



European Community Trademark: Two Tracks - One Destination

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Author(s): Max Vern

Introduction

In late June 2004, the European Community acceded to the World Intellectual Property Organization (WIPO) Madrid Protocol on the international registration of trademarks.

This development is likely to have a long-standing effect for U.S. trademark owners who wish to obtain trademark protection in the European Community. Indeed, since the inception of the European Community Trademark (CTM) system, U.S. applicants have positioned themselves as leaders in filing new CTM applications. According to the recent statistics of the Office for Harmonization in the Internal Market (OHIM), U.S. trademark owners filed approximately 90,000 CTM applications, which constitutes close to 25% of all applications filed. For comparison, the second and third places taken by Germany and the United Kingdom, with 62,000 and 47,000 applications, respectively, are markedly behind the U.S. in CTM filings.

The question, therefore, is no longer limited to whether U.S. trademark owners should consider filing CTM applications, as compared to national applications in the Community countries (an issue vastly explored in the recent years in publications).

Rather, prospective U.S. applicants for Community marks should now also decide whether to opt for a "regular" CTM application, namely, a direct application and registration with OHIM, or to have the European Community designated as an extension of the Madrid Protocol International Registration (IR).

From an initial point of view, it seems that in both scenarios the benefits derived from securing a CTM registration are equal, whether acquired directly with OHIM or as an IR extension. Generally, such assumption is correct since advantages of a CTM registration, in both cases, include examination on absolute grounds only (i.e., there is no citation of prior trademark registrations or pending applications), issuance of Official Actions and litigation of oppositions before a single forum - OHIM, thereby eliminating the perils of having these issues reviewed by different national Trademark Offices, which would involve significant expenditures and possibly lead to inconsistent and contradictory decisions. Further, the CTM protection is granted in all 25 Community countries, and use in any Community Country would defeat a non-use cancellation attack.



However, upon a closer look, there are several significant considerations, both procedural and substantive, that should be evaluated before choosing a conduit for the CTM protection.

Cost Considerations

Perceptibly, a primary advantage of the Madrid Protocol is the cost-saving mechanism at filing, registration and, in the long-term, maintenance of an IR. However, this general rule seems to be inapplicable in the case of IR extension to the Community.

The basic filing fee for a direct application with OHIM is €975 (\$1,200), and the registration fee is €1,100 (approximately \$1,350). Since the Madrid Protocol mechanism does not provide for payment of registration fees, the supposed saving of \$1,350 is unarguably a sound advantage. Yet, the European Community has decided in accordance with Article 8(7) (a) of the Protocol that, in connection with each request for territorial extension, it will not accept the standard low-cost schedule established by WIPO, and instead has declared that it wants to receive an individual fee for each IR extension request and for subsequent renewal of such extension.

The individual fee for designating the European Community has been announced very recently. The charge is €1,875 (\$2,300), as compared to €975 for a direct filing. The amount includes the filing and, since the Protocol does not prohibit it, the registration fees. The filing fee portion is €775 and the registration portion - not collected under the Madrid Protocol and therefore embedded in the individual designation fee - is charged in full, namely €1,100. The bottom-line economy in official filing/registration fees is thus only €200 (\$250).

Another consideration in extending an IR to the European Community is that such extension (as compared to a directly filed application) eliminates the need to retain a local trademark counsel, at least until such extension encounters an Official Action. This is a valid factor since the average filing fee for a CTM application, as charged by a Community counsel, varies between \$1,500 and \$2,000. On the counter-balance, however, is the fact though OHIM does not follow the same stringent rules of examination as the UK or U.S. Trademark Offices (in the latter, up to 80% of all applications encounter an Official Action), a sizable part of the European Community applications, whether IR extensions or direct OHIM filings, receive an Official Action. In this scenario, no matter how small or technical the Action is, the applicant must retain a European Community counsel. As a matter of fact, most Community trademark practitioners charge a flat fee for being retained to reply to an Official Action, reaching 50 - 80% of the counsel's direct CTM filing fee (this, in addition to the time-billed fees for responding to the Official Action).

The above two factors - the OHIM individual supplementary fee and the cost of a retainer, squander the pecuniary advantage of an IR extension over a direct CTM application.

Maintenance Cost

Though it seems to be a remote prospect, the cost of maintenance is a factor to be included in the trademark budgeting. Notwithstanding the fact that an IR is renewed by paying a single



renewal fee to WIPO, Article 8(7)(a) of the Protocol empowers each member-country to declare that it will not accept the standard renewal fee established by the Protocol, and instead specify an individual fee it wishes to receive for renewal of an IR territorial extension. The individual renewal fee for a European Community registration under an IR extension will be €2,300 (\$2,800), virtually identical to the €2,500 fee in a directly registered Community trademark. This in effect eliminates possible cost savings, should the Community have adopted the WIPO schedule of fees, and erases the fiscal advantage of the Madrid Protocol in the mark's maintenance.

Scope of Protection

A paramount consideration in seeking trademark protection which defines the future scope of trademark rights is the specification of goods and services encompassed by the mark. Unlike the United States, the European Community applicants do not have to declare actual use of the mark or intent to use same, and wide specifications are allowed. This, in turn, creates a situation where a U.S. trademark owner who opts for territorial extension of an IR registration based on the U.S. registration or application, must restrict the list of goods and services in the Community extension to those in the basic U.S. mark. An important factor to be kept in mind by the prospective applicants is that the vast majority - 23 out of 25 - of European Community countries are the continental Civil Law jurisdictions, affording a special weight to the theory of trademark rights derived from registration. Unlike the U.S. or UK Common Law legal theory, which recognizes trademark rights based on use, and despite a recent drive in the Civil Law jurisdictions to bridge the gap between the systems with respect to recognition of use-based rights, the importance of having a trademark registration in continental Europe cannot be overestimated. Thus, a wider scope of goods and services covered by a CTM registration may have a decisive weight in a possible trademark conflict.

In this respect, also to be taken into account is the continuous dependency of an IR territorial extension in the Community on the scope of protection in the United States. For example, if the IR is based on the U.S. application and the specification in the latter is eventually restricted, such restriction should be also reflected in each IR extension, including the European Community. Further, if the U.S. specification is amended at any stage during the mark's registration life span, such amendment should be entered in all IR extensions as well.

Central Attack

Another limitation of an IR extension to the European Community (or any other country) is the issue of vulnerability to a central attack. Rejection of the trademark owner's U.S. basic application or revocation of such U.S. registration (on any grounds) within the IR's first five years of existence will invalidate the Community extension. In consideration of the fact that up to 80% of the U.S. applications encounter Official Action and many applications never mature to registrations, as well as the fact that in many cases trademark owners stop using the mark post-registration and do not file a Section 8 Declaration, such invalidation of the U.S. mark equally leads to termination of the European Community IR extension.



Moreover, the possibility of a central attack opens to third parties new horizons for invalidation of the contested Community marks involving, along the way, jeopardy to the basis U.S. registration. A possible development may occur when a third party opposes a Community extension of the U.S.-based IR, and such U.S. mark is still a pending application or a registration within the five year period of IR existence. In such instance, if the Community opposition is dismissed, the opposer may well oppose the U.S. application or seek its invalidation, depending on the U.S. mark's status. If this home country attack is successful, the owner will also lose all national extensions under the IR. Moreover, if the owner of such cancelled mark eventually decides on transforming the mark into national applications, as described below, that same third party would have another chance to oppose the transformed Community application once it is republished. The above scenario, though not too likely to see light every day, is still possible in case of a wide-scale European or transnational trademark conflict, with the claimant/opposer willing to defend its rights with no regard to the cost. Under such circumstances, the applicant may find itself a defendant in three transoceanic litigations, with soaring costs and the endangerment of its home-country mark.

Transformation

The Madrid Protocol allows transformation of cancelled IRs into national trademark applications designated by the owner. However, a national Trademark Office receiving the transformed application is not compelled to automatically accept it. The OHIM plans that each application will be examined de novo. Thus, though the OHIM is guided by the principles of harmonization, the fact that the mark is reviewed again always carries a risk that a new Official Action may issue and additional costs in connection with services of a local counsel would be incurred. Another aspect of an IR transformation to the regular CTM application track is that will also necessitate payment of a new filing fee to OHIM. Though if the IR is transformed while the Community extension is still pending, the registration part (but not the application part) of the filing fee, namely €1,100, will be returned to the applicant, transformation after registration of the Community extension does not entitle the owner to any fee reimbursement, and any pecuniary savings attained during the IR extension filing and registration will be now eroded.

Ownership Restrictions

U.S. trademark owners who wish to obtain trademark protection in the European Community through the Madrid Protocol vehicle should be also aware that an IR may be assigned only to a party who is a national or a domicile in one of the Madrid Protocol member countries. Thus, a U.S. trademark owner will be unable to assign the IR to a third party, including foreign subsidiaries, in the non-member countries, including the NAFTA members - Mexico and Canada.

Limited Geographic Interest

Another concern that must be reckoned with is that a U.S. trademark owner who wishes to develop a new brand name for the European market only (whether a new line of cosmetics, a car model name, or a pharmaceutical to be marketed under a specific commercial name



designated for Europe only) will not gain any advantage in the Madrid Protocol mechanism. In such case it would be first necessary to file, and subsequently register, a basic U.S. application, and then to file an International Application with subsequent designation of the European Community - a more time - and costconsuming route, involving all limitations outlined above, than a direct CTM application with OHIM.

Summary

It seems that though in the long-term a Madrid Protocol International Registration extended to a vast number of countries as part of a global trademark program carries significant advantages in prosecution and maintenance, such advantages may be lost in case of a limited territorial IR extension to examining jurisdictions with high individual fee system (e.g., Japan, European Community). In such instance it may be advisable to proceed with direct filings in the jurisdictions of interest, foregoing the Madrid Protocol option. Much will also depend on the vulnerability of the basic U.S. mark, which may expose the entire fleet of global IR extensions and destroy not only the cost benefits but also jeopardize the trademark rights. Thus, the trademark owner may consider an IR global protection only after filing the Section 8 and 15 Declarations in its U.S. registration, once the U.S. mark becomes incontestable.

On the balance, whether it is the advantage of a possible cost saving and ease of maintenance (one assignment - one renewal approach) or the narrow scope of protection and central attack downsides, the prospective applicant should carefully consider all available options with its counsel and lay down a strategy most suitable for the specific trademark program.

[Max Vern](#) is an associate in the International Department of Amster, Rothstein & Ebenstein LLP, an intellectual property boutique located in New York City. The author wishes to thank [Anthony F. Lo Cicero](#), a partner in the firm, for his assistance. All Content Copyright 2007.