



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 16 January 2007 (18.01)  
(OR. fr)**

**5390/07**

**PI 1**

**COVER NOTE**

---

from: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 22 December 2006

to: Mr Javier SOLANA, Secretary-General/High Representative

---

Subject: Communication from the Commission to the European Parliament and  
the Council the financial perspectives of the Office for Harmonisation in  
the Internal Market (Trade Marks and Designs)

---

Delegations will find attached Commission document COM(2006) 865 final.

Encl.: COM(2006) 865 final



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 22.12.2006  
COM(2006) 865 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

**THE FINANCIAL PERSPECTIVES OF THE OFFICE FOR HARMONISATION IN  
THE INTERNAL MARKET (TRADE MARKS AND DESIGNS)**

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

**THE FINANCIAL PERSPECTIVES OF THE OFFICE FOR HARMONISATION IN  
THE INTERNAL MARKET (TRADE MARKS AND DESIGNS)**

**1. INTRODUCTION**

The Office for Harmonisation in the Internal Market (Trade Marks and Designs)<sup>1</sup> is responsible for registering Community trade marks and Community designs. OHIM became operational in 1996. Since then more than 200,000 companies from all over the world have turned to the Office, located in Alicante, in order to obtain EU-wide protection for their trade marks and designs.

This Communication is about the long-term management of the financing of the OHIM. As a self-financing EU agency with a budget independent from the Community budget, OHIM's budget is subject to the requirement that the revenue and expenditure in the budget shall be balanced. The budget of OHIM is mainly funded by the fees that businesses have to pay for its services. These fees are established by the Commission through implementing regulations.

OHIM is generating substantial cash reserves arising from several causes including steadily rising numbers of trade mark and design applications, increased productivity and improved efficiency of the Office, as well as growth in e-business. Despite recent fee reductions these cash reserves are expected to grow further in the coming years. By the end of 2005 cumulative cash reserves reached more than € 130 million and cumulative reserves could easily reach € 375 million by the end of 2010.

A significant annual surplus which causes structural year-on-year increases in the accumulated cash reserves is not acceptable in the long run. The Commission should take action if revenues continually exceed the financial means that are needed to ensure the proper fulfilment of the tasks of OHIM and reserves become structurally disproportionate. This Communication contains a concrete suggestion to guarantee that a reasonable equilibrium in the budget will be achieved in the future under all financial circumstances. A regular and automatic fees review should be applied both in circumstances of budget surpluses as well as in situations of budget shortages.

The Commission believes it is timely to consider a structural approach to OHIM's financial management. OHIM has been in operation for more than ten years, during which it has successfully managed major events such as the introduction of e-filing, the enlargement with ten new Member States in 2004 or the first round of trade mark renewals in 2005. It is now an opportune moment to stabilise budget practice.

---

<sup>1</sup> Hereafter also referred to as "OHIM" or "the Office".

## 2. THE PERFORMANCE OF OHIM

The OHIM was set up by the 1994 Community Trade Mark Regulation. A Community Trade Mark is an industrial property title which gives its proprietor a right valid in the entire territory of the EU. Since it began processing trade mark applications in 1996, more than 330,000 trade marks have been registered. In 2002, the Council adopted the Community Design Regulation, creating a system of (registered and unregistered) Community designs for the whole of the EU. Registration of Community designs began in 2003 and now over 180,000 designs have been successfully processed.

These figures exceed even the most optimistic predictions made at the time that the relevant regulations were adopted by the Council of Ministers. They demonstrate the value to business of intellectual property rights which offer protection across the entire territory of the European Union as well as the success with which the Office has administered the system. Such unitary titles are a pillar of a broader EU strategy on intellectual property, which is at the heart of the EU's Lisbon Strategy on growth and jobs.

Trade marks and designs are essential marketing tools for modern business in the internal market. Businesses throughout the Union and beyond can now rely on an efficient organisation to provide timely and effective protection of some of their most valuable assets. In a world of increasing consumer sophistication, branding supported by trade marks and designs can assist businesses of all sizes in their quest for innovation and entry into new markets.

The unexpected success and the ever-increasing demands for its services have created significant challenges for the OHIM system. However, in recent years the Office has been able to improve its performance considerably. OHIM sets itself ambitious goals for service and the management of quality of its operations. It has put in place a programme aimed at increasing productivity and improving efficiency by simplifying procedures, streamlining working methods, reducing bureaucracy, implementing strong financial management, and introducing the most advanced information technology tools and resources.

An important trend in the process of filing has been the introduction of e-business in 2002. Users can now obtain considerable fees discounts if applications and renewals are performed electronically following reductions in these fees made at the end of 2005. E-business has financial benefits for users and it allows quality improvements such as more accurate capture of data, which also ultimately benefits users. The increasing importance of e-business in the Office must be welcomed.

On 1 October 2004 the EC acceded to the Madrid Protocol concerning the international registration of trade marks. The Madrid Protocol offers businesses a simple process for applying for trade mark rights in 67 countries outside the European Community in one single international application filed at the Office. The Community is currently preparing accession to the Geneva Act for a similar exercise in the field of international registrations of designs.

In 2005 the cooperation between OHIM and the national offices of the Member States intensified. The OHIM decided to dedicate more resources to financing partnerships and joint projects with national offices. The Office compensates them for contributions made and services provided regarding the operation of the Community Trade Mark system. It is expected that the partnership will benefit the users of both the Community and the national systems of trade marks and designs.

These users evaluate the overall output of OHIM positively. The recognition of the stakeholders was confirmed by a large scale Users Satisfaction Survey conducted by an independent research company. People and businesses who had been directly using the Community Trade Mark and/or the Community Designs systems between January 2004 and June 2005 were extensively polled. The full results were published in March 2006.<sup>2</sup> They show a good level of global satisfaction from both IP agents and IP right holders, even though the survey also identified areas for improvement. The Office takes the outcome seriously and continues to invest in improving its services.<sup>3</sup>

### **3. THE DEVELOPMENT OF OHIM'S FINANCES**

#### **3.1. The budget and the fees structure of OHIM**

OHIM's income consists mainly of fees that users have to pay in relation to registration of trade marks and designs. The Community Trade Mark Regulation contains the clear requirement that the revenue and expenditure in the budget shall be balanced.<sup>4</sup> In other words, OHIM enjoys budgetary autonomy to the extent that it should not need a subsidy from the Community to balance its budget.

The fees that users of the system pay to OHIM are laid down in two implementing regulations established by the Commission: the Community Trade Mark Fee Regulation and the Community Designs Fee Regulation. Such fees include the application, registration and renewal fees paid by the trade mark/design proprietor, the opposition fee (only for trade marks) or the cancellation fee paid by the third party raising an opposition or cancellation action and the appeal fee paid by the party appealing an OHIM decision to the Boards of Appeal. However, around 90% of the OHIM's income comes from just three of these fees: the Community Trade Mark application, registration and renewal fees. According to Article 139 (2) of the Community Trade Mark Regulation, the size of these Community Trade Mark fees must be fixed to ensure that the subsequent revenue is in principle sufficient to balance OHIM's budget.

The expenditure in the first few years of the Office's operations was dominated by the need to invest in the infrastructure of the Office, and to recruit sufficient staff to deal with the higher than expected level of applications. Revenues grew rapidly until 2000, after which there were two years of falls until a pattern of growth became re-established.

By the end of 2004, OHIM had accumulated significant cash reserves of around € 105 million as measured by current assets less current liabilities, and projections showed a continuing annual surplus.<sup>5</sup> As a consequence, various fees were reduced by approximately 20% in 2005

---

<sup>2</sup> See <http://oami.europa.eu/en/office/survey05.htm>.

<sup>3</sup> See the OHIM's response to results of User Satisfactory Survey at [http://oami.europa.eu/en/office/pdf/USS\\_Response.pdf](http://oami.europa.eu/en/office/pdf/USS_Response.pdf).

<sup>4</sup> See Article 134 (2) of Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, as most recently amended by Council Regulation (EC) No 422/2004 of 19 February 2004, OJ L 70, 9.3.2004, p. 1.

<sup>5</sup> The annual surplus results from a single budget exercise. However the (accumulated) surpluses are not a good guide to how much free cash exists. Some of the accumulated surplus is not available as free cash, for example, because it has been invested in fixed assets such as buildings. This Communication therefore uses the notion of "cash reserves" in order to measure the free cash. The cash reserves represents the current assets less the current liabilities.

in the first revision of the Community Trade Mark fees system since the creation of the Office.<sup>6</sup>

### **3.2. Recent developments affecting OHIM's budget**

The fees reform for trade marks came into effect in October 2005. The main features were a reduction in the application and registration fees; the introduction of a discount for e-filing, and a reduction of renewal fees. It was estimated that the reduction of fees would save business between € 37 and € 40 million a year, but the real savings have turned out to be much higher. In 2006 alone industry is expected to save around € 55 million because of the 2005 fees discounts.<sup>7</sup>

In addition, two other recent developments have had an effect on OHIM's budget. Firstly, the level of applications and renewals are higher than initially predicted. This global increase reflects a general trend in most parts of the world. Secondly, 2005 was the first full year of applications coming through WIPO under the Madrid Protocol. In 2005, OHIM received, in cash terms, about € 9 million of fees for international applications in the framework of the Madrid Protocol.

The first experiences with the fee reform show that the package of fee changes certainly had a moderating influence on the revenues. But it is also true that despite the fee reduction, the cash reserves for 2006 will still be higher, adding further to the accumulated cash reserves. For the financial year 2005 alone the surplus stood at € 41.5 million out of a total budget of € 162.8 million. The total cash reserves reached € 132 million by the end of 2005. Estimates for the budget year 2006 predict a surplus of € 50 million out of a total income of € 179 million.<sup>8</sup> The budget is therefore clearly out of balance and needs to be equalized again.

Finally, it should be noted that the increasing number of design registrations is also contributing to the budget cash reserves, although to a much lesser extent. In 2005, the revenues of designs constituted less than 10% of the income generated by Community Trade Mark fees.

### **3.3. Budgetary predictions for the future**

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.

By far the biggest determinant of future revenue is the volume of Community Trade Mark applications. The Annex contains calculations with alternative scenarios. Estimates are based

---

<sup>6</sup> Commission Regulation (EC) No 1042/2005 of 29 June 2005 amending Regulation (EC) No 2869/95 on the fees payable to the Office for Harmonization in the Internal Market (Trade Marks and Designs), OJ L 172, 5.7.2005, p. 22. See for the present fees for designs Commission Regulation (EC) No 2246/2002 of 16 December 2002 on the fees payable to the Office for the Harmonization in the Internal Market (Trade Marks and Designs) in respect of the registration of Community designs, OJ L 341 of 17.12.2002, p. 54.

<sup>7</sup> For the budget year 2006, the total savings from the reduction of application and registration of fees are estimated to be some € 20 million; the effect on the renewal fees is calculated to be some € 28.5 million and the impact of the e-filing discount is estimated to be a further € 4.5 million. The combined effect for the additional class fees would be an extra € 2 million saving.

<sup>8</sup> Estimate 1 October 2006.

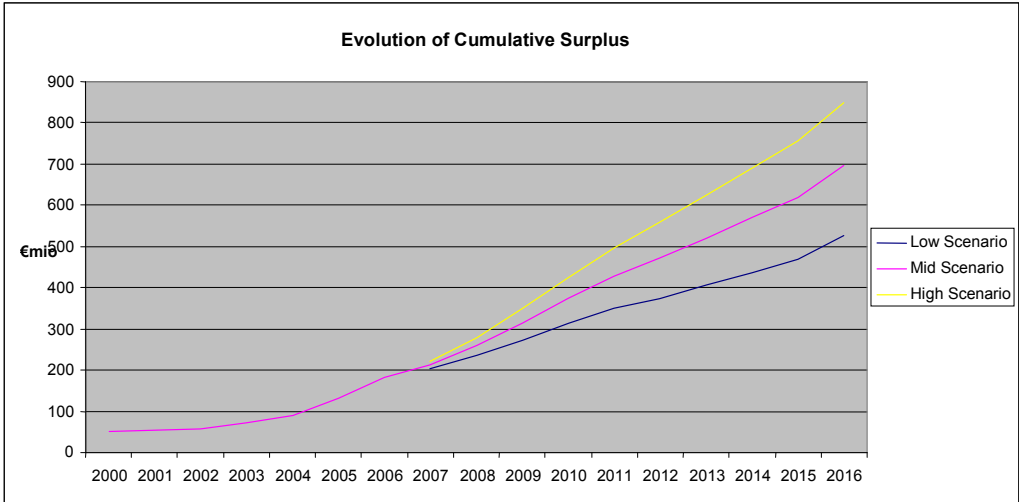
on a low scenario with 60,000 annual Community Trade Mark applications, on a mid scenario with 75,000 applications, and on a high scenario with 90,000 applications.

According to the estimates based on the most realistic mid-scenario of 75,000 annual Community Trade Mark applications, and a renewal rate at 60%, the total income could reach nearly € 200 million in 2010 and over € 230 million in 2016. This would cause the cumulative cash reserves to reach the impressive amount of about € 375 million by the end of 2010 and nearly € 700 million by the end of 2016.

Even with a low estimate of 60,000 annual Community Trade Mark applications (the Office received 64,000 applications in 2005) the structural cash reserves would be more than € 300 million by 2010. The same conclusion can be drawn with a moderate estimate of a renewal rate of 40% instead of 60% (present renewal rate for whole 2006 estimated at around 63%), in which scenario the expected cash reserves would rise to more than € 330 million by 2010.

The following two graphics show the estimated cumulative cash reserves for the period 2006-2016, compared to the established cash reserves which have been accumulated over the period 2000-2005 (all numbers below are given in € million and are based on a renewal rate at 60%).

Overall Cumulative Surplus																	
Financial Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Cumulative Surplus</b>																	
Low Scenario								204	235	272	314	349	375	407	438	468	526
Mid Scenario	52	53	57	71	90	132	182	214	261	314	374	428	472	521	570	619	685
High Scenario								221	278	349	425	497	558	625	691	757	850



#### **4. A STRUCTURAL SOLUTION TO GUARANTEE A BALANCED BUDGET**

##### **4.1. A high quality trade mark registration system in Europe**

As has been stated before, the increasing annual OHIM surplus makes the budget disproportionate which is not consistent with the principle enshrined in Article 139 (2) of the Community Trade Mark Regulation that the size of fees must to ensure that revenue is sufficient to balance the budget. The Commission is of the opinion that a structural solution is necessary. However, such approach should be closely linked to an outstanding performance of the Office.

As a preliminary remark, it should be emphasised that OHIM administers its budget in accordance with sound budgetary and accounting principles and under supervision of the OHIM Budget Committee and the Court of Auditors. These include, for example, the principle of prudence (profits are only entered into the accounts when they are realised by the end of the year whereas foreseeable risks and contingent liabilities are entered into the accounts as soon as they arise), the principle of sound financial management and the principle of transparency. It is important to stress that the cash reserves are calculated and administered on the basis of the same principles, and that OHIM also handles the estimation of future predictions in a prudent and accountable manner.

The Commission believes that part of the cash reserves can be absorbed to finance the challenges that OHIM is facing in the operational field. Notwithstanding the fact that the recent Users Survey showed an overall satisfaction with the performance of OHIM, the Commission understands that more work still needs to be done. The initiatives of the Office to improve performance in a group of areas indicated in the survey must therefore be welcomed. This work should lead to greater clarity, consistency and completeness of decisions taken in Alicante, simpler administrative procedures and increasing processing speed in key parts of the Office's operations. Such further quality improvement most likely requires more financial investment.

Furthermore, the Commission wishes to highlight the importance of joint partnerships between OHIM and the offices of the Member States for the efficient performance of, and the effective interaction between the Community and national trade mark systems. Intensive cooperation programmes are being developed and executed in areas such as training, information technologies (IT), promotion and information services. To the extent necessary, more financial resources could be made available to facilitate and develop such technical cooperation partnerships.

Nevertheless, taking into account the principles of good management and accounting, prudent additional investments in the operational area and in the cooperation partnerships will only have a relatively minor impact on the significant growth in cash reserves which is estimated for the coming ten years.

##### **4.2. Further fee reforms**

The Commission is of the opinion that in the current situation of an ever increasing surplus and therefore a disproportionate level of cash reserves the inevitable solution is to reduce fee levels further. Keeping fees low is an appealing option because it would make the Community Trade Mark financially even more attractive for companies, in particular for SME's from all over the EU and abroad.

However, experience shows that the reduction of fees under the current common rules and practices is not an easy exercise. The fee setting is governed by the so-called "comitology" procedure and the negotiations in the Community Trade Mark Fees Committee leading to the revision of the Commission Regulation on the fees payable to the OHIM in 2005 were difficult due to divergent views on the destination of the cash reserves and on the most appropriate levels of the various fees. The level of reduction finally agreed was not sufficient to balance the budget.

In the light of the preceding considerations, it is appropriate to find a streamlined and structural approach to guarantee a flow of revenues proportionate to the estimated expenditure. **The Commission therefore proposes to introduce a method of regular review of the fees based on the Office's financial perspectives and to manage the cash reserves in accordance with a pre-determined formula.** The basis of the revision would be the financial statistics of the Office, produced in the usual manner, including an indication from the Office of the expected amount of cash reserves for the next period.

The formula should focus on trade mark fees only. As is indicated before, budget imbalances are almost entirely due to the revenues generated by the registration of the Community Trade Marks. The relatively short period of experience with the Community Design system would be another argument not to include the design fees in the formula for the time being.

The introduction of a method of regular review of the trade mark fees has clear advantages.

Firstly, the financial autonomy of the Office will be safeguarded. On the one hand, structural deficits that risk entailing the consumption of the reserves and a need for subsidies can be avoided. On the other hand, excessive accumulation of reserves can be avoided; a necessity in order to guarantee a reasonable balance between revenue and expenditure.

Secondly, the use of such formula would better reflect the costs for the users of the OHIM system. Even though a number of elements have to be taken into account when determining fees, the amount charged to the users should reflect the cost of the service rendered.

Thirdly, the introduction of a formula for handling and absorbing future surpluses or deficits by way of an automatic link to fees does not as such seem to present particular technical difficulties. The Community Trade Mark Regulation states that the fees regulations shall determine in particular the amounts of fees and the ways in which they are to be paid.<sup>9</sup> The Commission will propose to amend the Commission Fees Regulation by "comitology" as provided for in the Community Trade Mark Regulation. Provided there is an agreed approach on the calculation of the change – which may be a reduction or an increase - at policy level, these rules could include a formula on the basis of which the fees would be regularly revised in order to ensure that a reasonable equilibrium in the budget will be achieved.

#### **4.3. Main features of the proposed method of regular fees review**

An automatic review and adjustment of the fees on the basis of OHIM's financial perspectives should be carried out respecting some basic conditions. The Commission intends to propose a method for regular review which should be based on the following presumptions.

---

<sup>9</sup> See Article 139 (2) of Regulation (EC) No 40/94, as amended.

- For the sake of legal certainty and to take into account the real budgetary developments over a limited period of time, any necessary adjustment should take place on a regular basis (for example, on an annual basis).
- Once the estimated surplus (or shortage) has been defined, the basis of the review should be the three most important basic fees: the fees for application, registration and renewal of (individual) trade marks. The reduction or increase of these three fees should be proportionate to their relative weight.<sup>10</sup>
- The automatic regular adjustments should not take effect outside a fluctuation margin.
- OHIM's financial autonomy must be secured under all circumstances.

## 5. CONCLUSION

The Community Trade Mark Regulation obliges the OHIM budget to be in financial balance. With an unchanged fees policy and on the basis of realistic predictions of future annual Community Trade Mark applications and renewal rates, this will not be the case. Cumulative cash reserves could reach about € 375 million by the end of 2010 and nearly € 700 million by the end of 2016. There is therefore an urgent need for action in order to keep control of the cash reserves.

The Commission has a specific responsibility because it is in charge of setting the fee levels. These fees should be fixed at such a level as to ensure that the revenues are in principle sufficient for the OHIM budget to be balanced. To choose for an ad hoc approach with an occasional adjustment of fees may be a difficult route to follow as this may lead to long and repetitive debates in "comitology" context. A better alternative would be to focus on a detailed and structural solution. It is therefore suggested to introduce a regular review of the budget situation in light of the best available knowledge of the evolving financial situation at OHIM, making use of a standard approach in which the most important fees would move upwards or downwards as necessary. Following political agreement on this approach, such formula should be applied, for example, on an annual basis. The formula should take into account all relevant elements to guarantee a balanced and workable fee structure.

The Commission believes that this is the appropriate moment to present a structural proposal in order to avoid disproportionate OHIM cash reserves. In over ten years since its establishment, OHIM has consistently achieved a high standard of Community trade mark registrations, and more recently in the registration of Community designs. Furthermore, the Office has successfully managed some major events with important financial repercussions such as the introduction of e-filing, the enlargement with ten new Member States in 2004 and the first round of trade mark renewal fees in 2005.

The pre-determined formula should not put at risk the OHIM's high level of performance nor should it prevent an optimum cooperation with national offices. Neither should it lead to deficit situations in the future. Under all circumstances, the Office should be able to continue

---

<sup>10</sup> The regular fees adjustment of the three main types of fees in accordance with a pre-determined formula does not exclude a reform of all the fees. Structural modifications may be necessary, for example, in the light of EU enlargement or following legislative amendments.

operating modern, efficient and effective registration systems for trade marks and designs in the interest of the users and the society as a whole.

In light of the current budget surpluses at OHIM, the Commission wishes to act as quickly as possible while respecting the principles of good governance. The Commission intends to present proposals for an amendment of the Commission's Fees Regulation in spring 2007. The proposals will be accompanied by a proportionate impact assessment.

The Commission invites the Council and the EP to submit observations on the proposed approach in this Communication.

## ANNEX

The table combines a number of presumptions for the budgetary predictions in the period 2006-2016 (all numbers are given in € million). The estimated hypothesis calculates 75,000 applications per year, with alternatives of 60,000 and 90,000 annual applications. In the three options the Community trade mark renewal rate is fixed at a stable rate of 60% over the whole period.

Financial Year		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Scenario:</b>	<b>Income</b>	179	174	179	188	197	194	188	196	198	202	232
<b>75,000 CTM pa</b>	<b>Expenditure</b>	130	142	132	134	137	140	144	147	150	153	156
	<b>Result</b>	50	32	47	54	60	54	44	50	49	49	76
	<b>Cum. Surplus</b>	182	214	261	314	374	428	472	521	570	619	695
<b>Scenario:</b>	<b>Income</b>		186	196	209	219	216	210	219	221	225	255
<b>90,000 CTM pa</b>	<b>Expenditure</b>		146	139	139	142	145	149	152	155	159	162
	<b>Result</b>		39	57	70	77	71	61	67	66	66	93
	<b>Cum. Surplus</b>		221	278	349	425	497	558	625	691	757	850
<b>Scenario:</b>	<b>Income</b>		160	161	166	174	170	164	173	175	178	208
<b>60,000 CTM pa</b>	<b>Expenditure</b>		138	130	129	132	135	138	141	144	147	150
	<b>Result</b>		22	31	37	42	35	26	32	31	31	58
	<b>Cum. Surplus</b>		204	235	272	314	349	375	407	438	468	526