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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

**Report on the operation of the system of searches resulting from Article 39 of
the Community Trade Mark Regulation**

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On 20th December 1993 the Council adopted Regulation (EC) N° 40/94 on the Community trade mark¹ (the "CTMR"). This Regulation establishes a unitary system for the protection of trademarks on the basis of a single procedure before the Office for the Harmonisation in the Internal Market ("the Office").

According to Article 8 CTMR, a sign shall not be registered as a Community trade mark if it conflicts, *inter alia*, with a prior national trade mark right. At the time of the discussion which led to the adoption of the Regulation two options for dealing with prior rights were discussed, namely an ex officio system of refusal of applications and a system based solely on the action of the parties themselves.

The system finally adopted in Article 39 CTMR provides for an hybrid system, where search reports are provided but under which possible conflicts between rights are decided prior to registration but on the basis of action by the parties rather than ex officio action. This system is intended to provide valuable assistance to small and medium-sized firms for whom the monitoring of conflicting rights may involve prohibitive costs. The function of the search reports is to inform the applicant about prior rights which may conflict with the sign for which he has applied, so that he may take appropriate action even before publication.

To assess whether the system established in Article 39 CTMR really meets the objectives for which it was created, Article 39(7) CTMR establishes that: "*five years after the opening of the Office for the filing of applications, the Commission shall submit to the Council a report on the operation of the system of searching resulting from this Article, including the payments made to Member States, and, if necessary, appropriate proposals for amending the Regulation with a view to adapting the system of searching on the basis of the experience gained and bearing in mind developments in searching techniques.*"

The Commission must study three questions which stem from this provision:

- (1) How does the system work? (...report on the operation of the system...)
- (2) What are the costs and benefits of the search system? (...including the payments made to Member States...)
- (3) Is it necessary to propose changes to the system? (...and, if necessary, appropriate proposals for amending the Regulation with a view to adapting the system of searching on the basis of the experience gained and bearing in mind developments in searching techniques.)

¹ Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark. OJ L 11, 14.1.1994, p. 1

In order to have a clear appreciation of the functioning of the search system the Commission launched a public consultation, inviting Member States and stakeholders to express their concerns and to evaluate the system on the basis of their experience². As a result of this exercise the Commission received a total of 27 responses, from interested parties (including multinationals and professional organisations³) and from all the Member States (with the exception of Germany, Greece and Italy).

According to the Member State responses to the Commission's questionnaire, it would appear that the majority (9 Member States) is of the view that the system of searches should be maintained and, if necessary, improved. As regards the responses received from multinationals and professional organisations, only 25% of them share the view that search reports should be maintained, while the remaining 75% would prefer to make the system optional or to abolish it entirely.

This report seeks to give an objective analysis of the operation of the search system in the light of the comments made by the Member States and interested parties.

1. FUNCTIONING OF THE SYSTEM

According to Article 39 CTMR, searches on prior rights are only conducted once the Office has examined the application⁴ and confirmed that the applicant is entitled to be the proprietor of a Community trade mark.

At this stage, the Office transmits a copy of the application to the central industrial property offices of those Member States which participate to the system (all the Member States except France, Germany and Italy). These national offices have 3 months to produce and communicate to the Office a report which contains those earlier trade marks or trade marks applications which are considered relevant for the purposes of the application of Article 8 of the Regulation (relative grounds for refusal).

The Office then transmits to the applicant the "Community search report" which it produces together with those national search reports which have been received within the 3 month limit.

Upon publication of the Community trade mark application, which may not take place until one month after the Office transmits the search reports to the applicant, the Office informs the proprietors of any earlier CTM or CTM application cited in the Community search report of the publication of the Community trade mark application.

According to a joint statement by the Council and the Commission which was entered in the minutes of the Council meeting at which the Trade Mark Regulation was adopted, the national offices are free to inform the proprietors of any earlier national trade marks or national trade marks applications cited in the national search report of the publication of the Community trade mark application. To date, no national office has informed the Commission that it makes use of this possibility.

² Questionnaire attached (Annex 1)

³ ECTA, Marques, Efpia, ITMA, Unice, AIM, INTA, FICPI, Procter & Gamble, Air Liquide, Danone, Gevers & Partners, Alstom, L'Oreal, Nestlé, Unilever.

⁴ Article 36 CTMR

In summary, for each CTM application the Office prepares a Community search report during the registration procedure. This report lists earlier identical or similar CTMs and CTM applications for identical and similar goods and services, and is transmitted to the CTM applicant together with the national search reports which 10 national offices have prepared (France, Germany and Italy do not participate in the system).

These search reports may result in the applicant withdrawing the application, if he finds there are clearly conflicting marks which will prevent him from obtaining a CTM registration and from using the mark in all Member States. Alternatively, he may amend the application, for instance by restricting the specification of goods and services in order to avoid a conflict of goods. Finally, he may take the matter up with the owner of the prior conflicting marks in order to seek an agreed solution.

It is not possible to know with certainty the number of applications which are totally or partially withdrawn as a consequence of the information provided by the search report, given that applicants do not inform the Office of their reasons for withdrawal. However, only 4% of applications are withdrawn before publication. The number of applications withdrawn because of the search report is therefore rather low. In this respect, it should be noted that the initial fears that it might prove difficult to obtain a CTM registration because of earlier rights in Member States could be said to be somewhat exaggerated, in view of the limited number of oppositions (20%).

Finally, it should also be noted that the Office does not undertake searches on individual request. Such services are provided by private enterprises. In this respect, the Office has about 25 licensees who receive data on the CTM and some of these appear on a list offering private search services⁵. The information provided by the Office is not intended for the general public since it does not include searching software. This service is instead targeted at national offices and companies interested in writing the necessary computer programs to exploit the information. The cost of a licence is €5 000⁶.

⁵ <http://oami.eu.int/en/marque/faq/faq06.htm>. There is a list of undertakings that provide for this service available on request from the Information Section of the Office. This list contains details of the following private search services: Bureau Gevers (BE), COMPU-MARK (BE), Elzaburu (ES), Grupo 10 Empresarial (ES), SIMADEC S.L. (ES), Studio Manni (IT), IQS AvantIQ S.A. (LUX), Search Systems Ltd (UK), The United Kingdom Patent Office (UK);

⁶ Further information on the "CTM-Download" service can be found in:
<http://oami.eu.int/en/database/download.htm>

2. LEVEL OF THE FEE

The level of the search fee is fixed by the Budget Committee of the Office by a decision adopted by a three-quarters majority of the representatives of the Member States. This fee, which is the same for each office participating in the system, is paid to each national office for each search report it provides.⁷ The fee was fixed at €25 by decision of the Budget Committee of 7 July 1995.⁸

However, in 1998 the Budget Committee decided to tailor the fee to the number of classes of goods and services covered by the trade mark application. It was therefore decided that, in addition to the €25 fee, each national office would receive €5 for each class of goods and services exceeding three in the Community trade mark application.⁹ According to this new system, the average cost per report per country amounts to about €27, which makes a total of about €270 per application.

This fee does not cover the expense incurred by the Office in handling the search system. This expense is not only the cost of the Community search report but also the administrative cost of handling about half a million¹⁰ search reports per year. Since the Office does not charge applicants any extra fee for the Community search report, the regular application fee covers the overall cost of the search system¹¹.

To assess whether the fee is adequate, it is necessary to verify first whether national offices consider that they are paid appropriately for the service they provide and, secondly, whether applicants consider that they obtain good value for their money.

According to the answers received by the Commission to the questionnaire on the search system, the national offices are of the view that the present amount paid is reasonable. One of them considered, though, that the fee should be reviewed in view of the efforts and cost required by the national offices. Another Member State suggested that an increase in the fee might allow for improvements in the quality of the search reports.

⁷ Article 39 (4) CTMR

⁸ Article 1 of Decision No CB-95-11 of the Budget Committee of the Office for Harmonization in the Internal Market (Trade Marks and Designs) of 7 July 1995 concerning the amounts to be paid for national offices' search reports (<http://oami.eu.int/en/admin/cb-95-11/decision.htm>)

⁹ Article 1 of Decision No CB-98-4 of the Budget Committee of the Office for Harmonization in the Internal Market (Trade Marks and Designs) of 9 March 1998 modifying the amounts to be paid for national offices' search reports (<http://oami.eu.int/en/admin/cb-98-4/decision.htm>)

¹⁰ About 45,000 applications per year multiplied by 11 search reports per application gives a figure of 495,000 search reports.

¹¹ According to the fifth recital of Commission Regulation (EC) No 2869/95 of 13 December 1995 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs): “the basic fee for the application for a Community trade mark shall include the amount which the Office must pay to each central industrial property office of the Member States for each search report provided by such offices in accordance with Article 39 (4) of the Regulation”

As regards the answers received from interested parties, they recognise that a fee of about €27 per country (270€ in total) is not unreasonable. However the lack of coherence in the search criteria between the different searches and, at times, the incomplete and poor quality of certain searches do not represent a good value for money. As a result, most applicants will in fact have already done their own searching before filing a trademark. Therefore, for the large majority of applicants, the search system only increases cost and work without providing any added value. On the other hand, those applicants who do not have the means to rely on "private search services" are obliged to invest further resources to convert the "raw" information provided by the search reports into usable information as to the existence of conflicting prior rights. This screening exercise imposes an extra cost on these applicants. Finally, some other applicants prefer simply to disregard the contents of the search reports to avoid the above mentioned difficulties and costs.

All this goes to show that, while the fees are not in principle considered unreasonable, applicants usually ignore the search reports or are obliged to incur further expenses in order to obtain any useful information out of them. Consequently, given the limited value of these reports, the payment of the fee is considered an extra cost for applicants who obtain very little in return.

3. ENLARGEMENT

Added to that, it is impossible to ignore the impact that enlargement of the European Union will have on the search system and on its cost. The number of national searches will increase significantly, depending on how many new Member States exercise their right to operate a search in their own register. It is premature and difficult to determine which new Member States will make search reports. However, at the present time the following countries (which carry out searches for earlier trade marks in their national systems as their national offices examine relative grounds for refusal) may be interested in performing searches under Article 39(2) CTMR: Bulgaria, Estonia, Hungary, Malta and Poland. Others, such as the Czech Republic or Slovakia, already provide search services and are likely to opt for the search report option under the Regulation. At the end of the day, it is quite possible that all of the new Member States will decide to take part of the search system.

If the current mandatory system of searches is extended to 12 more Member States, the cost of the search report per application would increase to up to €94, more than double the cost today. This would impose a further burden on CTM applicants that would in particular impair the competitiveness of SMEs. This result would in fact be contrary to the objective for which the system of searches was established, namely to provide valuable assistance to small and medium-sized firms for whom the monitoring of conflicting rights may involve prohibitive costs.

4. OTHER CONCERNS

As stated above, the main purpose of this report is to ascertain whether it is necessary to propose changes to the system and, if so, which changes are needed. Naturally any proposal for change should aim to answer adequately the problems detected in the current system. Section 2 above already mentions some of the apparent faults related, in particular, to the level of the fee. However on the basis of the comments made by stakeholders, the Commission has detected other deficiencies of the search system which need to be mentioned. These can be summarised as follows:

- Inappropriate timing: As mentioned above, searches are conducted after the CTM application has been already filed and the application fee (€75) paid. Therefore, in most cases the applicant, instead of withdrawing the application in view of any potentially conflicting rights which appear in the report, will prefer to wait for an opposition to be lodged before taking such a decision.
- Misallocation of time, money and resources: The cost of management of the search system in terms of money and resources is not compensated by the limited advantages which it provides to applicants. In this light, it should be noted that since last year the Office has put in motion an in-depth restructuring to ensure that human resources are employed on a cost-effective basis.
- Lack of uniformity of the search reports: This criticism relates not only to the level of the information on earlier rights which search reports provide but, in particular, to the heterogeneous nature of the search criteria themselves. In spite of attempts by the Office to secure the harmonisation of the search reports from both a formal and a substantive point of view, national offices have maintained their format and criteria, although there have been some improvements since the system began in 1996.

This problem has been further confirmed by Communication No 5/00 of the President of the Office of 3 August 2000 concerning an overview of the national and Community search reports, which the OHIM prepared in consultation with the national offices and the Benelux Trade Mark Office. This communication provides plenty of evidence of the different criteria applied by the national offices and the Office itself when dealing with search reports. This lack of harmonisation is detrimental to the usefulness of the system and makes it difficult for applicants to assess accurately the existence and/or number of prior conflicting rights.

- Results are not complete, since no searches are conducted against the trademarks of major Member States like Germany, France and Italy.
- Particularly bad quality of searches for trade marks containing device elements: Most automatic searching systems do not have methods for effectively searching figurative or device elements. The use of the Vienna Classification for this purpose does not fully solve this question for two reasons: first, because Member States do not always apply the classification in an harmonised way, and secondly, because searches made using the classification include too many results. Moreover, to ensure a minimum quality for this kind of search national offices are obliged to select the trade marks to be cited in the search report by means of manual intervention. This approach is not only expensive but also a subjective exercise which may produce unreliable results.

- Unnecessary delays in the registration procedure: Due to the procedure established in Article 39 CTMR, there is a delay of about six months between the date on which the application is filed to the Office and the date on which the application is published. Should the search system be abolished, this delay could be reduced by about a month and a half, to the benefit of users.

CONCLUSION

In view of the above, the Commission has reached the conclusion that the system of searches established by Article 39 CTMR is a costly one, which extends unnecessarily the procedure for the registration of Community trade marks, imposes an administrative burden on national offices, the Office and the applicants and, despite this, does not provide applicants with a cost-effective and valuable tool to help them to monitor effectively the possible existence of prior conflicting rights.

Moreover, in view of the future enlargement of the European Union, this system would, if maintained, only become even more costly and complex.

In view of the above, the Commission considers to include a proposal to delete Article 39 of the CTM Regulation. This will be done in the framework of a broader revision exercise to update the Community Trade Mark Regulation to be proposed by the Commission.