



# Escaping the money trap

OHIM has amassed well in excess of €300 million in surplus funds. The problem is, it was never supposed to make any money. A cut in fees was agreed over a year ago, but progress has since been slow. *WTR* asked a number of interested parties for their opinions on what should be done with the excess funds

Some argue that the Office for Harmonization in the Internal Market (OHIM) has more money than it knows what to do with. But perhaps that is a little unfair. OHIM's president, Wubbo de Boer, knows exactly where he would like the money to go; the trouble is, it is not his decision to make.

OHIM has well in excess of €300 million in surplus funds sitting in various bank accounts and €250,000 is added to that total every working day. OHIM currently earns more money in interest on the surplus than it receives in fees for Community design registrations. Should this situation continue, it will have €1 billion in the bank by 2016. If OHIM were a private company, this news would be greeted with great enthusiasm; however, OHIM is a not-for-profit organization and these huge sums are proving to be something of an embarrassment, particularly as there has been disagreement on what should be done with the surplus and how to stop the money from pouring in.

OHIM's view on this is clear. A fee reduction of around 25% in 2005 simply did not go far enough and the office wants to see further cuts for the benefit of users of the Community trademark (CTM) system. OHIM would like to see the cost of registering a CTM reduced from €1,600 to around €1,000. Despite an agreement in principle between member states over a year ago that further cuts were necessary, progress has been painfully slow since then. De Boer feels that some EU governments are resisting the planned reduction in registration fees because they fear undermining their own national trademark offices. Some are also seeking payouts from the surplus, ostensibly to help their national offices, which claim to be struggling as a result of the introduction of the CTM. Moreover, while most rights holders and many practitioners would welcome a cut in fees, others are more cautious.

After months of delays, the European Commission now seems to be heeding the calls from OHIM and others to put the issue back on the agenda. The Portuguese secretary of state for justice raised the fee reduction question at the EU Competitiveness Council in May this year and the Internal Market Commissioner, Charlie McCreevy, later announced that he expected a legislative proposal before the end of 2008.

An extraordinary meeting of OHIM's Administrative Board and Budget Committee, made up of representatives from member states and the European Commission, is due to take place in Brussels in September and it is hoped that some sort of agreement will be struck. But is a cut in fees really the best solution and what should be done with the surplus? *WTR* asked a number of interested groups, including rights holders, practitioners and the heads of OHIM and national offices for their thoughts.

**Sylvain Rousseau**, Partner, Jacobacci & Partners, Turin

There is an argument that any reduction in fees is likely to make the CTM system even more attractive. While there are obvious positives, this could also have a number of negative effects. The first is that the CTM may become so popular that any reduction in fees is offset by a commensurate rise in applications. Far from reducing the surplus, the cut in fees could do the opposite.

The predicted rise in applications could also have an adverse effect on OHIM's performance unless suitable investment is put in place to increase the levels of high-quality staff. The fee reduction will come at a time when OHIM is just starting to get to grips with the current levels of applications; any significant rise without substantial investment in staff and infrastructure could mean that OHIM misses the ambitious targets on timeliness and quality it has set itself.

I think the fee reduction could be detrimental to national offices, as brand owners may be tempted to choose CTM protection purely on the basis of cost, rather than business needs and objectives. The CTM is already viewed as an attractive proposition for many clients. There is a perception that certain national offices are inefficient and many no longer actively promote their services. CTM protection, on



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the other hand, is relatively quick to obtain and potentially provides protection in 27 countries, not just one. It is therefore tempting for some brand owners to go for CTM protection, rather than the national route. Because there are still questions as to what constitutes genuine use of a CTM – the suggestion being that use on a national basis is sufficient to maintain the rights – there is a distinct possibility that instead of the CTM market being one for brand owners to use and protect their rights on a pan-European basis, it will be full of national owners with no real interest in European development. Provided such national owners can prove genuine use within their country of operation, their CTM rights are immune to cancellation and could block a legitimate cross-border business from protecting its rights as a CTM. While this may not be an issue in the short to medium term, it could cause problems in the longer term.

**Clarke Graham**, Partner, Marks & Clerk, London

I believe that the CTM system should continue to improve to the point that national registration is no longer necessary. It could be argued that OHIM's fees have been kept artificially high to serve the interests of the national offices. Perhaps in 10 to 20 years we will finally reach the point where the national offices are no longer necessary.

While I agree with the cut in fees in principle, I think OHIM must ensure that it invests heavily in the system to improve its performance. High-calibre staff should be rewarded with long-term contracts to guarantee continuity at OHIM. The old heads at the office will not be around forever and OHIM needs to ensure that it has younger people coming through who have real experience of all aspects of the office. I doubt that will be achieved if large numbers of staff are kept on short-term contracts.

OHIM also needs to spend heavily to overhaul the e-Business side of things. We continue to experience a number of issues with this system and I find it odd that money from the surplus has not been spent on improving it over the past few years.



**Carles Prat**, Partner, Baker & McKenzie, Barcelona

It seems to me that cutting fees is the obvious solution. However, the success of the CTM has also shown that we must reflect further on the overall trademark system in the European Union.

I think there is still a place for national marks, but I believe we should move towards a far more integrated trademark system in Europe. Even with substantive harmonization and increased cooperation, national and CTM rights currently exist in two separate worlds. A bridge needs to be built between the different systems. We need to take a more flexible and interactive approach.

The surplus could be used to help ensure that there is the correct balance between national and CTM rights. But the money should not simply be passed to national offices, as in some cases it would go



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straight to the government of the relevant member state and not necessarily be used for the purposes of improving service to users of national marks.

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**Tove Graulund**, Partner, Zacco, Copenhagen

I am firmly in favour of cutting fees. It is the best and fairest solution. Users should not be paying more than is necessary for the services rendered by OHIM. By this I mean that the total income in fees should not be used for anything other than the actual services performed by OHIM itself. Many users have consistently lobbied against any transfer of funds to national offices without a corresponding value-added service.



The debate over CTM fees has been going on for several years and started well before the last reduction in 2005. The discussions have been quite difficult and at times users and their organizations have felt completely excluded and deliberately ignored. The result has been that the parties pushing for reduced fees have pushed even harder and those against have been less willing to divulge details of their political initiatives.

Some argue that users should not worry about what happens to the surplus: they have paid the fees at the going rate and what happens to the money afterwards should not be their concern. However, many users disagree and it is unwise to ignore them. After all, the services provided by OHIM and national offices are for the users and it is they who know exactly what they need, and when and how they need it. If the trademark offices want to offer services that are relevant to businesses, then they should consult and listen to users.

The national offices in Europe, which are at varying levels of sophistication, must understand that they no longer have a monopoly over granting rights in their country and must stop blaming this on OHIM. If the national offices want to remain relevant for businesses, they have to offer better value for money. Many have already achieved this without any difficulty. OHIM and national offices in Europe should cooperate to improve the quality of decisions, harmonize procedures and share electronic tools.

The debate over fees has led to entrenchment on both sides and this is preventing us from achieving what must be the common goal for all members of the trademark community: open and fruitful debate about how to improve the trademark systems in Europe.

On the one hand, users may have to face the fact that they do not have a vote when it comes to setting fees or the best use of the surplus, despite footing the bill for the whole system; on the other, the national offices should recognize users as serious partners and work with user organizations in open and transparent ways, including regarding financial issues, for mutual benefit and inspiration.

The issue that we might all have to face, hopefully together, is that even if the fees are significantly reduced now – which they definitely must be – the surplus might not cease to grow and other ways might have to be found. Only when all interested parties are ready to work together can a constructive dialogue be opened between the European Commission, the member states, OHIM and users about what other initiatives should be taken if the surplus continues to build up.

We need to put an end to the division. It is very likely that the campaigning for the next president of OHIM will begin sometime next year. It is therefore all the more important to have the debate on fees closed for good before the end of this year.

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**Jane Collins**, In-house Counsel, Syngenta, Bracknell

I think I can speak for the vast majority of rights holders when I say that cutting fees would be the best solution. I am chair of the MARQUES Council, which has had some involvement in the discussions, and I am aware that this has become a very political issue. It seems that some national offices feel that their livelihoods are under threat from the success of OHIM and that they should receive some of the surplus by way of compensation.



This type of thinking highlights that some civil service industries are not up to speed with commercial realities. National offices need to understand that they must be able to compete effectively in the marketplace. It is up to them to make their services more attractive and further in line with the requirements of users. They cannot expect to receive handouts from OHIM simply because they are underperforming.

In the end, there is going to have to be some sort of compromise. As far as I am aware, representatives from the national offices and governments are on the committee that sets OHIM's fees and they are not going to agree to a series of sharp cuts. I would accept any compromise, albeit reluctantly, as I have the feeling that a significant chunk of this money will find its way into government coffers for general purposes, rather than benefiting the offices. Some governments can see a big pot of money just sitting there and wonder why it is not being filtered back to the member states.

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**Antonio Campinos**, Director, Portuguese National Institute of Industrial Property, Lisbon

The discussions on how best to balance OHIM's budget have been in progress for several years now. In May 2007 the Competitiveness Council unanimously asked the European Commission for a proposal to reduce CTM fees. In this context, I believe that the commission, the top management at OHIM and member states should look at the issue from as broad a perspective as possible so that we can guarantee a better balance between OHIM's revenue and expenditure in the future. In so doing, we need to involve users in the process, since they are at the heart of the CTM system.



The measures used to balance OHIM's budget must help to remove the existing surplus and ensure that this situation does not continue. A reduction in fees is an absolutely vital component of this programme and an immediate cut of at least 30% is needed. The Portuguese government has also put forward proposals for further automatic fee reductions up to a ceiling of €800. If accepted, such initiatives would be of benefit to all users, and small and medium-sized enterprises (SMEs) in particular.

The initiative for resolving the issues surrounding OHIM's budget and surplus falls on the European Commission. However, as chairman of OHIM's Administrative Board, I believe that input from the board, in its advisory capacity under the Community Trademark Regulation (40/94), could prove useful. An extraordinary joint session of the Administrative Board and OHIM's Budget Committee has just been scheduled for September, which will address these important issues and try to settle on the most appropriate course of action.

**Jesper Kongstad**, Director, Danish Patent and Trademark Office, Copenhagen

We have to balance the books at OHIM and Denmark is very much in favour of this. At the political level, there are suggestions that there should be a full assessment of the functional and qualitative performance of the CTM system as a whole to see whether any areas could benefit from additional funding out of the surplus. The Danish national office would be in favour of any such initiative. The final fee reduction will depend upon the proposals from the European Commission and we will watch with interest. Speaking from the Danish perspective, I do not believe that the fee reduction is the serious issue it is being made out to be. I am confident that it will be resolved relatively quickly.

The Danish office has absolutely no interest in, or need for, a handout from OHIM. The office is funded by its national users and this will and should remain the case. Of course, if we carry out work on behalf of OHIM, then OHIM needs to pick up the bill; there is no national budget for work we carry out for OHIM or to further the CTM system. But beyond that, there is no reason why we should be receiving any additional funds out of the surplus.



**Mihály Ficsor**, Vice President, Hungarian Patent Office, Budapest

The Hungarian national office disagrees with the view that only the need to balance OHIM's budget should be taken into account when formulating a policy on fee levels. This policy must be coherent and must reflect all the relevant factors and various economic, administrative and financial objectives. The particular concerns of SMEs, which still mainly have an interest in protecting their trademarks at the national level, must be taken into consideration as well.

As fee structures can influence the behaviour of actual and potential applicants, any reduction in OHIM's fees is likely to lead to further increases in the numbers of CTM applications. The more CTM applications that are filed and registered, the more difficult and costly it becomes to obtain trademark protection at the national level and to defend those national rights against the incoming flood of CTM applications. So while a fee reduction at OHIM would lead to cheaper CTMs, it would be at the expense of national applicants and trademark owners. All this could lead, in the not too distant future, to a situation where national trademark



protection no longer represents a sensible option for applicants. Undertakings would have a limited set of options for obtaining trademark protection and would be forced to apply for a CTM no matter whether it really suited their needs. Thus, in order for the coexistence of CTMs and national marks to be maintained, CTM fees cannot be lowered to the detriment of national trademark applicants and owners.

The cost of a CTM should not simply cover OHIM's expenses; it should also reflect the fact that it provides a monopoly right to use a trademark in 27 states. The price of a CTM should be commensurate with the value of such a monopoly right within this huge market. This applies even more to renewal fees as they exist purely to extend the term of protection. However, the paradox is that the more the market covered by CTMs expands, the cheaper the fees become (or should become, according to some). When 10 new member states joined the European Union in 2004 a fee reduction was almost immediately proposed and adopted. Two more joined recently and now a further, perhaps even regular, fee reduction has been proposed. I do not know how the real estate market works in other member states, but this is how it works in Hungary: the more square metres one wants to buy, the higher the price. Somehow, this logic does not seem applicable to CTMs and the fees charged for them. In fact, the addition of new member states to the territory covered by a CTM in itself amounts to a lowering of the costs of obtaining trademark protection in the countries concerned.

Neither a significant reduction in OHIM's fees, nor a structural change to the system of setting those fees should ever be proposed without a comprehensive assessment of the various effects. With that in mind, attention should be paid to the European Council's Conclusions regarding the 'Financial Perspectives of the Office for Harmonization in the Internal Market and the further development of the Community trademark system', as adopted at the Competitiveness Council meeting in May 2007. At Point 10 of its conclusions, the council set out a requirement that any fee reduction proposal (including the one the council called on the commission to impose "immediately") should be accompanied by a comprehensive impact assessment. That impact study cannot, and should not, be separated from any decisive action on OHIM's fees.

As previously stated, a reduction in fees is likely to lead to growing numbers of CTM applications. This will inevitably have an impact on EU competition and will affect the chances of European SMEs of obtaining and enforcing trademark rights at both Community and national levels. A key source of concern here is that as a result of the jurisprudence of the European Court of Justice, it seems that a CTM used only in a single member state can still be protected throughout the European Union, thereby preventing others from using it in all other member states.

**Wubbo De Boer**, President, OHIM, Alicante

I went public at the beginning of this year with my personal views on the surplus. In my official capacity I have no say in how this matter is resolved. However, on a personal level, it seems to me that the legislature had no intention for OHIM to produce a surplus and add to it year on year. Users are currently paying far more for our services than they should and I want to make everyone aware of



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this. I think it is essential to reach the situation where the fees cover the costs and no more.

It is also vitally important for the credibility of the system that this surplus is removed. OHIM needs to keep a little in reserve so that we can continue to perform our services even if there is a sharp drop in applications at some point in the future. Some of the money should also be set aside for harmonization projects with national offices. But the majority of the surplus should go back, in the form of a rebate, to those who have paid the fees. This would be easier to achieve than many imagine.

I am convinced that there will be some form of fee reduction so any rebate would be determined on the basis of the new fees. This would mean backdating the cut so that it applied to previous registrations. Any 'overpayments' would then be given back to the users. Some people find this idea strange, but I think it makes far more sense and is much fairer than any of the other proposals. So far, users have not really pushed for a rebate, but I think they should so that it becomes a serious option.

This suggestion has not proved popular with some of those involved in the decision-making process. I think some national governments would like to get their hands on the surplus; however, I do not see any justification for giving it to them. Why should they receive this money? The alternative would be to say that it is EU money, which means it goes into the general budget and not directly to member states.

I think some practitioners are against the fee reduction because they fear it will lead to a drop in standards. They would like to see the money spent on more staff and improvements to the infrastructure. But let's be realistic here. The fact that OHIM is making money is not down to the office taking shortcuts in terms of quality or anything else. This year alone we invested around €32 million in information technology, which is around 20% of our budget. Sometimes I worry that this is too much when compared to the national offices, but it is certainly not an indication of a lack of investment in this area. Of that €32 million, between €7 million and €10 million goes on new processes, with the remainder used for maintaining the existing systems.

As for the suggestion that we should hire more examiners to increase output, the simple answer is that if we need more people, we have more than enough money to cover increased staffing costs, even if we cut fees significantly. We will continue to recruit new people as and when the need arises.

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**João Miranda de Sousa**, Director of General Affairs and External Relations, OHIM, Alicante

One may wonder why OHIM has called for a cut in fees and drawn so much attention to the surplus. After all, OHIM's management stands to make no personal gain from reducing fees and there is a fair amount of opposition against it. Some trademark practitioners appear not to like the idea because there is a link between OHIM's fees and those charged by practitioners. Some national offices do not support the initiative since they are under the misapprehension that they will lose some of their market share. I imagine that there are some people at the European Commission who are wondering why we are bringing this to public attention and who would prefer it if we kept quiet and just



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got on with our job. But that just does not fit in with the philosophy of those in charge at OHIM. We have a mandate for improving performance and doing so as cost effectively as possible.

I could understand there being controversy if we were planning to put prices up, but I just cannot comprehend why there has been such an outcry over a cut in fees. Instead of focusing on their own interests, anyone involved in the decision-making process should think about who actually pays the bill – industry.

In terms of fees, OHIM needs to compare itself to the national offices of Japan and the United States, as those countries operate on a similar economic scale to the European Union. A registration through the US Patent and Trademark Office is less than half the price of a CTM. Japan has just reduced its fees by 40%; it now costs around €400 to register a mark in that marketplace. Perhaps if those arguing against a reduction in fees did this sort of benchmarking they would be more sympathetic to a reduction in CTM fees.

One argument I hear regularly is that a fee reduction will lead to the CTM register becoming cluttered with registrations that prevent others from obtaining protection for a similar mark. What must be remembered is that registering a mark is only part of the story. If necessary, the right needs to be defended, and this takes time and costs money. A reduction in fees will not necessarily lead to vast numbers of unwarranted applications. Brand owners and businesspeople are generally pragmatic and intelligent; they do not tend to spend money for the sake of it. Just because something is cheaper does not mean that one buys more than is necessary.

Moreover, measures are in place to allow for the removal of marks should they not be used. Under the current system, if a CTM is not used for a continuous period of five years, it becomes susceptible to cancellation. Perhaps that is something which needs to be examined more closely. We could eventually think about reducing this period to two years, for example. I think this would definitely silence those bringing the 'cluttering' argument.

In my view, the claim that a reduction in fees will harm SMEs is counterintuitive. The commission sees the cut as vital for the

development of SMEs across the European Union and European Commissioner for Enterprise and Industry Günter Verheugen has put the issue on the commission's agenda by adding a point on trademark protection to the Small Business Act. The act pinpoints that SMEs have difficulty in using and defending their IP rights in foreign markets, and suggests that a reduction in CTM fees would go some way towards alleviating this problem.

I would echo Wubbo's response to those calling for huge increases in staff, to use up the surplus. We are happy to employ more staff, but not just for the sake of it. If we can perform efficiently with fewer staff why should we take on more? Arguments suggesting we should spend money on things we do not need simply because the funds are there demonstrate perfectly why the general public is so mistrustful of EU institutions and bureaucracy in general. This organization has switched from the typical public sector ethos to one that is far closer to the private sector. For once, there is an EU body that is trying to cut unnecessary costs and give something back to its users, and for some strange reason it is being criticized for it.

I have a similar response to those who say that, as a public sector body, we have a duty to expand and should always look to recruit more staff. We see our role as performing the service paid for by users as efficiently as possible at the lowest reasonable cost. There must be equality between the sums paid in and the amount needed to provide the services at a reasonable level of efficiency. That means we do not want additional, unnecessary staff; we do not

want more office buildings if we do not need them; and we do not want any aggrandizement that is not linked to the services we have been put here to do. This is an approach which comes straight from the top. Wubbo has been one of the driving forces in making OHIM leaner, cheaper, faster and better.

I understand why some national offices have concerns regarding the fee reduction, but I think they are labouring under a misapprehension. If one takes a closer look at the activity of the national offices since the implementation of the CTM, in general, the volume of work has increased. The number of applications filed through the Portuguese office, for example, is up 30% in the last year alone. As I understand it, the Portuguese office is very proactive; it has invested heavily in making itself more efficient. There are some other countries where this may not be the case, and the national offices are not as efficient and reactive to the marketplace. It is up to them to make sure that they are as competitive as possible.

In my opinion, we are nowhere near saturation point for the market in trademark registration in Europe. Around 500,000 new applications are now filed across the European Union each year and I do not foresee any slowdown in this field, notwithstanding the current economic climate. The national and CTM systems for trademark and design protection should be seen as a coexisting relationship, which is good for users as it gives them a wider choice. No limits should be put on that coexistence. If one part outperforms the others, the underperforming bodies should seek to improve rather than look to restrict the more successful part. [WTR](#)



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