

EXPLANATORY MEMORANDUM TO
THE TRADE MARKS (RELATIVE GROUNDS) ORDER 2007

2007 No. 1976

1. 1.1 This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The Order changes the way in which applications for new UK trade marks are examined against earlier conflicting trade marks. The changes mean that a new application will only be refused registration (on the basis of an earlier conflicting mark) if the proprietor of that earlier mark succeeds in opposition proceedings against registration of the mark.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 Section 5 of the Trade Marks Act 1994 (“the Act”) (relative grounds for refusal) provides that a trade mark shall not be registered if it is identical with or similar to an earlier trade mark (as defined in section 6) or earlier right. Under section 37 of the Act the registrar is required to examine whether an application for registration of a trade mark satisfies the requirements of the Act and for that purpose, is required to carry out a search of earlier trade marks.

4.2 If it appears to the registrar that these requirements are not met he must inform the applicant and give him the opportunity to make representations or amend the application. However, if it appears that they are met, he must accept the application and publish it. Following publication, any person may, within a prescribed period, oppose the registration (section 38).

4.3 Section 8 of the Act empowers the Secretary of State to order that a trade mark shall not be refused registration on the basis of an earlier conflicting trade mark unless objection is raised in opposition proceedings by the proprietor of the earlier trade mark. This section was enacted as it was foreseen that it may be anomalous for the regime described in paragraphs 4.1 & 4.2 above to operate at national level whilst a different regime (similar to that envisaged by Section 8) operated under the Community Trade Mark Regulation in respect of Community Trade Marks (“CTMs”). Section 8 does not confer power to make textual amendments to the Act, rather, it envisages a free standing order that a state of affairs obtains.

4.4 The proviso to section 8 requires that no such order may be made until after the end of the period of ten years beginning with the day in which applications for CTMs may first be filed in pursuance of the Community Trade Mark Regulation; this period has now expired, applications for CTMs were first filed on 1 April 1996, the ten year period therefore expired on 1 April 2006.

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom and the Isle of Man. The authorities in the Isle of Man have indicated that they are content .

6. European Convention on Human Rights

6.1 The Minister of State for Science and Innovation, Mr Malcolm Wickes MP, has made the following statement:

“In my view the provisions of the Trade Marks (Relative Grounds) Order 2007 are compatible with the European Convention on Human Rights.”

7. Policy background

7.1 The policy objective of the Order is to bring to an end a number of incongruous situations which have led to a position where it has become increasingly difficult to secure a national UK trade mark registration. Although it is possible to register Community Trade Marks (“CTMs”) that are valid throughout the whole of the Community, large numbers of national UK marks are registered every year to applicants who prefer a collection of specific national marks rather than a unitary CTM, or, who only wish to secure protection in the UK.

7.2 Currently, part of the examination procedure of national UK trade mark applications requires the conducting of a search of the relevant registers to see if the applicant’s mark is likely to cause confusion with any earlier trade marks (which includes not only national marks but also CTMs and international marks). If a conflicting mark is found the registrar raises this as an objection and automatically blocks the new application from proceeding. CTMs (and international marks protected throughout the Community) are not examined in the same way: they are not blocked by earlier registrations unless their owners formally oppose. This difference in procedure coupled with the huge numbers of CTMs that are being registered, has meant that UK applicants often face significant numbers of blocking registrations.

7.3 Blocking registrations can be overcome in a number of ways (e.g. by obtaining consent of the earlier trade mark, amending specifications, filing for the cancellation of the earlier mark due to non-use), but the burden of doing so in respect of CTMs is significantly increased due to geographical and language issues.

7.4 A further problem is that under the law, an opponent or applicant for invalidation can only object to the registration of a trade mark because of a conflict with an earlier mark that is more than 5 years old to the extent that he or she can show that the earlier mark has been used (or that there are proper reasons for non-use). The Registrar cannot know whether the earlier marks his examiners find on registers have been used. Consequently, the use conditions which govern who can bring an opposition or invalidation action based on earlier conflicting marks do not apply to the Registrar. However, this means that some marks have been refused registration in circumstances where the owners of the earlier marks could not themselves oppose registration.

7.5 Following the Order, national UK applications will be examined under a regime whereby an earlier conflicting trade mark can only prevent the registration of a new application if the earlier mark's proprietor successfully opposes the registration of the new application. A search will be conducted as part of the examination process of the new application and if it reveals the existence of any earlier marks then the applicant will be given the results of the search in order that they can decide whether it is worth the risk in still proceeding with the application. If the applicant elects to proceed then the owners of any earlier marks specifically protected in the UK will be notified that the application is proceeding, so putting them in an informed position about the status of the new application. Owners of Community trade marks, or International trade marks protected at Community level, will be given the option of opting-in to the notification system for a fee. This new regime therefore deals with the incongruous situations that have developed and creates a more balanced registration system.

8. Impact

8.1 A Regulatory Impact Assessment is attached to this memorandum.

8.2 The impact on the public sector is nil.

9. Contact

9.1 Allan James at the United Kingdom Intellectual Property Office (Tel: 01633 811056 or e-mail: allan.james@ipo.gov.uk) can answer any queries regarding this instrument.

REGULATORY IMPACT ASSESSMENT FOR THE DRAFT ORDER UNDER SECTION 8 OF THE TRADE MARKS ACT

1. Title of proposal

The Trade Marks (Relative Grounds) Order 2007

2. Purpose and intended effect

- Objective

The objective of the changes is to ensure that we have a system of national registration of trade marks which provides a useful affordable alternative for those with business in the UK to the registration of their mark as a Community trade mark. The new regime is also intended to address certain inequities and anomalies that are present in the current system. The aim is for the new regime to be sustainable for at least the next 15 years without the need for a further review.

- Background

As part of the examination procedure of national UK trade mark applications a search is conducted to see if anyone has already registered a mark that conflicts with it. If a conflicting mark is found it is raised as an official objection and will block the new application from proceeding. The proprietor of the earlier mark does not have to ask for this to be done, it is done automatically. This system has worked reasonably well for many years.

However, since 1996, it has been possible to register Community Trade Marks ("CTMs"). In 2004 it became possible for proprietors of international trade marks registered with the World Intellectual Property Organisation to request that they are protected throughout the whole of the European Union (international-EC). Both these forms of registration give legal protection for the trade mark in the UK, even if its proprietor has no specific interest in the UK market, and therefore also block any apparently conflicting national UK application.

CTMs and international marks protected throughout the Community are not examined in the same way as UK applications: they are not blocked by earlier registrations unless their owners formally oppose. This, taken into account with the huge numbers of CTMs that are being registered, has meant that applicants for UK trade marks will now often face significant numbers of blocking registrations.

Whilst blocking registrations can be overcome in a number of ways (e.g. by obtaining consent from the owner of the earlier mark, amending specifications, filing for the cancellation of the earlier mark due to non-use) the burden of doing so in respect of CTMs is significantly increased due to geographical and language issues.

There is a further problem with the current system. Under the law, an opponent or applicant for invalidation can only object to the registration of a trade mark because of a conflict with an earlier mark that is more than 5 years old to the extent that he or she can show that the earlier mark has been used

(or that there are proper reasons for non-use). The Registrar cannot know whether the earlier marks his examiners find on registers have been used. Consequently, the use conditions which govern who can bring an opposition or invalidation action based on earlier conflicting marks do not apply to the Registrar. However, this means that some marks are currently being refused registration on the grounds specified in section 5(1) and (2) of the Act in circumstances where the owners of the earlier marks could not themselves oppose registration.

Furthermore, the protection afforded to existing UK national registration holders (by our automatic blocking regime) appears to be at least partly undermined by the availability of alternative mechanisms of protecting trade marks in the UK by obtaining protection at Community level.

The above factors have resulted in a situation where it has become increasingly more difficult to secure a UK national registration. The situation will only worsen with time as more and more marks are protected at Community level.

- Rationale for government intervention

We consider it essential to intervene as without doing so the registration system of UK national trade marks will, ultimately, become gridlocked. The time and resource that will be needed to attempt to overcome so many blocking CTMs and international-ECs will become disproportionate to the benefits of achieving registration. This will, ultimately, lead to a situation where the decision to be made between filing a national UK registration or filing a CTM will be based on the ease (or difficulty) of securing registration rather than a decision based on the geographical scope of the rights desired. This can not be right for UK businesses and it is for this reason that it is proposed to change the system.

3. Consultation

- Within government

The following government agencies/teams have been involved in the consultation process and we have taken their views into account in the decision making process and the drafting of the relevant legislation:

DTI Legal
Parliamentary Counsel
The team responsible for the Gowers Review of Intellectual Property
Small Business Service
The DTI Better Regulation Team

- Public consultation

We have undertaken a number of consultation exercises to reach this point. We initially consulted informally to ascertain what users of the national registration system saw as the strengths and weaknesses of the current regime. The information gained from the informal consultation was then utilised to form a series of 5 options for users to consider; these options were put forward for consultation in February 2006. Following an analysis of the

results of the February 2006 consultation, and taking into account a) that the majority of respondents from all interest groups favoured a move to an opposition based system for handling objections based on earlier conflicting trade marks and b) more users supported Option 5 than any other option, we consulted again in December 2006 on the draft legislation needed to bring Option 5 to fruition.

Consultation has therefore been extensive. Part of the above consultation exercises included significant numbers of meetings with interested parties around the country. We also paid great attention to direct business users (those without legal representation); more information about our activities in this area can be seen at paragraph 6 below (Small Firms Impact Test).

4. Options

The consultation process narrowed down the options to either doing nothing or to making the changes detailed in the accompanying legislation. The option of doing nothing was rejected for the reasons given in section 2 above. The second consultation revealed a need to permit licensees of trade marks to take action to challenge the registration of a trade mark which conflicts with a mark that they are licensed to use. We have sought to provide for this as far as it is possible within the terms of the Order making power set out in section 8 of the Trade Marks Act 1994.

The proposed changes can be summarised as:

- A regime whereby an earlier conflicting trade mark can only prevent the registration of a new application if the earlier mark's proprietor successfully opposes the registration of the new application.
- A search will be conducted as part of the examination process of the new application. If the search reveals the existence of any earlier marks then the applicant will be given the results of the search in order that they can decide whether it is worth the risk in still proceeding with the application.
- If the applicant elects to proceed then the owners of any earlier marks will be notified that the application is proceeding, so putting them in an informed position about the status of the new application.
- Although opposition proceedings may only be instigated by the proprietor of the earlier mark, claims that a registered mark is invalid (because of the existence of an earlier mark) may be made by the proprietor or his licensee. The extension to include a licensee is required because this class of person may need to counter claim in the context of infringement proceedings that the claimant's registered trade mark is invalid on the basis of an earlier mark that they are licensed to use. Furthermore, there should be some mechanism for them to attempt to strike off a mark which may have a commercial impact on their licensed use.

5. Costs and benefits

- **Sectors and groups affected**

Potentially all business sectors are affected as trade mark registration covers the full range of goods and services that are provided in the UK. All groups

are also likewise affected as trade mark registration may be sought from sole traders to large multi-nationals, both with and without legal representation.

- **Benefits**

The benefits are that the difficulties encountered by applicants attempting to register UK national trade marks, together with the anomalous and inequitable situations that have occurred since it has been possible to register CTMs and international-ECs, are alleviated. The rights of existing trade mark proprietors are still protected through the opposition system and, to assist existing trade mark proprietors, we will provide a notification service to them. The new regime provides a better balance between the rights of earlier trade marks and those of new applicants.

- **Costs**

Overall, we expect the cost to the business community at large to be, at worst, neutral. Although we expect there to be an increase in the number of oppositions filed to compensate for the removal of the automatic blocking of earlier marks, we expect that this cost will be off-set by a significant reduction in the number of new applications that fail on relative grounds examination. We have benchmarked against other territories who have made similar changes to their regimes, and, as part of this process, also taken into account any differences inherent in their particular markets and user base. From this exercise we have estimated that the rate of opposition may double (from approximately 1000 to 2000 opposition cases per annum) in the medium to long term.

The potential increase in the opposition rate should be measured against the introduction in 2004 of the preliminary indication ("PI") into the UK opposition procedure. The PI was introduced following a previous consultation on relative grounds examination the outcome of which was to not change to the regime that we are now implementing. That decision was made partly because it was considered that the opposition procedure was too costly and time-consuming to deal with an increase in the opposition rate. The PI was subsequently introduced to streamline the opposition procedure and to reduce the cost and time it takes to prosecute an opposition. This streamlining was beneficial not just for oppositions filed since its introduction but it also had the benefit of creating an opposition procedure that would meet the needs of a future relative grounds regime that focused more on opposition rather than examination.

The PI has been extremely successful. Approximately 50% of opposition cases now fall away without entering the evidential stages of opposition. The PI assists in commercial agreements being reached more quickly.

Approximately 15% of new trade mark applications fail due to the existence of earlier trade marks. Based on current levels of filings, this represents some 4,500 applications (equating to at least £900, 000 in official fees) that are effectively lost. These cases will no longer fail unless the proprietor of the earlier mark opposes the application. Given the success of the PI, we believe that we will only need to issue a full decision on approximately 300 opposition cases per year. Although we need to factor in the increase in the number of oppositions (and statutory fee) filed, this will still equate to a saving (in terms of statutory fees) to the business community.

The legal costs associated with the shifting emphasis of the new regime are more difficult to quantify. Whilst it is fair to say that a typical opposition costs considerably more than the typical fees paid to counter an official objection raised by the Registrar, we believe that the significantly reduced numbers of applications that will, in the future, have relative grounds issues means that the net effect will, at the worst, have a neutral impact on the business community at large.

There will, no doubt, be cases where individual businesses are worse off. However, there are a number of mechanisms that individual businesses can avail themselves of to mitigate such costs. Firstly, the notification service we intend to offer will be reliable. Users will be justified in having a high degree of confidence in the quality of the search results. This means that if the proprietor of an earlier mark is notified that a conflicting new application is proceeding to publication then, all things being equal, they are likely (although not guaranteed) to succeed in an opposition provided that their earlier trade mark satisfies any use requirements. The registrar has power to award costs (from a published scale) to successful litigants.

Similarly, if an applicant for registration is notified of an apparently conflicting mark, but they take the risk of proceeding and they lose an opposition, the opponent will be entitled to an award of costs. The notification system will therefore put the applicant/proprietor into an informed position as to our opinion of their likely success in opposition – they are then in a good position to assess the risk of launching or defending an opposition action.

The quality of the search, together with the utilisation during opposition of the PI, means that an applicant or proprietor making reasonable, informed and proportionate decisions on the action they intend to take will mitigate potential cost. The cost issue is one of balance. Under the present regime significant numbers of new applications (and the costs associated with them) are lost due to notional paper based conflicts that do not represent a real commercial conflict. The new system readdresses this balance and creates a more equitable system for all parties.

6. Consultation with small businesses - Small Firms Impact Test

We have carried out a stage 1 impact test with small firms. The test was carried out by speaking directly to small businesses and to legal professionals who represent small businesses. To engage directly with small businesses we held face-to-face discussions with unrepresented applicants (typical small businesses) and also conducted telephone surveys with unrepresented users of our services; both these activities were preceded by the individual taking part receiving a simple and easy to understand summary of the background and the proposals being made. We also ensured that information on the proposals was sent to the Small Business Service (SBS) for onward transmission to firms on their database of interested parties. Professional representatives were also invited to comment on the impact that the proposals would have on their small business clients.

The results of the above have led us to conclude that the proposed changes, although they will clearly have some form of impact, will not have a significant or disproportionate impact on small business. This view was supported by a high proportion of the small businesses we spoke to who expressed the general view that change was required. Indeed, without change the impact on small businesses will be

more significant and disproportionate than with it. A small business will be less equipped to deal with a continuing regime of new applications being automatically blocked by earlier conflicting marks; the avenues for overcoming blocking registrations will be more difficult, costly and time consuming and this will impact disproportionately on small businesses.

The SBS have agreed with our assessment that the proposals are unlikely to have a significant or disproportionate impact on small firms, and that there is no requirement to carry out stage two of the impact test.

7. Competition assessment

We consider that the changes will have no effect on competition between right holders or between firms of legal representatives. We do not consider that a company or firm will be placed at a disadvantage as a result of the changes; neither do we consider that any new start up company or firm will be prevented from entering the marketplace.

Although the new regime creates a shift of burden, the shift creates a more balanced and equitable system between existing right holders and applicants for new trade mark registrations. If anything, the shift will put some parties on a more equal footing. For example, those wishing to avoid the mechanistic enforcement of earlier marks against their new application will, under the current regime, need to file a CTM to do so. This creates additional cost and a process that may be daunting for an applicant without legal representation. The changes mean that it is only necessary to file a CTM if the applicant genuinely requires the broader geographical protection (or for some other benefit) that this right offers.

8. Enforcement, sanctions and monitoring

The changes will form the framework under which the handling of relative grounds objections will take place. As such, we will not have to specifically enforce the proposals on users. Users have a choice as to whether they wish to apply for a trade mark or to enforce their existing trade mark against others. If they choose to do so under the national system of registration then they will have to do so with regard to the procedures laid down. As there are no specific enforcement procedures then no specific sanctions against non-adherence (or mechanisms to monitor non-adherence) apply.

9. Implementation and delivery plan

It is our intention for the legislation to come into force in October 2007. Guidance on the new regime will be produced and will be available prior to the change. We also intend to provide familiarisation sessions to any interested party in order to guide would-be users of the system through the new way of doing things.

10. Post-implementation review

One of our objectives was to aim for the new regime to be sustainable for at least the next 15 years without the need for further review. We believe that the degree of public consultation and the degree of support for the proposed change mean that formal review is unnecessary in the short to medium term. However, as with any change, we will monitor how the new regime is working. The UK Intellectual Property Office has formal feedback and complaints mechanisms and also has standing

meetings with various user representative groups. It is through these fora, and our own observations, that this monitoring will take place.

11. Summary and recommendation

Taking into account the information provided above, together with the extensive consultation that has taken place, the UK Intellectual Property Office strongly recommends that the changes embodied in the legislation be adopted.

Declaration and publication

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs

Signed *Malcolm Wicks*

Date 3rd May 2007

Malcolm Wicks
Minister of State for Science and Innovation
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