in respect of such goods, or which cannot be distinguished in its essential aspects from that trade mark”*. This short inclusion is in order to render this measure enforceable, as the trade mark owner would need the help of the relevant national authorities (e.g. customs, police) to be able to prevent the bringing of such goods into the customs territory of the Union, since in practice trade mark owners do not have access to the transit zone.

This change in the substantive law is absolutely vital, as the new Customs Regulation (due to be adopted shortly) removes the power from customs to detain counterfeit goods transiting through the EU unless they are destined for the EU market. Customs understands the concerns of industry here (as we are looking at losing over 40% of seizures of counterfeits) but say there is nothing they can do as transit itself is not an infringing act, so the substantive law needs to be changed. As it stands this would be disastrous for consumers, businesses of all sizes and the entire EU economy so we very much welcome the proposal and look forward to understanding how this will be put into practice.

#### 5. Enforcement

Again, we very much welcome the clarification of the current rules on **parallel imports** (as laid down in Article 15 TMD and confirmed many times by the COJ) to say that goods may not be imported into the EU even if only the consignor is acting for commercial purposes (e.g. if an EU consumer has ordered something via the

internet)<sup>6</sup>. European exhaustion is an important pillar of IP in the Union, promoting and protecting innovation, value-added employment, consumers and growth.

Likewise we also support the new rule, to contribute to combatting counterfeiting, which would permit proceedings against the **distribution and sale of labels and packaging** or similar items which may subsequently be combined with illicit products. Rights holders, and enforcement authorities, frequently encounter such products which we know are to be affixed to infringing products, but without this clarification we are often unable to act. We therefore thank the Institutions for including Recital 20 of the CTMR:

*“In order to enable proprietors of European trade marks to fight counterfeiting more effectively, they should be entitled to prohibit the affixing of an infringing mark to goods and preparatory acts prior to the affixing”.*

And Article 9(4):

*“The proprietor of a European trade mark shall also be entitled to prevent the importing of goods referred to in paragraph 3(c) where only the consignor of the goods acts for commercial purposes”.*

## 6. Opportunities

As this is the first time that the European trade mark systems have been considered in their entirety for 20 years and is liable to set in place the rules for the next 20 years, we would like to suggest that this key opportunity is taken to address some further issues:

- Rendering mandatory **pre-registration opposition proceedings** in all Member States for efficiency.
- Several Member States insist that an **opposition based on several prior marks** requires a separate opposition for each prior mark. Other countries allow an opponent to cite all of its relevant prior rights in one opposition. Where the owner has registered the word, logo, labels (etc.), the difference in cost between the two systems can be substantial so all Offices should allow multiple registrations to be cited in one opposition. Likewise in some countries owners have to bring **separate oppositions per class** which are dealt with separately, sometimes by different examiners who do not necessarily talk to each other. The Directive should be amended to allow for one opposition based on several classes.
- It should also be possible to file a **single claim for cancellation** in the same way.
- A simple and inexpensive process should be established to **remove unused trade marks** (subject to the use requirement) from the registries on simple request to the Office: e.g. if the trade mark owner does not respond to the Office’s requests for submission of use evidence, the Office can initiate action to remove the registration. Financial incentives could also be created for trade mark owners to encourage the voluntary surrender of unused marks (e.g. reimbursement of pro-rata fees).
- **Harmonisation of absolute grounds** themselves would be difficult (language questions etc.) but we would like harmonised procedures and a simpler way to oppose on absolute grounds than waiting for cancellation. **An improved (and harmonised) observations system**, with the applicant being given a copy of the observations and a chance to comment on them, would also be beneficial.

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<sup>6</sup> Para 5.3.5, explanatory memorandum, CTMR



- Allowing owners to **claim seniority from prior CTMs** as well as from national marks when refiling or consolidating national applications or CTMs with broader specifications. They should be able to incorporate prior existing rights when renewing, claiming the seniority of the first into the other(s), so maintaining clarity of merged portfolios.
- Some Member States require powers of attorney, certified copies of application/registration documents and/or notarised and legalised documents for owners to arrange simple procedures such as renewal, claiming priority or changing company address. These are time-consuming and costly to provide. Other Offices have no such requirements and, as far as we are aware, without any problems. We suggest they all remove such **unnecessary bureaucracy**.
- Some Offices require an **address for service** in their country; this is unnecessary, causes delay, necessitates the appointment of a local agent resulting in higher fees and may be contrary to the rules on the freedom to provide services. It may also be a factor in deciding not to file a national mark.
- Similarly, **the heavy administrative burdens** in some Member States lead to owners only updating details when absolutely essential (e.g. on renewal); some NPTOs require powers of attorney and/or notarised and legalised documents for owners to arrange simple procedures such as renewal or changing company address. Some also require a local attorney to be appointed to submit administrative documents; other NPTOs have no such requirements, as far as we are aware without any problems. These are time-consuming and costly procedures and mean that registers do not provide up to date, accurate information. Steps should be taken to ensure harmonised simplified procedures so that owners can make such updates.
- **Bad faith** elements could be addressed, to minimise spurious claims and unnecessary burdens. This includes: introducing a limited bad faith opposition procedure, for marks registered both within and outside the EU; and discretion for Offices to refuse spurious requests by applicants that proprietors have to prove use, when such use is obvious. Further, **legal remedies**, including relief against such bad faith applicants, the recovery of costs and injunctive and other relief should be harmonised throughout the EU to prevent forum shopping and promote legal certainty.
- There should be a simple way to **recover costs** that have been awarded to the winning party.
- The starting date of the **grace period** of the use requirement (both for national/regional and international trade marks) should be calculated in the same manner.
- All Offices should provide for **cooling off**, which represents a simple and inexpensive means of settling possible conflicts, such as is the case at OHIM.
- **Consents** should be accepted by all Offices rather than the current situation where, despite agreement between the owners, trade mark applications can be refused by some Offices.
- Each **application/registration** should retain the **same number** throughout its life, not changing numbers between application and registration or on renewal.
- **Conversion** should be dealt with in the same way by all NPTOs; currently some re-examine already-examined CTMs as if they were new applications.

- **Harmonisation of replacement in International Registrations:** The same process with the same results should be applied by all Offices to ensure maintenance of public records of prior “independent national rights” and simple reinstatement of such rights whenever required. In some countries replacement is automatic while in others the trade mark owner has to request the replacement. In some countries the replacement means that the earlier right is merely deleted whereas in others the date of the earlier right is captured in the new IR.
- In all Member States, rights holders should be in a position to secure quick and not overly-expensive **non-infringement declarations** from a competent authority when accused of infringing prior rights and should also be in a position to secure quick and not overly-expensive **infringement declarations** from a competent authority when their rights are infringed.
- In all Member States rights holders should be in a position to obtain quick and not overly-expensive **ex parte and inter partes preliminary injunctions**.
- Owners should be able to assert their **seniority rights** as soon as they are claimed and not have to wait until the national registration lapses. Claiming seniority from a national registration should give the owner the identical rights to the national registration, enabling the owner to assert his right against any third party that files a national application after the application date of the national right whether the third party application pre-dates or post-dates the CTM.
- All Member States should allow the recordal of **assignments** without transfer of related business.
- All Offices operating within the EU should be **financially autonomous** and self-financing and Users should be represented on all governing bodies (administrative and budgetary) with voting rights (as in France, for example). For the Agency, User representatives as well as the Commission should have the right to vote and not only hold observer status.

We thank you for your consideration of the above comments. Should you require any further information, please contact [marie.pattullo@aim.be](mailto:marie.pattullo@aim.be)

*AIM Trade Mark Committee  
24<sup>th</sup> May 2013*