

Features

Study on the Overall Functioning of the European Trademark System

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The Max-Planck-Institute for Intellectual Property and Competition Law, Munich, Germany, presented its Study on the Overall Functioning of the European Trade Mark System to the European Commission on February 15, 2011. The text of the study was made public on March 8, 2011, and consists of 290 pages. The European Commission as well as user organizations—including INTA—are now in the process of evaluating the study and the proposals put forward by the Max-Planck-Institute. The European Commission is expected to present its draft legislative proposals for amendments to the Trade Mark Directive (TMD) and the Community Trade Mark Regulation (CTMR) in October this year.

This article highlights some of the proposals made by the Max-Planck-Institute that are of interest to trademark owners.

Background

Almost 15 years after the introduction of both the CTM system and the, at least partly, harmonized trademark law in Europe, the European Commission has conducted an in-depth assessment of the overall functioning of the European trademark system in Europe as a whole, both at the Community and at the national level. The aim was to identify potential areas for improvement, streamlining and future development of this system. In particular, the study analyzed the level of harmonization achieved and the need for further harmonization.

To that end, the Max-Planck-Institute conducted a survey among the users of the CTM system and obtained information from national European trademark offices regarding their position and activities. INTA actively participated in that process, attending a hearing at the MPI in June 2010 and submitting a detailed

report relating to the questions raised in the European Commission's invitation to tender in November 2010.

Legal Analysis

The study contains a comprehensive legal analysis of European trademark law, divided into two main chapters: one on common issues for the TMD and CTMR, the other dealing with the functioning of the CTM system, both in substantive and procedural law.

Common Issues for TMD and CTMR

Signs capable of being registered

The study proposes that both Article 4 CTMR and Article 2 TMD should be reformulated so as to refer to capability to distinguish as the essential criteria for protection. Graphical representability of the sign should be removed from the basic definition. It should be sufficient that a sign is represented in a manner that satisfies requirements of the registration system. Further details should be left to the Implementing Regulation of the CTM system, according to the study. This proposal would allow for more flexibility, particularly in the field of nontraditional marks like smell or sound.

Shape-of-product and color marks

The study points out that protection of shape-of-product marks—like industrial design protection—bars others from making and offering the same article on the market. In the case of a trademark registration, that barring effect can be maintained without any limitations in time. In view of these particular circumstances, the study proposes a more restrictive approach as to registrability. Shape-of-product marks shall only be registered if acquired distinctiveness is established. The same shall apply to trademarks consisting of colors *per se*.

Use requirement: multiple registrations of similar marks

The judgment of the Court of Justice (CJ) in the *Bainbridge* case has created doubts and uncertainties in the situation where a trademark as used is invoked to maintain a registered variation of the same mark and the used ver-

sion is also separately registered. The study suggests that Article 10 TMD and Article 15 (1) (a) CTMR should be amended to clarify that the use of a trademark may be taken to satisfy the use of a registered variant of that mark even if the used version is also registered.

Well-known and reputation marks

The study describes in detail the protection of well-known marks under the CTMR and the TMD and finds that protection is far from being harmonized. In particular, the study points out that there is no possibility for owners of unregistered trademarks that are well known in the Community to get access to the judicial system established under the CTMR, a situation which is not in compliance with the obligations incurred by the European Union under the TRIPS agreement. It is therefore suggested to extend the protection of well-known trademarks, both under the TMD and the CTMR, also to unregistered well-known trademarks having a reputation in the relevant territory.

Likelihood of confusion

The study states that criticism has been raised regarding the approach of the Luxembourg courts as regards the so-called "neutralization" theory, and regarding the inability to distinguish properly between weak and strong marks. The study refers expressly to the CJ decision FLEX/ FLEXI AIR, which is, according to the study, out of line with the general principles announced by the CJ in the leading *Canon* case and other relevant case law. The study proposes to address this issue in the preamble, which could express among others the following basic principles:

The trademarks with high degree of distinctiveness should receive more extensive protection than those with a low degree of distinctiveness; that a high degree of distinctiveness requires that the mark has become established on the market as a result of extensive use; that where a trademark is composed of or consists of an element which is not itself registrable, a finding of likelihood of confusion cannot be based on the fact that both marks consist of or contain that element

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Harmonization of TMD and CTMR

The TMD and the CTMR should provide for the same protection to trademarks. Accordingly, the study recommends to align the structure and the provisions as far as possible. In addition, several provisions that are currently optional in the Directive should be made mandatory (more on this below).

Infringement

As a requirement for infringement, the sign must be used "as a mark." The study recommends to maintain the requirement established by case law that use must be made for the purpose of identifying and distinguishing the commercial origin of goods or services. In addition, both the TMD and the CTMR shall be amended to the effect that registered trademarks are also protected against use made of the trademark or a similar sign in the course of trade for purposes other than to distinguish goods or services, provided such use is likely to mislead the public about the existence of a commercial link between the proprietor of the trademark and a third party, or is likely to be detrimental to or take advantage of the distinctiveness or reputation of the trademark in a manner contrary to honest practices in industrial and commercial matters.

Goods in transit

The study recognizes that there is a need to improve the present legal situation where remedies for trademark infringement are not available as long as the goods are not brought into free circulation on the common market. It is proposed to amend the present legislation to the effect that transit of goods bearing an infringing trademark should be considered as trademark infringement provided that the goods are also infringing a parallel right existing in the country of destination. The rule proposed shall be limited to counterfeit goods as defined in footnote 14 (a) to Article 51 TRIPS, that is, goods bearing without authorization a trademark that is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark.

Defense of non-use

Under the CTMR, the proprietor of a later trademark may invoke the defense of non-

use both in opposition proceedings and in cancellation proceedings. Under the TMD, on the other hand, non-use is a defense to a cancellation, but the corresponding provision dealing with the defense of non-use in opposition proceedings is optional so far. The study proposes that the relevant Article 11 (2) TMD shall become mandatory to make sure that proprietors of later national trademarks enjoy the same rights.

Functioning of the CTM System

The problems resulting from the territorial divergence of the EU, its increasing geographical breadth and the tensions that emerge against the principle of unitary character of a CTM have been the hottest political and professional issue in the EU in the recent months.

Genuine Use Within the Community

The territorial aspect of genuine use is a major issue, both within the MPI study and in the general EU trademark environment. MPI's report emphasized the principle that CTMs are unitary intellectual property rights for the whole of the European Union; the study holds that the number of countries in which a CTM has been used is not an acceptable criterion in order to determine genuine use. At the same time, the study stresses that this does not mean that the conditions for "genuine use" of national marks and of CTMs are exactly the same. In view of the size of the European Union it may well be, according to the study, that the courts apply stricter standards as to what constitutes "genuine use" when a CTM is involved than when a national mark is involved.

Coexistence with subsequent marks

The study describes that a CTM registration, if the mark is genuinely used, can be maintained by use in only a small part of the European Union. The owner may oppose or invalidate later trademarks also in member states where the CTM, even after a long time, has not been used and a conflict on the market would be "hypothetical." The study suggests to restrict, under certain circumstances, the rights of the proprietor against later trademarks if the proprietor has not extended the use of the CTM across other parts of the European Union beyond those that are

sufficient for genuine use.

It is proposed that registration and use of subsequent national trademarks shall be allowed in a member state remote from the part of the Community where a conflicting earlier CTM, which has been registered for a period of at least 15 years, was used, provided that the later mark was applied for in good faith. Such registrations should coexist with the earlier CTM that continues to be valid and enforceable and may also be used in that member state. According to the study, it should be explicitly set out in the rule that it only applies to CTMs if only minimal use of the CTM has been made in a part of the Community that is distant from the relevant member state.

Acquired distinctiveness

The study points out that the principle that distinctiveness through use must be acquired in those parts of the Community where it is lacking should be maintained. However, the study acknowledges that this may lead to situations in which it is virtually impossible to demonstrate acquired distinctiveness. It is therefore suggested that, for example, in the case of marks consisting of shapes or colors, acquired distinctiveness should be considered to be present if distinctiveness can be shown for the majority of the markets making up the respective territory.

Scope of protection in conflicts involving marks with a reputation

The study agrees with the rules laid down by the CJ in the PAGO judgment that, where a trademark has a well-established reputation in one member state, the requirement of reputation "in the Community" is fulfilled. The study recognizes that, as a matter of principle, it should be left to the case law of the CJ to develop rules for the protection of CTMs with reputation. Nevertheless, the study proposes to amend the preamble of the TMD to the effect that an earlier CTM should prevail only when all conditions of protection are fulfilled in the respective member state, so that, for example, an earlier CTM with a reputation in one part of the Union could not be detrimentally affected in another part of the Union where no such reputation is present.

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Further Harmonization

The study proposes that the scope of harmonization of the trademark law among member states be taken much further than the current scope of the Directive.

Substantive law

The study suggests some areas for further substantive harmonization:

- **Marks with Reputation.** The study proposes making extended protection of such marks an obligatory provision of the Directive.
- **Trademarks as objects of property.** The study endorses harmonizing the rules and requirements for transfers and licenses and security interests, including their recordal.
- **Protection of non-registered signs.** The study encourages harmonization of various forms of protection for non-registered marks, as these tend to influence protection of registered marks.

Remedies

The current system whereby remedies available in cases of infringement are generally left to national law (with international private law intervening) is regarded as limiting the effect of harmonization and inconsistent with the principle of unitary character. It is therefore proposed that remedies be covered in the Regulation and that analogous provisions be introduced into the Directive. This should involve in particular not only implementing the Enforcement Directive into the CTMR but also reviewing enforcement tools, for example, with respect to availability of declaratory actions. The study also suggests that actions based on threatened infringement be regulated in the CTMR and not deferred to national law.

Harmonizing procedures and practicalities

The study identifies lack of harmonized procedures as one of the most important aspects limiting the impact of the Directive and CTM system. The fact that harmonized substantive laws operate in very divergent procedural and general legislative environments reduces the efficiency of harmonization. Therefore, the following areas were proposed for further harmonization:

- classification rules (see below)
- cost awards enforcement—obligating member states to designate an enforcement authority
- availability of post-grant opposition and non-use defense in opposition throughout the EU
- filing requirements regarding filing date, representation, and other matters
- common platform to access the different systems

Classification: preventing congestion

The issue of congestion of the register should, in accordance with the study, be primarily addressed by appropriate rules on genuine use.

The study devotes much space to the issue of classification of goods. The study tries to analyze whether the lack of extra fees for claiming three classes and the ease (and consequences) of using class headings in applications result in the choice of new marks becoming more difficult and the costs of clearing them rising. There seems to be no clear evidence. Nevertheless, the study does recommend a separate fee for each class, abandoning the current three-for-the-price-of-one principle. The study also recommends departing from the most recent practice of assuming that use of class headings amounts to designation of all the goods in the particular class. Instead, a more flexible approach is proposed whereby only for those classes where the headings clearly encompass all goods as a general denomination will claiming class headings be considered equivalent to claiming “all goods in that class.” OHIM and member states are to decide which classes have that characteristic.

Roles of OHIM and the National Trademark Offices

What the study identifies as an important challenge is the evolving role of the trademark offices. Several trends were identified as relevant, including the competition between national offices and OHIM for applications, perceived benefits of maintaining the dual system, as well as the pressures to broaden the mandate of the offices, coupled with the financial issues (including the OHIM surplus). As a result, several recommendations were made to preserve choice and balance and offer better service to applicants.

The study is careful on these very political and tricky issues. It is emphasized that the national offices (and national systems) are an important element of the overall system and should be preserved to maintain the choice. It is emphasized that offices are already intensively cooperating and further activities in terms of developing software platforms, coordinating guidelines and training are advocated.

Some consideration is given to the concept of expanding the offices' mandate to include enforcement. The study acknowledges the concept of strengthening the role of offices (including OHIM) in enforcement based on the logical argument that the offices in fact sell to the applicant the promise of protection and should also work to guarantee its effect to some extent. There are however very divergent opinions on the topic, and legislative changes would be required. The study is therefore not very specific on the desired outcome.

Finally, the issue of redistribution of renewal fees to national offices is addressed. The study proposes a dual system whereby half of the fees to be distributed would be divided in equal amounts among member states and the other half would be distributed in accordance with the number of trademark applications in that country (including Madrid designations). Where the office is not financially independent, appropriate measures should be introduced to preserve the use of the funds for the predetermined purposes.

Conclusions

The authors of the study should be congratulated on their efforts. They have comprehensively analyzed a vast amount of data, from various fields of IP and general private (including international) law to the very practical issues facing users of the system, and they have suggested numerous areas for improvement and consideration.

The resulting text reflects the complexity of the subject matter. It does achieve its purpose of forming a solid basis for reform and furthering the economic goals that trademark protection harmonization and efficiency brings to the EU market. INTA will stay focused on the study and legislative work that is to follow. ■