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BREXIT: IMPLICATIONS FOR EU TRADE MARK HOLDERS

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This article considers the implications of Brexit for EU trade mark holders.

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One of the many potential consequences of Brexit is the impact it could have on trade mark protection in the UK. Currently, rights holders can rely on the EU trade mark (EUTM) regime to protect their interests in the UK, either in conjunction with national trade mark registrations or instead of national trade mark registrations. Rights holders who have pursued a strategy of EUTM filings rather than national filings could soon find themselves without any enforceable rights in the UK.

COULD THE UK AND EU AGREE THAT EUTMS REMAIN ENFORCEABLE IN THE UK?

If Brexit occurs, the general consensus is that the UK would renegotiate its terms of engagement with the EU, resulting in at least some form of bilateral treaty between the UK and the EU (see *Article, Britain's relationship with Europe: what might the future look like? (http://uk.practicallaw.com/5-623-5405)*).

A number of different models, including some based on the different arrangements negotiated by EEA members, have been mooted. Commentators have noted that EEA members have not joined the EUTM regime; however, as there is no precedent for a member state leaving the EU, the UK remaining part of the EUTM regime cannot necessarily be ruled out at this stage.

The political advantage for the EU of such a solution would be that it would minimise the impact of Brexit on rights holders based outside of the UK who have relied on EUTMs to protect their UK interests. It would, however, create a number of legal questions which the legislators and courts would need to address.

The EUTM regime is fairly self-contained, and continued adherence would require only some minor amendments to the EU Trade Mark Regulation (207/2009/EC) (as amended by 2015/2424/EU) (EUTM Regulation) (see box, *EUTM regime*). The UK would most likely need to introduce legislation to allow UK courts to continue to apply EU law over UK law in respect of EUTMs only. One issue with this approach is that the EUTM regime is based on the principle that the EUTM is a unitary right which applies in a uniform manner across the single market. The Court of Justice of the European Union (CJEU) has repeated emphasised the importance of interpreting the EUTM on this basis. If the UK is not part of the single market, or barriers to trade are created between the UK and EU, then it may not be straightforward to continue to apply the EUTM regime in the UK in this manner, and it may result in some unintended consequences (see box, *EUTM and the single market*).

The wider concern if the UK remained in the EUTM regime is the potential for the national trade mark regime and the EUTM regime to diverge. The UK Intellectual Property Office (UK IPO) and UK courts are currently required to follow CJEU decisions, and the UK courts refer questions on the interpretation of EU law to the CJEU. As the law in respect of the UK registered trade mark (UKTM) is based on the Trade Marks Directive (*2015/2436/EU*), it closely follows the law for EUTMs, meaning that the substantive law for UKTMs and EUTMs is almost identical at present.

EUTM REGIME

There are two, co-existing but interrelated, routes to achieving trade mark protection in the UK at present. First, an applicant can apply to the UK IPO for a UKTM under the TMA. The TMA implements the Trade Marks Directive into UK law (a previous iteration of the Trade Marks Directive was re-cast on 24 December 2015, however there is a transitional period, and changes have not yet been implemented in the TMA). One of the aims of the Trade Marks Directive is to harmonise the substantive law of trade marks in the EU. The UK courts can refer questions in relation to the interpretation of the TMD to the CJEU.

The second route for an applicant is to apply to the EU IPO for a EUTM, which provides protection throughout the EU through a single, unitary trade mark right. EUTMs are provided for, and directly governed by, the EUTM Regulation (amendments to the EUTM Regulation, changing the nomenclature from "Community Trade Mark" to "European Trade Mark", came into force on 23 March 2016).

The provisions of the Trade Marks Directive and the EUTM Regulation are for the most part equivalent. The interrelation of these two EU instruments, and the UKTM's basis in the Trade Marks Directive, means that CJEU decisions in relation to EUTMs are in practice likely to guide UK courts' approach to UKTMs just as they inform the way in which EUTMs will be adjudicated on.

Both the UK and the EU are also signatories to the Madrid Protocol, so the UK IPO and the EU IPO will accept international applications designating the UK and the EU respectively.

(For background, see *Practice note, Overview of trade marks (http://uk.practicallaw.com/4-107-3668)*.)

If UK courts were no longer bound by EU instruments for UKTMs, then the law in respect of UKTMs would no longer need to follow the CJEU's decisions. It would come as no surprise if the UK judiciary took the opportunity to revisit some of the approaches developed by the CJEU, in particular the significant body of case law concerning the functions of a trade mark (for example, *L'Oréal SA v Bellure NV, Case C-487/07*; see *Legal update, ECJ ruling in L'Oréal smell-alike perfume trade mark case (http://uk.practicallaw.com/6-386-4544)*).

If the UK and EU do not reach agreement on the UK remaining in the EUTM regime, as an alternative the UK could declare unilaterally that the EUTM Regulation would continue to apply in the UK. This approach has been taken in varying forms by the Isle of Man, Jersey, Guernsey and the Cayman Islands, albeit in difference circumstances. It is debatable whether this approach would be practical or viable for the UK, in particular in respect of the need for the UK courts to apply CJEU case law. If the UK took this approach, it is unlikely that the EU would recognise any decisions of the UK courts concerning EUTMs and many of the problems identified above would still remain.

With either approach, there is no reason in principle why two different trade mark regimes could not operate in parallel in the UK. In practice, however, rights holders will either gravitate towards the trade mark regime seen as providing broader protection, or more likely seek protection under both regimes concurrently to mitigate the risks arising from their differing scopes. In any event, even if the continued application of EUTMs to the UK was technically possible, the continued enforceability of EU rights in the UK may be deemed impractical as it would involve continuing to recognise and rely on an area of EU competence.

IF EUTMS NO LONGER APPLY IN THE UK

One issue to be addressed would be a lack of representation. UK-based EUTM holders who manage their portfolios in-house would be particularly affected, unless the UK became an EEA member.

Article 92(2) of the EUTM Regulation prevents an employee from acting on its employer's behalf before the EU IPO if the employer's domicile, principal place of business or real and effective industrial or commercial establishment is not in the EEA. In-house trade mark attorneys for UK-based companies which are currently permitted to represent their employers before the EU IPO would need, post-Brexit, a special derogation to continue to do so (unless the UK became an EEA member). Without a derogation, there would be obvious cost implications.

It seems unlikely that EUTM rights holders would simply lose their trade mark rights in the UK, or whether such a move would even be lawful. Instead, we should expect transitional provisions which allow for EUTM rights holders to convert their rights into a national trade mark. A system for creating a UKTM from an EUTM by conversion is already contained within Article 112 of the EUTM Regulation, which could form the basis of the approach taken on Brexit. The benefit of conversion as opposed to a new application is that the national application will, through conversion, enjoy the same filing date, priority or UK seniority as the "parent" EUTM (*Article 112(3) EUTM Regulation*). This would be required to avoid potential clashes with existing UKTMs.

Conversion of an EUTM is currently implemented into UK law through the Community Trade Mark Regulations (*SI 2006/1027*) (as amended by the European Union Trade Mark Regulations (*SI 2016/299*)). The fee to be paid to the EU IPO for a conversion application is EUR200, and the UK IPO charges an additional fee of GBP200 as if a fresh application had been made directly for a UKTM. Whether the UK would charge for the conversion process on Brexit would be a sensitive question.

What is clear is that significant co-operation will be required between the UK IPO and the EU IPO if a conversion-like process is offered to EUTM rights holders on Brexit. There are currently approximately 1.5 million EUTMs registered and a significant proportion of these will be in use in the UK, which suggests creating standalone UKTMs would be a considerable task for the UK IPO. Under the EUTM conversion regime, an application for conversion is to be treated in the same way as an application for registration, suggesting that each application will require at least some degree of examination by the UK IPO as to suitability for registration in the UK.

Article 114(2) of the EUTM Regulation provides that the relevant national office may not impose formal requirements of national law which are different from or additional to those provided for by the EUTM Regulation, but that the substance of the trade mark regime in that member state could lead to the national office declining to register a conversion request as a national mark.

Unlike with an application for an EUTM, an application for a UKTM requires the applicant to declare either that the mark is in use or that the applicant has a bona fide intention to use the mark applied for (*section 32(3), Trade Marks Act 1994*) (TMA). The UK IPO currently requires that applicants for conversion also make this declaration, as the request for conversion is treated as a new application. This could be problematic for EUTMs which have never been put to use in the UK, in particular if the grace period of five years to commence use of the EUTM in Article 15(1) of the EUTM Regulation has expired.

Given the CJEU's approach to genuine use (see box, *EUTM and the single market*), an EUTM which has been registered for a period of five years or more could remain valid and enforceable in the UK without any use having occurred in the UK. A UKTM with the same registration date which had not been put to genuine use in the UK would be liable to revocation for non-use under section 46(1)(a) of the TMA.

This highlights that splitting an existing, registered EUTM into an EUTM and a UKTM will inevitably result in inconsistencies in the protection afforded by the resulting marks. As part of the drafting of the conversion process, points to consider will include whether the statement of use requirement should be waived, whether pre-conversion use in the EU will be accepted for the purposes of demonstrating genuine use post-conversion, and whether an additional grace period to commence use will be afforded.

If, as part of the transitional arrangements, there was a requirement on conversion applications for EUTMs which have been registered for more than five years that the proprietor can show use in the UK, this could defeat the object of the conversion process to grant an equivalent right, and would considerably increase the burden on the UK IPO.

In any event, this will not guarantee the same level of protection if, as discussed above, the approach to UKTMs taken by the courts to interpreting the scope of UKTMs starts to diverge from the approach taken to EUTMs as at Brexit. Once conversion has occurred, the resulting right should be treated as a UKTM, and therefore the courts would not be required to interpret it in light of the EUTM or relevant case law.

It would be interesting to see whether any conditions were imposed on these hived-off UKTMs, such as a requirement to maintain the same ownership of the EUTM as the UKTM, or other restrictions in dealing with it separately from the EUTM.

Another point to consider is those rights holders who have taken advantage of the seniority mechanism in Article 34 of the EUTM Regulation by either surrendering formerly held UKTMs or allowing them to lapse. In these cases, the proprietors will have relied on the Article 34(2) assurance that they will continue to have the same rights as they would have had if the earlier trade mark had continued to be registered.

A COMPLEX PROCESS

Extricating the UK from the EUTM regime will be a complex process, with the possibility of considerable cost implications for both UK-based and EU-based rights holders. The costs and burden on the UK IPO must also be factored in, as well as the need to create a fair outcome for rights holders. It would seem from the review above that it will be difficult, if not impossible, to provide for a UK right which remains equivalent to the corresponding EUTM beyond the short term. Should the UK vote to leave, the UK IPO and EU IPO will have considerable work to do in planning for a smooth transition, particularly in light of the two-year timetable for Brexit.

A final consideration is whether on Brexit the EU IPO would abandon English as one of the languages of the EU IPO. The five official languages of the EU IPO were selected initially as they were considered to be the five most spoken languages of the EU. If the UK leaves the EU, Ireland and Malta would remain the primary member states which count English as an official language. The languages of the EU IPO are dictated by Article 119(2) of the EUTM Regulation, which could easily be amended (whether the EUTM was extended to the UK post-Brexit or not).

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EUTM AND THE SINGLE MARKET

The EUTM regime is predicated on and designed to support the functioning of the single market (see recitals 2 and 9 of the EUTM Regulation). Many of requirements of the EUTM Regulation have been interpreted in this light by the EU IPO and the CJEU.

For example, for a proprietor to claim infringement under Article 9(2)(c) of the EUTM Regulation, it must demonstrate that the mark has a reputation in the EU. The CJEU has interpreted this as requiring a reputation in a "substantial part" of the EU, and accordingly a mark does not have to have a reputation in each member state; the EU is not seen as a bundle of severable constituents for these purposes (*PAGO International GmbH v Tirolmilch registrierte GmbH, Case C-301/07*; see *Legal update, ECJ considers when trade mark has "reputation in the Community" (http://uk.practicallaw.com/3-500-3902)*).

Another example would be Article 15 of the EUTM Regulation, which provides that an EUTM can be revoked for non-use if not put to genuine use over a period of five years. In *Leno Merken BV v Hagelkruis Beheer BV, C-149/11*, the CJEU decided that "territorial borders of the Member States should be disregarded in the assessment of whether a trade mark has been put to 'genuine use in the Community'" (see *Legal update, ECJ rules on genuine use of trade mark in the EU (http://uk.practicallaw.com/7-523-2690)*). This means that an EUTM which had never been used in a particular member state, such as the UK, could still remain valid if it was in use in a substantial part of the EU.