

# Sealing the deal

The cooperation fund has ignited an animated debate across the European Union. *WTR* asks whether the money can harmonize Europe's fragmented trademark system once and for all

**E**very trademark professional knows the cracks are growing in Europe's patchwork trademark system. As long as the 25 national offices continue to operate under divergent regimes, the goal of harmonization will remain frustratingly remote. Each day the divide widens between the continent's efficient, innovative trailblazers and their less sophisticated counterparts. Those shrewd national offices that have evolved to keep pace with the Office for Harmonization in the Internal Market (OHIM) lead the way, while offices that have not been so progressive fail miserably in the quality and range of services on offer. But a solution to the schism may now finally be in sight, in the form of the OHIM cooperation fund.

## **Economic eccentricities**

Generally speaking, the lower-tier offices blame their limitations squarely on a lack of funds. "The main obstacle to updating our software and purchasing new systems is definitely the shortage of means," insists Marta Czyż, director of the trademark department at the Polish Patent Office. Today, the disparities across the network have been more drastically exposed than ever before thanks to the global financial crisis. Although the drop in filings has presented major operational challenges across the board, the recession has had a disproportionate impact on those smaller offices that rely on state support: the Latvian Patent Office had to close temporarily in September due to a "significant" reduction in its funding.

But while it may be easy to point the finger at financial constraints, the problems appear to run deeper. "It's curious to note that the less sophisticated offices are those that have no financial autonomy," observes António Campinos, president of the Portuguese IP office, chair of OHIM's Administrative Board and candidate for the OHIM presidency.

Until now, this correlation has been something of an elephant in the room. A significant number of national offices (mostly those in eastern member states) have no control over their finances. For example, every cent earned by the Slovakian office is diverted past its staff. "It is up to the government how it channels the money," grumbles Ján Poljovka, director of the secretariat of the president at the Intellectual Property Office of the Slovak Republic. It is users who suffer the most, Poljovka acknowledges, as they do not get back "what they deserve". Next year, the Slovakian office will see its budget slashed by a crippling 70%. But it is the lack of control that cuts deepest: whereas commercial offices can spend or reduce expenditure as

### By the letter

On September 16 2009 Gerhard Bauer, head of trademarks at Daimler, representing the five user associations on the Administrative Board at the Office for Harmonization in the Internal Market, wrote to the agency with a “commonly developed” list of projects which “should be funded under the cooperation fund as a matter of first priority”. The projects are outlined below.

1. Ensure adequate computerization of all EU national patent and trademark offices (NPTOs) which would include the below points.
2. Complete seniority databases to be established and maintained in all EU NPTOs, accessible free of charge to all users whenever they search. These should contain all trademarks used in Community trademark (CTM) seniority claims.
3. Development of common IT systems between all EU NPTOs.
4. User accessibility to all trademark databases, up-to-date and free-of-charge.
5. Option for e-filing, online access and e-renewal without requirements for additional documentation, with the option of payment by credit card, in all EU NPTOs.
6. TM View showing full data including images of device marks, addresses, goods and services covered (etc) and including data from all EU NPTOs supplied free of charge.
7. Pan-European harmonization of classification within the appropriate international framework.
8. Development of a module and materials for all NPTOs to use in CTM-related education so as to ensure commonality of messages.”

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necessary, state-funded offices have no such freedom. “As we are linked to the state budget, we are limited,” laments Poljovka.

### Study time

These budgetary shackles mean that state-funded agencies lag behind the continent’s commercially funded offices, which are driven to innovate by market forces. The UK Intellectual Property Office (UK IPO), for example, recently launched a programme to make it easier and cheaper to register new marks. But as long as some offices are trailing behind, the system will only fragment further, throwing up major concerns for the entire community. A holistic solution must be found.

The European Commission now has ambitions to engineer change. It recently launched an in-depth study of the functioning of Europe’s trademark system which, users hope, will demonstrate that state control restricts the capabilities of national offices. The study, which will be underway before the year is out, is the perfect opportunity for some definitive analysis in this area. The commission may not be able to influence financial arrangements between national offices and their governments, but it can certainly “diagnose problems”, suggests João Miranda de Sousa, head of IP practice at Garrigues.

It is expected that in comparing the functionality of respective offices, the study will look closely at the OHIM model, which is regarded as efficient, well-established and, crucially, transparent. Many observers believe that these traits are the secret behind OHIM’s success as one of Europe’s only self-funding agencies. Within a few short years, OHIM’s management has developed a commercially oriented service, thus securing the agency’s own financial future. “Why shouldn’t the OHIM model be transposed to different member states?” asks de Sousa. It is a notion that the study should at least consider. “OHIM has proved that its structure works,” he adds. “I’m not saying that other models would not work, but this one has proved itself.”

OHIM could thus be held up as an exemplar, showing how national offices could improve in order to achieve economic independence. However, it is clear that some offices would resist the imposition of external paradigms. When *WTR* put the idea to Czyn, she said: “I do not share [this] opinion – the Polish office does not seek organizational models. Our office is an efficiently run and functioning organization which is part of the Polish legal system.”

Perhaps the analysis should instead centre on the underlying political problem – conflicting perspectives on intellectual property at government level. Those administrations that do not seem to recognize the true value of IP protection are generally chary of handing over the purse strings to their national offices. Equally, the more advanced offices tend to be located in countries whose successive governments have put IP firmly on their agenda. Economic freedom across the network would thus require a political sea change. “It’s not easy to achieve such a goal because we would have to persuade the government,” admits Poljovka. “We are trying, but I am not optimistic.”

However, some offices are making progress on this front. The Hungarian office has to some extent managed to convince the government of the benefits that can be won by taking control of its own finances. “The office is now a self-financing institution,” explains Péter Csiky, head of the trademark, model and design department at the Hungarian Patent Office. “Its main resources come from the fees it collects in registering patents and trademarks, and other procedures.”

### Cooperation nations

Fortunately, the European Union would not be what it is today without an underlying commitment to progressive political change.

Hopefully this same momentum will help the European trademark system move beyond existing outdated models. But this can be achieved only if stakeholders step outside their national or regional spheres and survey the broader landscape, including the Community trademark (CTM), which has transformed the entire system. "Some offices had a very natural approach to the advent of the CTM," observes Tove Graulund, MARQUES representative and director of trademarks at Zacco. "They acknowledged the fact that if they wanted to stay useful on the market, they had to fit into a bigger system."

In order to function properly within this framework, less sophisticated offices must take their lead from those that have already adopted a supranational perspective. "What we can do in Europe," says Campinos, "is show best practice." The UK IPO is one body that regularly engages in projects with the benefit of the whole community in mind. In its most recent venture, the office signed an agreement to license OHIM's new case-handling software system, EuroMarc++. Any developments emerging from the UK IPO's use of the system will be shared with OHIM in true open-source style. Ian Fletcher, the UK IPO's chief executive, recognizes that the project is "a great example of OHIM and a national office working together on a harmonization project that will ultimately benefit business users".

Fletcher's enthusiasm reflects the collaborative culture that must be embraced if the European trademark system is to be harmonized once and for all. Put simply, national offices must cooperate, not compete, with OHIM. The spirit of cooperation will inevitably define a new era in European trademark practice. While the holes in the system have been developing for years, there is now a generous stack of cash that can be used to plug them. The €50 million cooperation fund, made up of money from the CTM fee surplus, was created last year specifically to help national offices run "projects closely related to the harmonization and the protection, promotion and/or enforcement of trademarks and designs". The cooperation fund could drive every office forward on what Andrew Layton, director of trademarks at the UK IPO, describes as the "harmonization journey". The debate over how exactly to distribute funds along the way is just beginning.

### How to spend €50 million

It is hoped that the cooperation fund will facilitate synchronization across the system; allocating the cash represents the first major challenge. The procedures for this undertaking are now being devised by the fund's small management board: John Mogg, Mireia Curell and Jef Vandekerckhove, whose appointments were exclusively revealed by *WTR Daily* on September 21 (see "Meet the management board" on page 34). They have just commenced discussions on how best to administer the fund. The extent of this enterprise is reflected in the wide diversity of capabilities across the network. Csiky explains: "Essential needs vary from office to office." This observation is backed up by many others, including de Sousa who, in his former role as director of general and external relations at OHIM, visited each of the national offices across the community. "Talking about national offices is like talking about different animals," he notes. "There is no such thing as a single national office regime."

And the divide creating this two-tier system is not simply an east-west one: it slices across the entire network, because each office is underpinned by its own specific financial structure. This means that each offers a unique range of services. Inevitably there are jarring discrepancies across the network. Italy, for example, currently has no opposition system in place. A law setting out the procedure was enacted 10 years ago, but users are still waiting for full implementation. "We welcome the fact that the Italian Patent and Trademark Office will have access to further funding," says

### Split priorities

The debate over how to spend the cooperation fund may be animated, but it is not half as charged as the issue of the 50/50 Community trademark (CTM) registration renewal split. An additional measure in the original compromise solution stated that money must be "used for the purposes closely related to the protection, promotion and/or enforcement/combat counterfeiting of trademarks". This will no doubt pose a political quandary: every national office will need to use the income in a way that is unique to its evolving operations. Moreover, respective national offices operate within starkly dissimilar financial realities. Iva Koutná, the head of the trademark department at the Czech Industrial Property Office, notes that "all the income of our office goes back to the state budget".

In this case, what assurances will be set in place to ensure the money is spent for the appropriate purposes? In Slovakia, Ján Poljovka, director of the secretariat of the president at the Intellectual Property Office of the Slovak Republic, notes that his office is in the same position as Koutná's. "We wouldn't be able to order the state to return this extra income," he says. "The only thing we can say is that there is demand from the users to do something with it. We'd have to persuade the government." In fact, a government that has total control over the finances of the national office may simply reduce its budget.

Fortunately, the recently launched commission study will be looking into this looming crisis. The call for tender for contractors stated that they should "look for appropriate accounting mechanisms which could ensure that the funds transferred from OHIM to member states' national offices are used for the trademark-related purposes concerned".

Meanwhile, users are demanding, through associations such as MARQUES, that the commission state expressly in the forthcoming regulation that the money should be spent to the benefit of users. This kind of measure will not necessarily be welcomed by member states. Those national governments that control the finances of their IP offices may wish to use the extra income for other purposes. Meanwhile, the autonomy of a national government may be undermined by the commission if it were to demand proof of appropriate use.

Furthermore, national offices would certainly not be happy with the administrative burden on their resources. Users will doubtless remain steadfast. "There will need to be assurances in place," states Joao Miranda de Sousa, head of IP practice at Garrigues.

*See "A lesson from the EPO" on page 32 for how the European Patent Office administers the 50/50 European patent renewal fee split.*

Davide Follador, an attorney at law and European trademark attorney at Perani Mezzanotte & Partners. "Hopefully the national office will take advantage to improve the opposition system."

Follador may have to wait, however, as consensus is building across Europe that the key to harmonization of the European trademark system lies in electronic services. In Portugal, Campinos recognized this some time ago. His registry has spent years upgrading its practices: all internal work is now executed online and the databases its examiners use are freely available to the public. Demand is growing across the European Union for this level of technical capacity. "Brand owners and marketers need up-to-date information from trademark registers at their fingertips," explains Jesper Kongstad, director general of the Danish Patent and Trademark Office.

Indeed, users are becoming increasingly sophisticated in their

requirements of national offices. The five user organizations that are observers on OHIM's Administrative Board (AIM, the European Brands Association; BUSINESSEUROPE; MARQUES; the European Communities Trademarks Association; and the International Trademark Association) wrote to OHIM in September to outline a list of projects that should be supported under the cooperation fund (see "By the letter" on page 30). Every one of their proposals was rooted in technology. Gerhard Bauer, head of trademarks at Daimler and user association representative, said: "We are sure that these proposals are in line with users' needs and will help accomplish the aim of the cooperation fund."

With the goals of the fund in mind, the UK delegation also recommends additional, broader uses. As well as financing technical upgrades, Layton told *WTR*, the cooperation fund could sponsor a sweeping pan-European research programme. "We're all running processes which can benefit from benchmarking and business analysis – or even redesign," he proposes. He might be on to something. Learning more about how mark owners use the system would align national offices with business, thus helping them to develop systems and structures to offer more commercially driven and useful services. In this way, the cooperation fund may prompt offices into a major strategic review.

#### The ideal office

If ever the time were ripe for such a process, it is now. Kongstad, for one, thinks that every office should seize the opportunity to conduct some thorough self-examination. "National offices should look through their own operations and consider what their contribution

#### A lesson from the EPO

European patent renewal fees are already split 50/50 between national offices and the European Patent Office (EPO). The EPO system offers a model on which the distribution of Community trademark (CTM) renewal fees could be based. Ciarán McGinley, controller of the EPO, outlines the EPO system:

"The situation in regards to renewal fees between the EPO and the Office for Harmonization in the Internal Market (OHIM) is similar but not identical. The key difference centres around who receives the renewal fees. In the case of the EPO, it is the member states who receive the renewal fees and who then make a payment of 50% of these fees to the EPO. The remaining 50% is retained by the member state.

"The EPO is aware of three different institutional arrangements inside member states. In the first arrangement, national IP offices receive the fees and then make a payment to the EPO and retain a part, or all, of the balance. In the second arrangement, finance ministries receive the fees and they then make payments to the EPO as well as to their national office. In the third arrangement, finance ministries receive the fees but nevertheless require the national office to make the relevant payment from their own budget to the EPO."

João Miranda de Sousa, head of the IP practice at Garrigues, points out that the institutional arrangements at the EPO are completely different from those at OHIM, as member states' use of renewal fee income is unrestricted. "There is no supranational legal constraint or guideline regarding the way they spend that money," de Sousa explains. "There is therefore no accountability system in place. Such a flexible system should not be transposed to the OHIM context. OHIM should not be transformed into a mere fundraiser/collector for the budgets of member states. If that happened, its financial and managerial autonomy would be seriously damaged."

to brand owners really is," he says. The notion shines a new perspective on the allocation of the cooperation fund, based on reaching a consensus on the perfect national regime. Rather than addressing each office's individual needs, the management board may consider drawing up a 'wish list' for the ideal national office. This holistic approach would involve consultation with users and stakeholders to describe their model network; with the gold standard thus established, project proposals would then be invited from offices that fall short in one or more respects. "That way we can all benefit from synergies, thanks to the fund," says Graulund.

This arguably more equitable method will resonate with users who are in favour of a collaborative approach. Essentially, the board could anonymize the network, then hold up the wish list as a measure against which to evaluate each office within it. The concept is gaining traction, especially with those most alive to the political complexities of the issue. According to de Sousa, national offices should be "taken off the map" during the project proposal process.

However, this method does have a flaw. It would inevitably mean that the more sophisticated offices could be overlooked in favour of those in the newer member states, which are less likely to offer the advanced services that users expect. Big brand owners may not be happy with this turn of events: after all, the vast majority of the CTM fee surplus was generated by the large companies which tend to be headquartered in member states with more advanced offices. The 'wish list' method could therefore be seen as distributing the money unfairly by subsidizing less successful offices. But Graulund would have no problem with the fund being used in this way, because its purpose, she says, is "not to hand out the same amount of money to everyone". Advanced offices could still be involved in the process – perhaps as providers of expertise and know-how. In this capacity, they could even be paid for their contributions with money from the fund. Financially independent offices would be the logical source of advice for offices undergoing an upgrade.

This is a more cooperative strategy for unification of the European trademark network. "I am fully supportive of the money funding projects that can be developed jointly, then rolled out," Layton affirms. "Structured this way, we might get more harmonization for the money." A useful analogy is the way in which the EuroClass system was developed by the UK and Swedish national offices, together with OHIM. The comprehensive database of classification terms has since been adopted by offices in Benelux, Bulgaria, the Czech Republic, Finland, Germany, Italy, Poland, Portugal, Slovakia and Spain. Widely regarded as a success, EuroClass still covers only half the member states. However, smaller-scale collaborations do exist across the community. According to Iva Koutná, the head of the trademark department at the Czech Industrial Property Office, her office is "actively involved in cooperation within the Visegrad Group [the regional alliance of the Czech Republic, Hungary, Poland and Slovakia]".

#### New futures

These regional collaborations, together with discrete partnerships between national offices and OHIM, are a strong foundation upon which to build a truly harmonized network. While for now this remains a distant goal, stakeholders are already hatching plans for how to develop a united system.

#### Enforcement

The buzz word is 'enforcement', covering a broad spectrum of activities from collecting information and evidence to conducting anti-counterfeiting investigations and coordinating law enforcement efforts. "I think that the active involvement of national



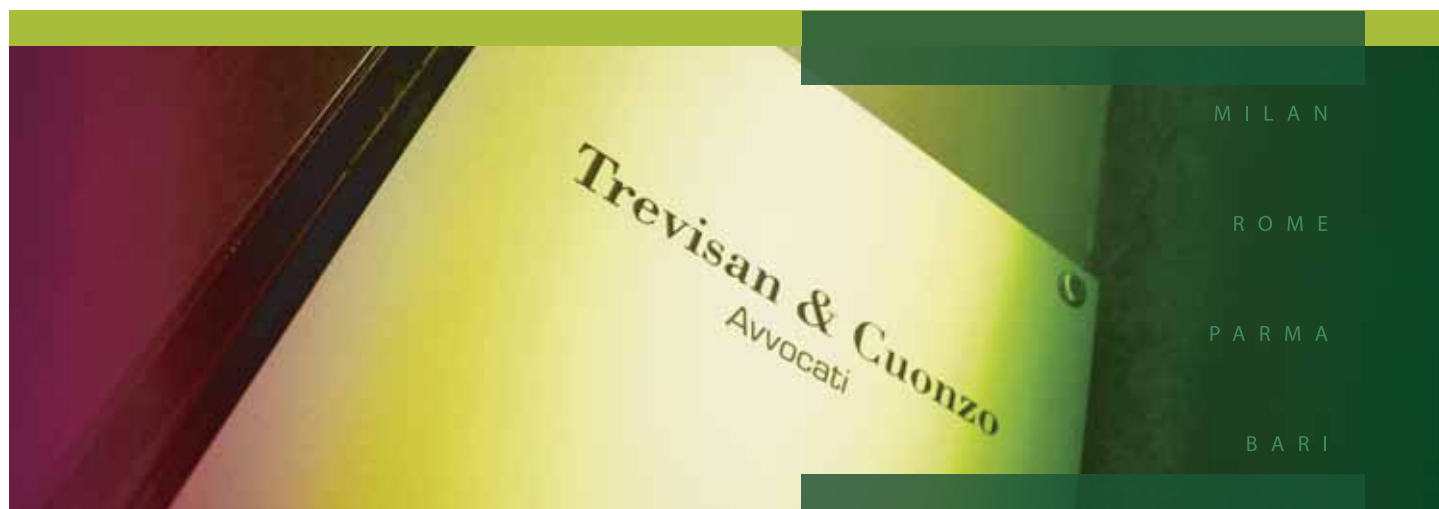
offices could help enforcement in many aspects,” says Csiky. Almost every other national office representative interviewed by *WTR* agrees. And now the European Commission is on the case. In its recent *EU Communication on IP Enforcement*, the commission emphasized that “as the national centres of IP rights expertise, national IP offices have an important contribution to make”. It is curious that the commission automatically expects national offices to make this ‘contribution’, as adopting the requisite structures would be costly and onerous for many.

Slovakia, for one, would like to be part of this future EU-wide enforcement drive; but, as Poljovka admits, “the fact is that it is beyond our competencies”. This view is shared in a notably high number of other national offices, especially those which remain state funded. On the other hand, the more advanced offices are already actively involved in enforcement activity. The UK IPO, for example, recently won an award from the British Recorded Music Industry, the trade association of the UK music industry, for its achievements in this field. “Such successes show that a partnership approach is vital to combating counterfeiting and piracy, and we will remain committed to playing our part,” said Fletcher as he accepted the accolade. Over in Denmark, Kongstad’s office organizes local enforcement programmes. He explains: “National offices can coordinate because they know which rights exist, they have the professional expertise necessary to judge this and can play a major role in getting that expertise to the fingertips of those who are going to enforce the rights.”

#### Mediation

With the discussion over the future role of national offices centring on enforcement, other options should not be overlooked. National offices may become more aggressive in helping to combat infringement, but some commentators advocate softer options such as mediation. Allan James, head of trademarks *inter partes* procedures at the UK IPO, sees a real opportunity for the creation of

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Trevisan & Cuonzo is a leading, independent, Italian commercial law firm with a strong focus on Intellectual Property, Life Sciences and New Energy. The firm has gained an international reputation for its achievements in the commercial field and in particular in commercial and IP litigation.

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mediation centres in national offices. “A centralized mediation service would always be far from both parties,” he explains. “In my experience, mediation works best when participants know the mediators.” Litigants may, therefore, be more likely to settle if they can address their dispute on familiar ground. Graulund supports the idea – albeit cautiously. “If national offices were to set up mediation centres, they would probably have to train or employ new staff at great cost,” she says. “But I can’t see where else would be more appropriate than national offices. If we think this would be beneficial to European industry, then we should do it.”

#### Point of entry

Industry would certainly welcome a clearer entry point into the European trademark system from each member state. National offices are already the informal frontline advisers to mark owners confused by the relationship between EU and national regimes. However, they receive no money to fund this activity; nor is it formally acknowledged by OHIM or the commission. Nevertheless, offices take their role very seriously. “Providing users with the information with which they can make decisions about what level of protection is appropriate for them is incredibly important,” explains James. “The closer alignment of registration costs at community and national levels means that local offices must provide users with the information they need to make a more coordinated decision as to where to protect their brand.”

While many offices are already informally offering this service, the fragmentary nature of the system means that there is no way to regulate it and ensure that users are given the advice they need. “We have to explain to users that the two systems are meant for different things,” says Poljovka. “The user must know, for example, that using a CTM in only two or three member states may have an adverse effect on the strength of the registration.” Only if a more harmonized network is established can this function be formalized for the benefit of users.

#### Education and training

The national office network can certainly offer useful, timely advice to users, but in future it will need to take a more proactive stance on the broader education of stakeholders. Under a commercially fuelled regime, offices are more likely to reach out to potential users to explain the benefits of the system. “The role of national offices as information and advisory centres is growing,” observes Koutná. By going out to businesses to offer training in IP rights, protection and enforcement, offices will also raise awareness of the system. According to Layton, this is a central pillar of the UK IPO’s corporate plan. “If we’re serious in our belief that trademark registrations help companies,” he says, “then we have to shout it from the rooftops.” It could even help to create a supplementary cash stream. Nikos Prentoulis, a lawyer with Georgouleas, Davrados, Prentoulis Law Offices, thinks that education and training provided by self-financing offices add value for both users and national agencies. Offices are ideally placed to run seminars for businesses, public awareness events, conferences, publications and e-training. “These could all help to promote the office’s business and even bring in some extra revenue,” notes Prentoulis.

#### End of an era

The proposals for how to improve and harmonize the European trademark system are seemingly endless. And the commission’s study will certainly consider all these options once it is up and running. In the meantime, the question of how the cooperation fund will be allocated will remain a hot topic, stoked by the hope that it will foster a more cohesive and, crucially, market-driven network of national offices. [WTR](#)

Adam Smith, *World Trademark Review*, London

#### Meet the management board

##### John Mogg, chair

Mogg is the former director general of Internal Market and Services, the specialized directorate general of the European Commission which is charged with coordinating the commission’s policy on the European single market. He is currently chair of the United Kingdom’s Office of Gas and Electricity Markets and of the EU Energy Regulators and a member of the upper house of the UK Parliament.

##### Mireia Curell

A partner at Curell Suñol, Curell is a Spanish IP attorney, a European patent attorney and a European trademark and design attorney. She was the president of the European Communities Trademark Association from 2006 to 2008.

##### Jef Vandekerckhove

As vice president for Intellectual Property & Standards at Philips, Vandekerckhove is in charge of protecting 33,000 trademarks and 49,000 designs, making the electronics company one of the largest brand owners in Europe. For more on Vandekerckhove’s role at Philips, see “Philips – managing a master brand” on page 7.

