



European Communities Trade Mark Association

ECTA comments on OHIM proposal on how to deal with the Office's surplus included in OHIM contribution to the Study on the overall functioning of the trade mark system in Europe

According to OHIM's estimation, after allowing for the funding of the Cooperation Fund and the establishment of a correctly sized contingency reserve, an accumulated surplus of around €300m should still remain.

In OHIM's evaluation of past experience of cooperation projects and what OHIM knows of emerging plans for anti-counterfeiting projects, OHIM finds it unlikely that such a large sum could be spent in a targeted and fully controlled manner in these areas, while ensuring that the CTM users may receive beneficial effects from such a sum.

ECTA understands that as a consequence of such an unlikeness, OHIM's seemingly sole proposal on how to deal with the accumulated surplus is to return it to users and in furtherance of this proposal OHIM has conceived a plan to return to owners of CTM registrations certain sums reflecting the amount by which fees have in retrospect turned out to be, in OHIM's opinion "too high" when their applications were processed.

ECTA is, in principle, not opposed to refunds which are a sound commercial practice. However, refunds postulate a serious earlier malfunction which the refund aims to redress, like sale of defective products (similar to what happens when certain products are recalled) or products/services which do not meet the consumers' expectations. In few cases, refunds have been issued when new products with entirely new features were introduced rendering products sold just few months earlier obsolete or outdated. In either case, refunds are an admission that something went wrong and thus raises serious concerns.

In the corporate world an explanation to and an approval by the shareholders would be required to such concerns. In a governmental setting, ECTA believes that simply addressing what to do with the surplus without explaining what went wrong is fundamentally flawed.

ECTA does not believe that OHIM's proposal to deal with the surplus may be considered an admission by OHIM to have either supplied a poor service in the past or to have willfully overcharged users. However, since ECTA maintains that OHIM is not a private corporation whose bottom line is to make a profit but a public administration whose interest is not only to deliver registrations but to safeguard the public interest of all citizens and not only of trademark owners, ECTA is equally interested in understanding what has caused the surplus in the first place and whether this surplus may be more appropriately employed to make sure that OHIM (as well as National Offices, i.e. the entities which both supervise and guarantee the EU trade mark systems) function properly, more efficiently and provide service of a superior quality.

All that said, in order to evaluate the whole range of issues that are raised by OHIM's proposal, ECTA has investigated among its members seeking opinions in the form of answers to a set of questions as follows:



European Communities Trade Mark Association

- 1) Who should ultimately decide what to do with the OHIM surplus?
- 2) Is it acceptable the idea of a refund directly payable to CTM owners?
- 3) Is it acceptable OHIM's method of apportioning the surplus?
- 4) What other uses could the surplus be allocated to?

ECTA hopes that the answers given to these questions will help the discussion and will help the decision making process which ultimately will decide what to do with the surplus.

1. Who should ultimately decide what to do with the OHIM surplus?

While according to the current functioning of the budget of the OHIM, a proposal from the OHIM and Commission seems to be necessary to decide the final destination of the "surplus". It seems fair that CTM owners make this decision as, after all, it is their money which constitutes the surplus. However, the above may be impractical, in light of the number of subjects involved. Perhaps the creation of a small committee composed of CTM users, CTM owners and administrators/staff from OHIM might help to develop meaningful recommendations on how to use the surplus. ECTA wonders, however, if it is politically wise to exclude Member States from ultimately deciding what to do with the OHIM surplus. In the context of the EU institutions, OHIM is not a legally separate body (in the same way all National Trademark Offices are not severed from the other governmental branches). Consequently, ECTA cannot fully endorse that the surplus is only dealt by OHIM and would instead favour an open discussion where all stakeholders are given the chance to present their views with a decision taken at the European Council level.

2. Is it acceptable the idea of a refund directly payable to CTM owners?

ECTA finds that in principle, refunds payable directly to CTM owners seems apparently justified because CTM owners paid those fees which in time have given rise to the surplus. It appears a logical choice (but not the only one) that the surplus be returned to them.

However, the philosophy behind this proposal seems to run counterintuitive with OHIM's self-assumed vision that it should manage itself as a private company. Even though ECTA does not share such a vision, ECTA notices that private companies would never part with profit which belong to shareholders, simply because new products may be cheaper than old ones. It is a known fact that prices of all commodities tend to decrease with time, but that does not justify giving money back to customers. What a savvy company does with a surplus is to invest in itself as to ensure better infrastructures, better personnel, better and faster quality of services etc.

What ECTA sees as the main defect of OHIM's proposal is that OHIM seemingly has forgotten that it owes its obligations to a multitude of stakeholders, not solely CTM registrants. The latter paid a price for a service, that was considered to be (and it is still) fair, to obtain a trade mark registration covering the whole territory of the European Union and such price is much lower than the sum of the taxes that they would have had to pay if they had to apply nationally as they did in the past.

Thus, CTM registrants got their side of the bargain and therefore the proposal to redistribute the surplus does not objectively seem aimed to improve the system as a whole, which should be the first and foremost goal of OHIM's activity.

ECTA finds that there are other logical choices which OHIM has not considered. What appears to be a logical choice in theory may not be the most suitable in practice and there are objective elements which seem to have been omitted in OHIM's proposal. For instance, OHIM seems dismissive of the fact that throughout the years, companies which were originally CTM applicants might have disappeared and/or that CTM registrations might have been assigned, and/or not renewed, and it does not seem that OHIM has taken in consideration these situations and or offered a comprehensive solution. In addition, the administrative costs necessary to implement the refund process do not seem to have been thoroughly assessed. The costs that are going to be spent on advertising, data clean up, etc. will only accrue for the purpose of rewarding some entities who will benefit individually at the expense of the overall system.

In any case, if it were decided that all or part of the surplus should be refunded, ECTA is against repayment in cash. OHIM should instead allocate the amounts as "coupons/vouchers" giving the CTM owners the possibility to use these coupons to offset/pay for future OHIM services (i.e. for new applications or renewals as well as for additional services OHIM might devise to offer to CTM users). This would mean that on the one side this surplus will be re-used to foster and strengthen the CTM system and for innovative purposes and on the other that the surplus would only be allocated toward those CTM owners who are using and want to continue to use the CTM system (a little like fidelisation programmes).

3. Is OHIM's method of apportioning the surplus acceptable ?

ECTA believes that OHIM owes its obligations to a multitude of stakeholders, not solely CTM registrants. This multifaceted audience requires that all stakeholders are entitled to equal protection under the law. However, ECTA notes that OHIM's proposal seems to neglect this objective circumstance. Indeed, above and beyond CTM owners, it is a fact that not all CTM applicants got a registration, either because their CTM applications were refused or because the CTM received oppositions. Yet these entities paid fees and it does not appear that any justification was given to exclude these entities from getting a refund. In addition, the proposal does not mention companies which have got a registration which was later subjected to an invalidity action and/or revocation. Finally, if the rate of oppositions to CTM applications is considered to be around 30%, there are many companies who have suffered a financial loss in order to oppose CTM applications deemed to be infringing some earlier trademark right. The question that arises: in the same way companies which got a CTM registration should be entitled to a refund simply because they availed themselves of the CTM system, should the companies who had to file an opposition to safeguard their own earlier rights be entitled to receive some compensation too since these companies were the victims of the CTM system?

It is therefore ECTA's belief that in case it was decided that all or part of the surplus should be refunded, the method of apportioning the surplus needs to be revisited and all interested parties should be considered who are entitled to receive a fair share of the surplus.

4. What other uses could the surplus be allocated to?

Considering that even those among ECTA's membership who are in favour of refunds would be willing, however, to accept that some of the funds are used for other uses which may improve the overall system. For example, training to obtain a better qualification of OHIM and National Office examiners (to the extent that they cannot finance such courses themselves), or funding scholarship at universities to get more students more proficient in IP issues, or by offering requalification and training courses in Members States to get better IP professionals. Since it is expected that OHIM may continue to finance selected activities without needing to look to the surplus funds, as some are currently carried out under the bilateral cooperation agreements with the OHIM, it is ECTA's view that if it were decided that part of the surplus should be refunded, the remaining surplus should be used for improving the European trade mark system, both at the Community and at national levels.

In light of the fact that national entities are competent for the enforcement of CTMs granted by OHIM, Member States should also be allowed to receive part of the surplus as a compensation for the availability of enforcement. However even if the surplus were only reserved to OHIM, ECTA would like to see the surplus be used in constantly improving OHIM's performance, in particular ensuring :

- for its staff to be better qualified;
- to improve its infrastructures and electronic facilities;
- for applications to be processed more quickly;
- for oppositions and appeals to be handled more efficiently.

In case part of the surplus were allowed to be used by the Member States, the main objectives would be:

- to improve the conditions of the national entities which are competent to enforce CTM's;
- to offer training and updating course for students, IP professionals, lawyers and judges so as to offer competitive and competent IP assistance at sustainable costs for EU SMEs.

ECTA feels deeply that the existing surplus should be considered as an extraordinary resource, meaning that it should fully invest this amount to the benefit of the European Union Trade Mark community system, i.e. to the benefit of all and not a few. Looking toward the future, ECTA wishes for rapid implementation of the bi-annual review of the OHIM fee structure - and likewise for similar provisions for the national offices. ECTA also strongly supports the reduction of the renewal fees as originally requested by Council in 2007 to reduce further surplus building and the adoption of additional proposal to help reduce the structural problems that SME face in the huge dimensions of the EU market, such as offering to SMEs pre-paid vouchers to allow them to run pre-filing searches, develop and unify TM databases in Member States according to one common standard (e.g. OHIM database) making all of them equally available for public search and review of TM history; and publishing consolidated manuals in national languages, as well as selections of OHIM/ECJ/CFI case-law.



European Communities Trade Mark Association

Therefore, whatever kind of distribution/use of the remaining surplus may be envisaged, this should be decided only after the thorough analysis of the current European trade mark system and taking into consideration the above considerations.

16 April 2010