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NOTE

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To:	Permanent Representatives Committee
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Subject:	Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Council Regulation (EC) No 207/2009 on the Community trade mark and 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) - Examination of the Presidency compromise proposals with a view to starting negotiations with the European Parliament

I. INTRODUCTION

1. The two above-mentioned Commission proposals were submitted on 2 April 2014. Together with a draft Commission Implementing Regulation on the fees payable to the Office for Harmonization in the Internal Market (Trade marks and Designs), these proposals constitute a package, which aims at fostering innovation and economic growth by making trade mark registration systems all over the European Union more accessible and efficient for businesses in terms of lower costs and complexity, increased speed, greater predictability and legal certainty, while preserving the coexistence and complementarity between the Union and national trade mark systems.
2. According to a recent study by OHIM and EPO¹, Intellectual property-intensive business (using patents, trademarks, design, copyright, geographical indications) in the 2008-2010 period accounted for 26% of the EU employment rate (56.5 million jobs). This figure is complemented by 20.1 million indirect jobs, raising the total to 35.1% of the entire employment rate in the EU. Moreover, IPR businesses accounted for 38.6% of EU's GDP, meaning 4,700 billion euros. More specifically, in 2010 trade mark-intensive industries accounted for 21% of jobs in the European Union (45.5 million direct jobs) and generated 34% of the Union's total Gross Domestic Product (4,150 billion euros).

¹ *Intellectual Property Rights intensive industries: contribution to economic performance and employment in Europe*. See: oami.europa.eu.

3. Meanwhile, the OECD estimated that international trade in counterfeit and pirated products went from USD 100 billion in 2001 to up to USD 250 billion in 2007 (excluding domestic market and internet sales) - exceeding the GDPs of 150 national economies and affecting nearly all product sectors². In this context, the European Council in March 2014³ has endorsed the need to protect intellectual property and intensify the fight against counterfeiting.
3. As a result of intensive work under the Irish, Lithuanian and Greek presidencies, a considerable amount of convergence has been achieved within the Working Party on Intellectual Property (Trademarks) around the latest Presidency compromise proposals set out in 11826/14 and 11827/14.
5. A few issues, however, remain outstanding. The present Note focuses on the two most important ones (see under Part II below). The remaining reservations are set out in footnotes to the latest Presidency compromise proposals.
6. The European Parliament adopted its position at first reading on 25 February 2014⁴. In view of the size and the complex technical nature of the two proposed legal instruments, the Presidency considers that it would be desirable to explore the possibility of an early second reading agreement with the European Parliament on the whole package.

² Commission Staff Working Document accompanying the Communication “Trade, growth and intellectual property - Strategy for the protection and enforcement of intellectual property rights in third countries” (11607/14 ADD 1).

³ EUCO 7/1/14 REV 1, point 9.

⁴ 6742/14 and 6743/14.

II. KEY OUTSTANDING ISSUES

A. Treatment of goods brought into the customs territory of the EU (transit)

1. The objective to provide the trade mark owners and the national authorities involved in the fight against counterfeiting with an adequate legislative framework, is shared by all delegations.
2. Following recent case-law of the Court of Justice of the European Union, which clarified the conditions for enforcing intellectual property rights with respect to goods in transit⁵, the Commission, supported by a large number of delegations, has proposed a provision enabling a trade mark owner to obtain the detention of goods suspected of infringing his trade mark once such goods are brought in the course of trade into the customs territory of the Union or into the territory of a Member State where the trade mark has been registered, regardless of whether the goods in question are intended to be placed on the market there (Articles 9(5) of the draft Regulation and 10(5) of the draft Directive). This provision has been endorsed by the European Parliament at first reading. According to the delegations supporting the Commission's proposal, this is the only efficient and practical way of combating counterfeiting on a global level. As regards the conformity of the provision with the international legal framework, the Legal Service of the Council has pronounced itself on 7 April 2014.⁶

⁵ Judgment of 1 December 2011, Cases C-446/09 *Philips* and C-495/09 *Nokia*.

⁶ 8612/14.

3. Other delegations, however, have questioned the legality of such a provision and are concerned about the negative impact that this would have on legitimate trade, on the EU's status as a trading hub and on the EU's trading relations with major trading partners. Furthermore, these delegations consider that such a provision would anyway fail to achieve the goal of combating counterfeiting, as it would be sufficient for counterfeiters to divert trade of such products to other routes outside the EU. These delegations have therefore suggested to modify the text, in order to make the above provision not applicable in cases where the holder of the goods in question proves that the final destination of the goods at stake is beyond the EU territory.
4. In an effort to bridge the differences, the Presidency has put forward an alternative drafting proposal (see Articles 9(5) and 10(5) of the latest Presidency compromise proposals for the Regulation and the Directive respectively). The Presidency compromise proposal envisages a two-step approach. In the case of goods in transit suspected of infringing a EU or national trade mark, the Customs authorities will suspend the release or detain these goods in accordance with the Customs enforcement Regulation⁷. In case of subsequent proceedings initiated in accordance with the Customs Regulation to determine whether the trade mark has indeed been infringed, the declarant or the holder of the goods would obtain the release of the goods in question if he proves that the proprietor of the trade mark is not entitled to prohibit the placing of these goods on the market in the country of final destination. While maintaining the effectiveness of the initial proposal from the Commission, this two-step approach allows leeway for the competent authorities to apply the provision in a balanced manner.

⁷ Regulation (EU) n° 608/2013 of the European Parliament and of the Council of 12 June 2013 concerning customs enforcement of intellectual property rights and repealing Council Regulation (EC) n° 1383/2003, OJ L 181, 29.6.2013, p. 3. (hereinafter referred to as the "Customs enforcement Regulation")

B. Financial arrangements concerning the funding by the Office for Harmonisation of the Internal Market (hereinafter referred to as "OHIM") of cooperation projects and of a compensation scheme and provision regarding future budgetary surpluses

1. For a number of years the functioning of OHIM has been generating budgetary surpluses. In its conclusions dated 25 May 2010⁸, the Council called on the Commission to present proposals in the context of the revision of the trade mark acquis for (inter alia) *"the creation of a legal basis for distributing an amount equivalent to 50 % of OHIM's renewal fees to the National Offices in accordance with fair, equitable and relevant distribution criteria, to be defined in a way which would guarantee, inter alia, a minimum amount for each Member State, as well as the introduction of appropriate mechanisms which have due regard to the financial arrangements applicable to individual National Offices, to ensure that these funds will be available to the National Offices and will be used for purposes closely related to the protection, promotion and/or enforcement of trade marks, including combating counterfeiting"*.
2. The Commission proposal amending Council Regulation (EC) No 207/2009⁹ on the Community trade mark does not contain any provision allowing the distribution of a part of the yearly OHIM revenue to national trade mark offices, on the grounds that any automatic direct transfer of money from OHIM (an EU agency) to national trade mark offices or to Member States in general would infringe EU budgetary rules.

⁸ OJ C 140, 29.5.2010, p. 22.

⁹ Doc 8065/13.

3. In the light of such legal constraints, delegations welcomed the Commission's proposal to allocate a part of OHIM's yearly revenue to the funding of cooperation projects agreed upon between the OHIM and national trade mark offices. In addition, delegations have requested that another part of OHIM's yearly revenue be allocated to Member States, in accordance with set criteria, as compensation for additional expenses incurred by Member States' competent authorities for the provision of services and procedures linked to the promotion and enforcement of the EU trade mark system.
4. The Presidency therefore has proposed (Articles 123c and 139 of the draft Regulation) setting an overall ceiling (20% of OHIM's yearly revenue) within which a minimum of 10% of such revenue will be allocated to the funding of cooperation projects of common interest, whereas a minimum of 5% will be dedicated to a compensation scheme.
5. Furthermore, with a view to creating a proper legal basis for the avoidance of future excessive budgetary surpluses at OHIM, the Presidency proposes (Art. 139(3c)) that OHIM's Budget Committee be entitled to decide the direct transfer of such future surpluses to the EU budget in accordance with the conditions described in that provision.

III. CONCLUSION

The Permanent Representatives' Committee is invited to consider whether, on the basis of the latest Presidency compromise proposals set out in this Note and in 11826/14 and 11827/14, it can agree on the texts of the draft Regulation and Directive and on mandating the Presidency to explore with the European Parliament the possibility of reaching an early second reading agreement on the whole package.