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COMMISSION STAFF WORKING DOCUMENT

Accompanying document to the

Proposal for a Commission Regulation on the Amendment of Commission Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs)

SUMMARY OF THE IMPACT ASSESSMENT

{SEC(2009) 419}

Executive Summary

Background

The Office for Harmonisation in the Internal Market (Trade Marks and Designs), OHIM, is the Community agency responsible for the registration of Community trade marks and Community designs. OHIM is a self-financing agency which enjoys a budgetary autonomy to the extent that it should not need a subsidy from the Community to balance its budget.

OHIM's income consists mainly of fees that businesses have to pay for the services of the Office. According to the Community Trade Mark Regulation, the amount of fees must be fixed at such a level as to ensure that the subsequent revenue is, in principle, sufficient to balance the budget of the OHIM.

Due to an increasing efficiency and an ever-increasing demand for its services the OHIM is generating substantial cash reserves. The cumulative surplus will be about €330 million by the end of 2008, reaching €400 million by the end of 2009 if no further measures are taken.

Scope

The current economic situation in Europe requires specific action by the EU and Member States to assist businesses, in particular SMEs. The reduction of administrative burdens on business and promotion of entrepreneurship is now more important than ever. As regards trade mark protection, and building on the Small Business Act for Europe of 19 June 2008 and Commission's Industrial Property Rights Strategy for Europe of 16 July 2008, the Commission in its Economic Recovery Plan of 26 November 2008 announces the intention to halve the costs for a Community trade mark.

The Commission will carry out a comprehensive study on the overall functioning of the Community and national trade mark systems, which will also address the cost for trade mark protection and the financial structure of the OHIM. This analysis, planned for 2009, might lead to a comprehensive revision of the trade mark system in Europe.

This impact assessment is part of a two-step approach: pending the comprehensive study on the overall functioning of the system and resulting initiatives, which can only take place at a later stage, some immediate actions can already be identified to address the budgetary surplus of the OHIM and to facilitate businesses' access to Community trade mark protection and promote entrepreneurship in the medium term.

This impact assessment thus addresses the ways to balance the OHIM budget on medium term while facilitating access of businesses, in particular SMEs to the Community trade mark system, by a substantial reduction of fees. It shall also look at how the existing fee structure can be simplified within the framework of a fee reduction in order to reduce administrative burdens on both the users of the Community trade mark system and the OHIM.

Problem definition

- 1) The OHIM budget is clearly out of balance and needs to be equilibrated again.
- 2) The fee structure is considered by many as too detailed and inefficient.

3) National trade mark systems should not be replaced by the Community trade mark system but both systems should continue to coexist.

Analysis of subsidiarity

The budget of the OHIM is an exclusive competence of the Community and Member States cannot take action to stabilise the budget. In line with the principle of subsidiarity, the Community is entitled to take the necessary measures.

Objectives of the initiative

The general objective is to stabilise the OHIM budget and in particular to respect the principle of a balanced budget as enshrined in the Community Trade Mark Regulation.

The first specific objective is to stabilise the OHIM budget in the medium term (the next three years) and to avoid a further increasing gap between the revenues and the expenditure of the Office. Account should be taken of challenges ahead related to an increasing interaction between the Community trade mark system and national trade marks systems as well as enhanced cooperation between OHIM and the national intellectual property offices.

The second specific objective is to simplify the fee structure.

The third specific objective is to ensure a certain balance between the Community and national trade mark systems.

The policy options and their assessment

The IA presents three main options and a number of sub-options.

The IA concludes that the **first option** of "doing nothing" is not a preferable option. It is expected that with an unchanged fees policy, the budget's imbalance will increase even more in the future. In any credible scenario, cash reserves will continue to grow on a cumulative basis. The total of cumulated surpluses will increase to over €500 million by the end of 2011 up to about €1.3 billion by 2020.

Such development is in conflict with the principle of a balanced budget. It is also unacceptable from the point of view of a sound budgetary management and governance. In addition, doing nothing will not reduce the costs for access to Community trade mark protection, nor will it bring a simplification of the fee structure which would be cost-effective for the users and OHIM.

- The **second option** would be to simplify the entire fee structure and administration. However, such an exercise would require a much more detailed and comprehensive assessment of the current financing and functioning of OHIM through the fee structure. Given the limited scope of the present impact assessment, the need of an immediate effective action, a complete overhaul leading to a reduction and simplification of the entire fee structure of OHIM is not a feasible option at this stage. The Commission will next year carry out a comprehensive study of the overall functioning of the trade mark systems in Europe, including an appraisal of the financial (fee) structures. Pending this evaluation it would be premature to include these longer term and less urgent objectives in the current

impact assessment whose objective is limited to finding an immediate solution to OHIM's surplus and to facilitate access to trade mark protection and reduce administrative burden for business through comitology procedure. The second option should therefore also be rejected.

- A **third option** would be to balance the OHIM budget by reducing certain Community trade mark fees.
- The Council in its May 2007 conclusions called on the Commission to reduce the fees, in particular those for application, registration and renewal of trade marks. The OHIM Administrative Board and Budget Committee in their joint meeting of September 2008 fine-tuned this request by unanimously suggesting to lower down the current application and registration fee to around €1000.

There are indeed good arguments to limit the fee review exercise only to the basic fees. The data show that the application, registration and renewal fees are responsible for about 80% of the total OHIM revenues. A substantial reduction of these fees would therefore contribute most to achieve a balanced budget and a better access for business to Community trade marks. It is also a simple and proportionate exercise which can be done without much delay via the comitology procedure. There is no need to change the Community trade mark regulation.

- The third option of only reducing the main Community trade mark fees is retained and the IA provides for a further analysis in the context of a number of scenarios and assumptions. These relate in particular to three volume assumptions of 75,000 – 90,000 – 120,000 Community trade mark applications per year and to the OHIM budget trends on income and expenditure.

Sub-option (a) focuses on the level of fee reduction that would balance the budget if the main fees, i.e. the application, registration and renewal fees, are reduced by the same percentage of 35% in each of the three level scenarios. The results would be an average annual result in the period 2010-2020 of around zero in the most realistic volume of 90,000 Community trade mark applications, with the exception of 2011 in which the operational result would be about €7 million. The cumulative surplus is predicted to increase from €333 million by the end of 2008 to around €350 million by 2020. Sub-option (a) does not lead to any simplification of the fee structure.

Sub-option (b) biases towards the fees for application and registration. The calculations therefore reflect a fee structure where access to the Community trade mark protection becomes cheaper compared to the renewal of the Community trade mark protection. The calculations show that with a reduction of the Community trade mark fees for both application and registration with 40% and with a realistic volume of 90,000 Community trade mark applications, the annual result would drop from €31 million in 2009 to roughly between €5 million and €15 million in the period 2010-2020. The surplus would increase relatively moderately from €333 million by 2008 to €387 million by 2012 and then more seriously up to €512 million by 2020. Also sub-option (b) does not lead to any simplification of the fee structure.

Sub-option (c) consists of a 40% reduction of accession fees by merging *de facto* the Community trade mark fees for application and registration. In this sub-option the application fee would be fixed at the level of €1050 (paper filing) and €900 (e-filing). The registration fee would be established at a zero rate. The calculations show an annual budget result between €8 million and €16 million in the medium term 2010-2012 with the assumption of 90,000 applications. With this scenario the cumulative surplus would go from €333 by the

end of 2008 to € 324 million by 2012 and € 226 million by 2020. In terms of reducing administrative burden this option would lead to savings up till € 5 million per year for Community trade mark owners and approximately €250.000 annually for OHIM.

Sub-option (d) goes beyond what is foreseen in sub-option (c) by additionally reducing the renewal fee of 40%. The calculations show an annual budget result between - €6 million and €2 million in the medium term 2010-2012 with the assumption of 90,000 applications. The cumulative surplus varies between € 351 million (2012) and € 266 million (2020) with the medium volume scenario. While this sub-option would bring the same simplification gains as sub-option (c), it could not guarantee a medium-term budget with a balance between expenditure and revenues.

While comparing the four sub-options, one could conclude that the sub-option (c) would be the most logical choice for action. The merging of application and registration fees would not only reduce the surplus while guaranteeing a balance between expenditure and revenues, but also significantly simplify the fee structure. Therefore this option fulfils the specific objectives of this proposal (effectiveness criterion). It is also the most cost-efficient option. In the most realistic volume scenario of 90,000 Community trade mark applications the annual surplus between 2009 and 2012 would on average still be € 16.7 million. It is however considered that this is a realistic amount taking into account the future development of the relations between the OHIM and the national IP offices and the expected remuneration for services rendered by the national IP offices.

On the basis of sub-option (c), the impact assessment then continues with an assessment of other impacts.

The proposed fee reduction would in the first place re-establish the balance in OHIM's budget. With the proposed reduction in force and under the assumptions made, the budget surplus should be close to zero in the mid-term.

The benefits of the fee reduction would primarily go to the users of the registration system. Businesses would get more value for money and would not pay more for the OHIM services than is strictly necessary. This would enable them to limit their costs and to compete with each other on more advantageous conditions which, in turn, is in the benefit of consumers and, eventually, of society as a whole. A cost reduction is in particular welcome in a period of glooming economic circumstances.

Merging the application and registration fees leads to a reduction of administrative burden. It has the big advantage for the users that they have to pay only once: when the application is filed. Another major advantage for every future owner of a Community trade mark is that the processing time for the registration of a Community trade mark would decrease with a maximum of two months. This is the period within which the registration fee has to be paid; without payment the trade mark will not be registered. The OHIM would not need to keep two administrative systems for application and registration fees.

Merging the two fees would also be in line with practice in Member States. A large majority of the Member States does not have a separate registration fee in addition to an application fee.

By focussing on the application/registration fees and keeping the renewal fees for Community trade mark registration at the same level, the access for businesses to Community trade mark protection would become more attractive. It would however not increase take up by trade mark owners who have no serious intentions to use their rights.

Among the disadvantages of the proposed fee reduction is the allegation that a lower cost for the registration of a Community Trade Mark could lead to more "frivolous" registrations of trade marks. However, there are no data which would support such a position. There is also no evidence that a reduction of the OHIM fees would endanger the position of the national IP offices or indeed the existence of the national trade mark systems. The highest national fee in the Member States does not exceed €529. On average the national fees level is around €260 for e-filing and €275 for paper filing. A reduction of the combined OHIM application and registration fees from €1600 to €900 for e-filing and from €1750 to €1050 for paper filing would still be well above these levels.

Previous experience in this field shows that the 2005 fee reduction did not have such an effect on national IP offices. Some offices have seen reductions in volumes in 2006 compared to 2005, while others have seen increases, and data is not available from all offices.

Conclusion

The most rapid and proportionate way of action is to amend the Commission Regulation on the Community trade mark fees. Combining the aim of a balanced budget with a need for better access for business to Community trade marks as well as simplification of the OHIM fees structure to the extent possible, the optimum proposal for amendment should contain the following:

Merging *de facto* the application and registration fees;

Reduction of the registration fee to zero;

Fixing the application fee at €1050 (with a reduction of €150 for e-filing).

The proposed solution would implement the general policy objective set by the Commission, especially in the Economic Recovery Paper, to reduce administrative burdens and promote entrepreneurship by reducing significantly the costs related to Community trade marks. Apart from the cost element of fees, it would address other important cost factors such as the administrative and financial burden for users and OHIM in relation to the registration of Community trade marks.

In comparison with other options analysed, this course of action proposed would not only guarantee a balance in OHIM's budget, but would also provide most benefit for the users by reducing their administrative burdens.