



Dr Max Oker-Blom

# Trademarks and SMEs: A successful formula



Ewa Grabiak

Details of the proposed reforms of the European Trade Mark System have been revealed. Dr Max Oker-Blom and Ewa Grabiak review their likely impact, particularly on IP rights for SMEs.

**O**n March 27 this year the European Commission made public its long awaited proposal to reform the European Trade Mark System. The so called “legal package” comprises the recasting of the 1989 Directive (codified as 2008/95/EC) approximating the laws of the Member States relating to trademarks (the Directive), the revision of the 1994 Regulation (codified as 207/2009/EC) on the Community trade mark (the Regulation), and the revision of the 1995 Commission Regulation (2869/95) on the fees payable to the Office for Harmonization in the Internal Market (OHIM) (the Fee Regulation). The recast of the Directive and the revision of the Regulation are legislative proposals to be adopted by the European Union Parliament and the Council under the co-decision procedure, while the Fee Regulation will be adopted by the Commission in cooperation with the regulatory committee.

The legislative proposal is the result of an extended study carried out by the Commission in collaboration with the Max Planck Institute (MPI)<sup>1</sup> and continuous dialogue with stakeholders. The main objective of the reform is to foster innovation and economic growth. In other words, to make the use of trademarks more accessible and efficient for businesses.

The Commission’s proposals may be divided into three groups:

- 1) administrative proposals (concerning OHIM, in other words its name, administration and tasks. This group also includes the Fee Regulation),
- 2) substantive legal changes, and
- 3) procedural aspects.

While the revision of the Regulation as such is considered quite moderate, there are some more substantial changes both regarding the status of OHIM and the Directive. The latter is taking the harmonization quite a step further.

## Changing practice

The trademark system within the Union has been functioning quite well. This concerns particularly the CTM, with respect to which the high annual number of applications for registration, some 100,000, and the sizeable surplus of OHIM, approximately €600 million by now, speak for themselves. There has thus not been a need to revise the Regulation in any great detail.

Reviewing the proposals there does emerge, however, some general features. Firstly, some of the developments occurring in society and court practice are being codified into the Regulation and Directive. Secondly, the pursuit of counterfeit goods is being stepped up. Thirdly, there is an effort to converge the procedural rules regarding the CTM and national trademark laws.

As an example of the first development, in addition to collective marks the proposals also allow certification or guarantee marks to be registered. This is in line with requirements on sustainability within industry, ecological farming, etc. The certifying organization would be the proprietor of the mark. Interestingly enough this proposal concerns only the Regulation, since the Directive makes the inclusion voluntary.

A second example would be the abandoning of the requirement that a registrable trademark has to be graphically represented. Taking into account the rapid technological developments, one can only express surprise that it has taken so long to catch up in this respect. On the other hand this is not as simple as it sounds. There is no doubt that OHIM will be well resourced to handle new types of marks, but whether or not national patent and trademark offices, mostly handling applications made by SMEs, will be is questionable. Even the public must be able to determine

## Résumés

### Dr Max Oker-Blom, Adjunct Professor, Hanken School of Economics

Max Oker-Blom is Adjunct Professor at the Hanken School of Economics in Helsinki, Finland. Before returning to the academic field, where he started his career, he worked for almost two decades as Senior Vice President, legal, at Fazer group, a Nordic food service group of companies. Previous to that he was a Tax Partner with Price Waterhouse Coopers. He holds a PhD in Economics and a Licentiate degree in Law (LL.Lic.). He is past President of ECTA and currently ECTA Secretary General and a member of the ECTA Law Committee in addition to being active in several local IP and Law associations.

### Ewa Grabiak, Legal Coordinator, ECTA

Ewa Grabiak, ECTA Legal Coordinator, holds a Masters degree in Law from the University of Liège and an LL.M in Competition Law and Intellectual Property from the same university. Her native languages are French and Polish. Before joining ECTA, she accomplished a traineeship at the European Commission, in the DG Competition Department.

the exact subject of protection. This suggestion has accordingly been criticized by some of the Non-governmental organizations (NGOs).

A third example is the codification of the IP Translator decision of June 19, 2012. As is well known, the case concerns classification of goods and services. It is of great importance that there is clarity as to the identification and uniform use of the Nice system throughout the Union, particularly when there is some difference regarding the local interpretation of the decision.

The Commission has not, however, incorporated case law establishing that the advertising, communication and investment functions of a trademark can be protected. On the contrary, by proposing that use in a so-called double identity case, in other words when both the trademark and the goods or services are identical, also must adversely affect the origin function, it has reversed the case law. This is of course contrary to how industry is both treating and perceiving trademarks.

The Commission has neither seized the opportunity to establish that a trademark is a positive right, in other words an actual right to use a mark, not just an exclusive right preventing third parties from using the same. This goes against recent common understanding and is also contrary to the acceptance that a trademark is a property right, which was also strongly emphasized by the European Economic and Social Committee in its recent opinion.

### Counterfeit goods

The so called goods-in-transit issue reflects the Commission's willingness to act against the use of the Internal Market as platform for circulation of counterfeit goods. The Commission is proposing that counterfeit goods-in-transit are infringing regardless of the goods being compliant in the country of origin or the country of destination, or both. This means that goods can be stopped in the EU.

The proposal also includes a possibility to stop small consignments, when counterfeit goods from outside Europe are addressed to private persons, not acting in a commercial capacity, within the Union. The latter can in some cases, it is claimed, be a health and safety issue or adversely affect law-abiding manufacturers and traders.

### Procedural changes

The reform of the European Trade Mark system goes also through the procedural changes. With respect to the Regulation it is proposed that an application for a CTM should be submitted only to OHIM or the Agency and not also to the national offices. The fee has furthermore to be paid in connection with the application in order to obtain a filing date. A separate fee has also to be paid for each class in addition to the first, although these fees are very modest. This proposal, to some degree, reflects the idea proposed in the MPI study that the current right to obtain three classes for one fee should be abandoned to decrease "unnecessary" filings.



The procedural rules in the recast Directive are more or less in line with the revised Regulation, which is aimed at lowering transaction costs. This concerns, among other things, additional fees for each class, classification rules, duration and renewal of registrations. It is also proposed that there should be no *ex officio* examination of prior rights. Member states are in addition required to have an opposition procedure before the national office as well as an administrative cancellation procedure.

## Gaps in the proposals

Besides the codification, anti-counterfeit measures and procedural convergence, there are a couple of other features, or rather the relative silence surrounding them, which deserve to be explored. First of all, the silence concerning innovation and secondly the promotion of SMEs. These are, of course, closely linked since it is claimed that a considerable part of innovation is carried out by the SMEs. It is worthwhile remembering that SMEs account for more than 95% of all companies within the EU, representing approximately half of the total turnover.

If we believe in economic incentives, rendering an innovator a property right is fundamental. Knowing that the creator will be able to defend their rights against an intruder and also against every form of expropriation, or otherwise get adequately compensated, will certainly make a difference and function as an incentive for innovation. As already stated above, a trademark should thus also be explicitly accepted as a positive property right. In that sense the aim of the reform to foster innovation it is not entirely reflected in the legislative proposals.

The proposal to abolish the *ex officio* examination of prior rights might not serve SMEs well. It is quite obvious that the security gained by the authorities handling the examination will be lost. In addition it can be foreseen that the number of oppositions will increase, which will increase costs. What is presumed to be saved up front will be more than lost with increasing oppositions and litigation, which in turn will particularly affect SMEs.

The suggestion to include a provision in the Directive according to which marks must be refused if they are descriptive or non-distinctive in any of the EU languages is, if realized, going to be very burdensome for the national offices, but particularly detrimental to SMEs that only operate nationally. If one was inclined to be a little bit provocative then you could claim that this suggestion, in combination with abolishing the *ex officio* examination of prior rights, is eroding the principle of coexistence between the two systems, and in the long run paving the way for just one, in other words the CTM.

The same can be claimed with respect to the proposal to leave genuine use dependent on case law. CTM and the national trademark systems have different purposes, serving different categories and sizes of business entities. The business is either domestic or international, but not necessarily global. Every company has different needs, which should be realized in respect of the established business plan. Therefore, every company should be free to exploit its innovation accordingly, conversant with the level of its resources, and benefit from accurate protection through intellectual property rights. This realization should lead to at least requiring an intra-state connection for a CTM.

It is obvious that the requirement of use in a certain determined number of member states, in order to increase predictability, is inadequate because the geographical size or the number of inhabitants, potential consumers, vary to quite some degree, but a requirement on cross-border economic activity should be quite realistic and practicable. The proposal to leave this issue to be

developed by the Court of Justice of the EU may be considered as reflecting the inherent tension between civil and common law, which is embodied in EU law.

The appointed Rapporteur Cecilia Wikstrom circulated her draft report at the beginning of August, in which she highlights the need for the two systems to coexist and complement each other, which is important. In the last few months, stakeholders have been regularly involved in the preparation of the report. This has been highly appreciated in trademark circles. We hope that the legislative process will follow the same pattern with a strong and solid involvement of IP professionals.

Whether or not the adoption of the new Regulation and Directive will be affected by the European Elections in 2014, remains to be seen. The continuing financial crisis in the EU is an important focus, requiring a lot of attention. As a result there might not be any rush to update trademark laws, particularly taking into account that the existing system, as indicated, works quite well. Under the circumstances, the coming months will continue to be a very busy period for ECTA.

We hope that the continuous dialogue with the European institutions will allow to better reflect the efforts to encourage SMEs to use the protection of intellectual property rights.

<sup>1</sup> Reference is made to the “Study on the Overall Functioning of the European Trademark System”, which was presented March 3, 2011.



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