

Initial appraisal of a European Commission Impact Assessment

European Commission proposals on the EU trade mark regime

Impact Assessment (SWD (2013) 95, SWD (2013) 96 (summary)) of a Commission proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 207/2009 on the Community trade mark (COM (2013) 161; and of a Commission proposal for a Directive of the European Parliament and of the Council to approximate the laws of the Member States relating to trade marks (recast) (COM (2013) 162)

• Background

This note seeks to provide an initial analysis of the strengths and weaknesses of the European Commission's Impact Assessment (IA) accompanying the above-mentioned proposals, submitted on 27 March 2013.

A trade mark is an indicator of business origin, distinguishing the goods and services of one undertaking from those of another. It is also an essential marketing instrument. Several systems for trade mark protection co-exist and are closely interrelated:

- National trade marks are registered by the intellectual property (IP) offices of the Member States¹. National trade mark laws are partially harmonised by the provisions of Directive 2008/95/EC approximating the laws of the Member States relating to trade marks ('TM Directive').

- Community trade marks provide a unitary IP right with EU-wide effect. They are registered by the Office for Harmonisation in the Internal Market (Trade Marks and Designs) (OHIM), a specialised EU agency, established in 1994 in Alicante, Spain. The rules on the Community trade mark are enshrined in Regulation (EC) No 207/2009 on the Community Trade Mark ('CTM Regulation').

- International trade mark registrations are administered by the World Intellectual Property Organisation (WIPO). Although these international trade marks can be obtained in a single procedure, they do not become one single IP right, but they are split into a bundle of national and Community trade marks. They have limited added value within the EU.

The TM Directive has not been amended in substance since its adoption in 1989. The initial CTM Regulation of 1994 was subject to some amendments, but these were generally of minor significance. However, the business environment has changed significantly over the past two

¹ The Benelux Office for IP offers a combined regional trade mark.

decades, and the number of trade mark applications has been growing steadily, both at national and Community levels (IA, p. 6).²

The IA describes how the Community trade mark system and national trade mark systems are interlinked and how they interact. Companies have the choice between the two systems.

- **Problem definition**

The Commission's IA gives a clear and very elaborate description of the problems in need of EU action, illustrated with examples. Problems, their drivers and consequences are usefully presented in a 'problem tree' structure (IA p. 38).

A first set of problems relates to divergent provisions within the existing regulatory framework. In spite of the partial harmonisation of national trade mark laws in the TM Directive, 'the business environment in the trade mark field remains very heterogeneous' (IA, p.18). The TM Directive does not cover procedural aspects - for example, the designation and classification of goods and services, the number of classes of goods or services covered by a single trade mark application, the ex-officio examination of relative grounds of refusal, or the availability and nature of opposition and cancellation procedures. Besides these procedural aspects, there are a number of substantive law issues that remain unharmonised - namely, the protection of geographical indications, the rules applicable to trade marks as objects of property, and the provisions relating to collective trade marks. Moreover, problems arise from the fact that the current TM Directive contains several provisions which are only optional for Member States. Finally, the CTM Regulation does not provide for a clear legal basis for cooperation.

The second main problem in need of EU intervention is the low level of cooperation between national trade mark offices. Besides the lack of clear legal basis for such cooperation already mentioned, the problem is mainly caused by insufficient technical facilities of national offices, in particular IT equipment, and a lack of sustainable financing for the medium to long term. Most national offices do not have the financial resources required to develop, launch and run, over the long term, common tools (for example, joint trade mark databases with online search facilities), (IA, p. 28).

The Commission explains that these two problems and their drivers lead to an increase of direct and indirect costs for industry, to delays in registration and other proceedings, and to legal uncertainty and exposure to legal risks. It also describes in detail how, without appropriate changes, the current sub-optimal conditions for European businesses and the under-developed complementarity between the various trade mark systems, are unlikely to improve.

At the request of the Commission's Impact Assessment Board, the originating service within the Commission, DG MARKT, has elaborated on the problems and has supported the problem definition with evaluation and consultation reports.

- **Objectives of the legislative proposal**

The *general* objective of the proposals is 'to modernise the trade mark system in Europe, thereby enhancing EU companies' competitiveness, by i) improving accessibility of trade mark systems, ii) providing legal certainty for all businesses in the EU, and iii) ensuring coexistence and complementarity between EU and national systems'.

² IA p. 12. The total number of trade mark applications in the EU-27 increased by about 8% from 471,000 in 1996 to 509,000 in 2008. The number of CTM applications has more than doubled, from about 43,000 in 1996 to over 107,000 in 2012.

The *specific* objectives are i) to increase convergence of the TM Directive with the CTM Regulation, and ii) to increase the level of cooperation between OHIM and national trade mark offices. These are further translated into a number of *operational* objectives, for example to put the long-term financing for cooperation activities on a more secure basis.

The policy objectives of the proposals are clearly linked to the identified problem drivers.

• Range of options considered

The IA identifies four sets of policy options, corresponding to four of the objectives of the proposals.

1. *Approximation of trade mark laws and procedures*

- Option 1.1. Status quo;
- Option 1.2. 'Partial approximation' of national laws and ensuring their coherence with the CTM system for a selected number of trade mark law aspects;
- Option 1.3. 'Full approximation' of national trade mark laws and procedures;
- Option 1.4. A single trade mark rule book would entirely replace Member States' trade mark laws by setting uniform rules across the EU.

The approximation of national trade mark law could be pursued on a voluntary basis (sub-options 1.2.a and 1.3.a) or could be made mandatory, based on an EU legislative measure (sub-options **1.2.b** and 1.3.b).

2. *Providing a legal basis for cooperation between trade mark offices*

- Option 2.1. Status quo;
- Option 2.2. Establishing a clear legal base allowing national IP offices and OHIM to cooperate with each other (optional cooperation);
- **Option 2.3.** Establishing a clear legal basis for obligatory cooperation.

3. *Providing technical facilities and tools for trade mark offices*

- Option 3.1. Status quo;
- Option 3.2. Creating a framework for voluntary cooperation (common software tools and standards and practices required to achieve convergence and interconnectivity between procedures and systems);
- **Option 3.3.** The same as under option 3.2., but in a framework of obligatory cooperation.

4. *Funding of the trade mark offices in general*

- Option 4.1. Each national office and OHIM would bear the entire cost of their cooperation activities;
- Option 4.2. Cooperation activities would be financed from the EU budget;
- Option 4.3. Cooperation activities would be financed from the OHIM budget.

Under option 4.3., the Commission puts forward several sub-options. Contributions can be allocated as lump sums on the basis of agreed distribution criteria (sub-option 4.3.a), or the funding process can be project-driven and based on grants (**sub-option 4.3.b**). Furthermore, cooperation activities could be financed from the OHIM's general budget (**sub-option 4.3.c**), from a specific OHIM revenue stream (sub-option 4.3.d) or from the accumulated OHIM surplus (sub-option 4.3.e).

The Commission's preferred combination of options is 1.2.b (mandatory partial approximation of trade mark laws and the CTM system), **option 2.3.** (legal basis for obligatory cooperation between national trade mark offices and OHIM), **option 3.3** (access to tools within a

mandatory framework) and sub-options 4.3.b/4.3.c (contributions in the form of lump sums and funding from the operational OHIM budget).

- **Scope of the Impact Assessment**

The scope of the assessment of the impacts of the identified policy options is rather limited. The options are briefly compared for their effectiveness (in achieving the stated objectives) and efficiency (in terms of time needed, overall cost and proportionality). The Commission uses a scoring system with (--), (-), (0), (+), (++) and (?). Only the preferred options identified in this way are further assessed for their impact on stakeholders, identified as trade mark users (including SMEs), national IP offices and OHIM.

The Commission expects the selected policy options to have overall positive effects for trade mark users and efficiency gains for national trade mark offices and OHIM. The modernisation of the European trade mark system would also have an indirect positive impact on consumers. The preferred options might have an impact on the staffing needs at national offices and would probably require a shift in human resources, but no further assessment is made. There would no direct environmental impacts.

The selected options would not imply changes to the procedural mechanism for the registration of international trade marks. The approximation of trade mark laws and procedures would render the ratification of, or accession to, relevant treaties, such as the Trade Mark Law Treaty (WIPO) and the Singapore Treaty on the Law of Trade Marks of 2006, easier.

According to the Commission, the combined effect of the selected options would enhance the complementary relationship between the CTM and national trade mark systems, which is crucial for the functioning of an efficient trade mark regime that meets the requirements of companies of different sizes, markets and geographical presence (IA, p. 64).

- **Quality of data, research and analysis**

The IA is largely based on a study by the Max Planck Institute for Intellectual Property and Competition Law, carried out between November 2009 and February 2011.

The assessment is mainly of a qualitative and descriptive nature. The method underlying the above-mentioned scoring systems using (+) and (-) symbols, is not transparently explained or justified by the Commission.

The specific measures included in the options, especially those relating to the approximation of national trade mark systems and the CTM, are only listed in an annex to the IA (Annex 2). However, they seem to have been added in a later stage, after their 'assessment' had already been made, in response to criticism by the IA Board, and they not well explained. The description is too broad and vague to allow for any credible assessment of impacts on trade mark users and on the national trade mark offices. However, the IA is more precise on the effects on the OHIM budget (see below under 'Budgetary or public finance implications').

Annex 8 to the IA is an excerpt from a Social Cost Benefit Analysis, carried out by OHIM between July 2010 and June 2011, for the Cooperation Fund projects. This analysis demonstrates that the use of certain databases, the introduction of e-filing and other measures should entail substantial benefits for business and trade mark offices. The Commission explains that part of these benefits would not materialise in the absence of further action at EU level (IA, p. 36).

- **Subsidiarity / proportionality**

The proposals are based on Articles 114 TFEU (TM Directive) and 118(1) TFEU (CTM Regulation). The Commission underlines the principle of coexistence and complementarity between national and Union-wide trade mark protection. Measures aimed at extending the current level of approximation and at modernising the CTM system can only be taken at Union level.

No Member State national parliament has issued a reasoned opinion raising problems with respect to subsidiarity.

The different policy options are compared for their proportionality. In particular, the reason for the Commission's preference for only partial harmonisation of procedural and substantial trade mark systems is the probable lack of incentives for and willingness to find common approaches in Member States, although the Commission admits that further harmonisation is favoured by industry (IA, p. 46).

- **SME test / Competitiveness**

In its 2008 Small Business Act, the Commission pledges to make the Community trade mark system more accessible for SMEs³. Although the IA, in several places, indicates the importance of an efficient trade mark system for SMEs, and that benefits of further approximation would accrue to SMEs even more than to large businesses, no specific SME test was undertaken.

The IA does not contain a competitiveness test, in which it could have been analysed whether and to what extent the measures would improve the competitiveness of European business.

- **Budgetary or public finance implications**

The preferred options would not have an impact on the EU budget since OHIM is an agency that is fully financed from fees paid by its users and does not receive any subsidy from the EU budget (IA, p. 66).

It is estimated that the cost of cooperation activities between OHIM and national offices would amount to 17 - 20 million euro per year. This is equivalent to about 10 per cent of the OHIM's yearly income (IA, p. 55).

The IA remains very vague on the possible impact of the proposals on budget of the Member States. 'Certain national offices would bear variable additional costs linked to further harmonisation efforts. However, the costs linked to the setting-up and functioning of administrative and cancellation procedures would be more or less compensated by the (parallel) alleviated burden for national courts.' (IA, p. 50).

- **Stakeholder consultation**

The consultation of stakeholders seems to have been conducted mainly through the Max Planck Institute in the framework of the study preparing the current IA. As a follow-up to this study, DG MARKT held a number of bilateral meetings with user associations and says it has sought the views of user associations on 'selected' proposals of the study during a hearing (IA, p.11).

³ Commission Communication "Think Small First, a Small Business Act for Europe", COM (2008)394.

The views of stakeholders are reflected in the IA, but not in a systematic way. At the request of the Commission's IA Board, a summary of the main statements made by user organisations was added to Annex 7.

- **Monitoring and evaluation**

The IA contains a set of indicators, relating to both the approximation of trade mark systems and the increased cooperation capacity for trade mark offices, that will be used for monitoring and evaluation.

- **Commission Impact Assessment Board**

The Commission's Impact Assessment Board (IAB) issued a first opinion on 21 October 2011 asking for significant improvements to, and resubmission of, the draft IA. In response to the IAB's recommendations, DG MARKT has mainly improved the explanation of the problems and has added practical examples as evidence of the problems experienced by trade mark users as a consequence of non-harmonised parts of trade mark laws and the optional character of parts of the existing TM Directive. An opinion of the IAB on a revised draft followed on 3 February 2012. Some of the remaining criticism of the IA Board, mainly on the need to better assess the impacts (both costs and expected benefits) of the preferred options, namely the envisaged obligatory cooperation between national trade mark offices and OHIM, seems not to have been completely followed-up.

- **Coherence between the Commission's legislative proposal and IA**

The legislative proposals seem to be coherent with the IA, in the sense that they contain a much more detailed set of measures that fall broadly within the scope of the very vaguely described preferred policy options.

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This note, prepared by the Ex-Ante Impact Assessment Unit for the Committee on the Legal Affairs (JURI), analyses whether the principal criteria laid down in the Commission's own Impact Assessment Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal. It is drafted for informational and background purposes to assist the relevant parliamentary committee(s) and Members more widely in their work.

This document is also available on the internet at:

<http://www.europarl.europa.eu/committees/en/studies.html>

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