Is there still a need for the 1891 Madrid Agreement -

or is it Outdated?

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On 1 January 2007, Romania and Bulgaria joined the European Union, so a Community Trademark registration now enjoys protection in 27 countries. The enormous success of the Community Trademark introduced only a little more than 10 years ago has sometimes overshadowed a much older - but by no means less important - system for obtaining trademark protection in a multitude of jurisdictions: The Madrid system, consisting of the "Madrid Agreement Concerning the International Registration of Marks" commonly known as the "Madrid Agreement" ("Agreement"), enacted as early as 1891, and the "Madrid Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks" generally referred to as the "Madrid Protocol" ("Protocol") adopted in June 1989. Both treaties are annex agreements to the Paris Convention having effect on a complementary, side-by-side basis. Currently, the so-called Madrid Union counts 80 member countries, 57 of which belong to the Agreement, and 72 belong to the Protocol. The Madrid system has gained considerable momentum in the last years with Japan and Australia having become members in 2000 and 2001, and the joining of the USA to the Protocol in November 2003. Its scope has also been enhanced by the accession of the European Union to the Protocol on 1 October 2004. This trend is reflected in the filing figures. In 2005 alone, WIPO received 33,565 international trademark applications, which means an increase of 13.9 % as compared to 2004, and a 40.6 % increase as compared to 2003.

As the Agreement and the Protocol are independent, parallel treaties, but with overlapping memberships, Art. 9 sexies of the Protocol, the so-called "Safeguard Clause", stipulates that the Agreement remains applicable in the relationship between Member States bound by both

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treaties. It also sets forth that 10 years after the Protocol has been in force, the Madrid Union considers whether to totally repeal or to partially restrict the Safeguard Clause in its scope. Since July 2005, the WIPO *ad hoc* Working Group on the Legal Development of the Madrid System ("Working Group") has been analyzing the implications of a repeal of the Safeguard Clause[1]. In essence, the question to be answered is whether the time has come to transfer to one Agreement only for all Member States of the Madrid Union, or whether there are still arguments for keeping two parallel systems running alongside each other. To attempt to answer this question, it is essential to have a basic understanding of both the Agreement and the Protocol.

The Agreement

The Madrid system, administered by WIPO, is open only to individuals or legal entities which are nationals of or are domiciled or have a real and effective commercial or industrial establishment in a country being party to the Madrid Union; this is generally referred to as the applicant's country of origin. The country of origin is determined according to a hierarchy among the possible entitlements in the following order: First on the basis of the applicant's establishment, then domicile and subsequently the nationality. The applicant must follow this so-called "cascade". Prerequisite for an application for in international registration is a registered trademark in the country of origin, the so-called "basic registration". The application for an international registration is filed via the "Office of Origin" which is the local trademark office of the applicant's country of origin. The applicant designates those countries for which trademark protection is desired and which are party to the Agreement.

The Office of Origin examines the application to certify that the formalities required are met, following which it is transmitted to WIPO, which, in turn, performs a further examination as to additional filing requirements, in particular, with regard to the goods and services being classified accurately. If WIPO identifies defects, it will issue a notice of irregularity to the applicant. Such objections must be addressed within a term of two months by way of amendments or arguments submitted by the applicant through the Office of Origin.

Provided all formal requirements are met, the mark is recorded in the international register and a certificate is issued to the applicant, following which the international registration is published in the WIPO Gazette and those trademark offices designated in the international registration are notified that the international registration is to be extended to their respective countries. Each designated country's trademark office then reviews the international registration as to registrability according to local law, i.e. the national designations are governed by the same provisions as national applications in the designated countries. The designated country's trademark office has a period of 12 months within which to notify WIPO of any refusal, objection or opposition filed by third parties. Following this period, the international registration enjoys protection in that country with the same scope as any other national trademark registration. If, on the other hand, the international registration is objected to by a Member State designated, the owner must engage a local representative to prosecute the international registration before the local trademark office.

The Agreement is supported by a system of fixed fees. The applicant must pay a basic fee and, in addition, a - relatively modest - supplementary class fee for each class beyond the first three, and also a complementary fee for each designated country.

The success of the Agreement can be attributed to the fact that the system allows for the protection in a number of countries with very significant cost savings as compared to national trademark registrations. In addition, it facilitates a more cost-effective management of trademark portfolios with regard to the filing of assignments, name changes and similar transactions where merely a single request with WIPO has to be filed rather than having to effect such transaction cumbersomely through local agents at the local trademark offices.

A major point of criticism has always been the "Dependency Rule" and the possibility of a "central attack" as set forth under Art. 6 of the Agreement. Accordingly, the validity of the international registration remains dependent on the fate of the basic registration during the first five years as of registration. As a consequence, in the event that the basic registration ceases to exist during this period of time, the international registration is revoked in its entirety also with regard to all designated countries. After the five-year period, the international registration becomes independent of the basic registrations, and its extensions may only be challenged by national laws in the designated country.

Despite several revisions in more than 100 years of its existence, the Madrid Agreement failed to become attractive to major industrial countries such as the USA, Japan, Great Britain as well as the Scandinavian Countries. Those features considered as advantages by some Member States were perceived as shortcomings by others that were potentially interested, in particular:

• The requirement for a basic registration instead of merely a national application;
• too short time-limits on national examination of international registrations allowing a review within only 12 months;
• only French as the official language;
• the inadequacy of the fee structure to cover the basic costs of the national trademark offices;
• the severe impact of the possibility of a "central attack" invalidating the entire international registrations.

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The Protocol

To alleviate these shortcomings, efforts were made to consolidate the registration process thereby addressing the concerns aired. Undoubtedly, the fact that the United States actively participated in the process and promoted the Protocol greatly assisted in its ultimate success. In addition, the Madrid Union had a vital interest in allowing not only states to join, but also organisations such as the European Union with its Community trademark system. While the Protocol and the Agreement are largely identical in their wording, they differ in the following decisive aspects:

• The international registration can be based not only on a basic registration, but also on a basic application. In effect, this procedural difference addresses the concerns of those countries with lengthy examination and opposition proceedings, such as Japan, the United States and the United Kingdom;
• the period within which the national trademark office may object to the extension of protection of an international registration remains to be 12 months, but each Protocol country may opt for an extension of the period for up to 18 months, with an additional seven months in the event that a refusal is based on an opposition that is commenced before the 18-month-period expires;
• the applicant of an international registration may choose between English, French or - since 1 April 2004 - Spanish as official language;
• with regard to the system of fees, the member countries of the Madrid Protocol may choose to charge an individual fee more compliant with the local fee structure rather than a nominal complementary fee, thereby taking into account the concerns that the fees are not adequate to cover the costs of the local trademark office;
• the Dependency Rule has been modified by the introduction of an option to "transform" the national extensions into regular national applications without a loss of priority.

Retaining two Treaties or just one

A repeal of the Safeguard Clause by way of an amendment of paragraph (1) of Art. 9 sexies would have the effect that those Member states of the Madrid Union bound by both treaties would be governed by the Protocol only. The first meeting of the *ad hoc* Working Group convened in July 2005 to analyse and discuss the implications and options of a repeal. In principle, it came to the conclusion that the Safeguard Clause should no longer be maintained with regard to four features of the Madrid System procedure:

Namely, the required basis for filing an international application, the determination of the entitlement to file according to the so-called "cascade" principle, the presentation of subsequent designations and requests for the recording of renunciations and cancellations as well as the possibility of transformation.

No common understanding was found with regard to the time period for the notification of provisional refusals and the fee system. Relating to the use of languages under the Madrid System, the Working Group recommended amending the common regulations so that all three languages (English, French and Spanish) could be used. The Working Group met again in June 2006[2], where a review was again undertaken.

When pondering on the question of whether to retain two Treaties, it has to be borne in mind that the Safeguard Clause was originally devised only as a transitional provision, the ultimate goal being that the Madrid System be governed only by one Treaty. In particular, in the light of the four aspects warranting a repeal of the Safeguard Clause, the Protocol had proved to be a more efficient instrument than the Agreement. In fact, the only discernible drawbacks are the (possibly longer) duration of the refusal period of the local offices and a potential increase of the "individual" fees to be charged by a Member State governed by the Protocol as opposed to a "standard fee" charged under the Agreement.

Analyzing the implications of a repeal of the Safeguard Clause, it becomes clear that substantial advantages in terms of flexibility and easier processing can be expected. Furthermore, the option of a so-called "transformation", while being an expensive alternative, may make it easier for users to accept pitfalls of the "central attack" feature. Pros clearly speaking in favour having the Madrid system being governed just by the Protocol are set out below.

Regarding first the issue of the required basis for filing an international application, the Agreement stipulates that such must be based on a basic registration, whereas the Protocol allows both for a basic registration and basic application. Without the Safeguard Clause, generally all international applications could therefore be based either on a basic registration or a basic application. Seen from the perspective of the users of the Madrid System, this change would provide greater flexibility in terms of deciding when to file for an international registration. In particular, it would no longer be necessary to anticipate the acceptance of the basic registration by the Office of origin.

A doing away of the "cascade"-concept would be a further advantageous effect both for the users and the local offices. According to the Agreement, the country of origin is established according to a hierarchy amongst the possible entitlements of the applicant, namely on the applicant's establishment, domicile and/or nationality. This "cascade" must be adhered to. In contrast, the Protocol allows the applicant to freely choose the country of origin according to these possible entitlements. Such a change in proceedings would also be to the benefit of the local offices as they would no longer be required to examine whether an international application is filed through the appropriate Office.

A profound practical improvement for owners of trademark portfolios would be the option provided for in the Protocol for holders to directly file a subsequent designation and requests for the recording of cancellations and renunciations to WIPO or, at the choice of the holder, through the local office. According to the Agreement, subsequent designations or requests for the recording of a renunciation or cancellation can only be presented to WIPO via the local office of the holder. The advantage of such a provision would be twofold: It would allow users a greater freedom to communicate with WIPO itself, also resulting in a speeding up of the proceedings, whereas, on the other hand, the local office would be relieved of the need to act as an intermediary.

Finally, the introduction of the option for a so-called "transformation" is unanimously viewed as an improvement over the drawbacks associated with a "central attack". Those countries which had, in the past, been reluctant to become a member of the Agreement had criticized the severe implications of the five-year period of dependency. Albeit, the "transformation" being, in effect, rather expensive, holders will, at least, be able to retain the priority of their marks in the designated countries if a "central attack" should bring their international registration to fall.

Turning to features of the Protocol which may potentially affect users adversely, the option to extend the refusal period for up to 18 months, or longer, is viewed critically.

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Presently, a Member State bound by both the Agreement and the Protocol must, by virtue of the Safeguard Clause, notify a provisional refusal protection within one year. Obviously, it is in the interest of the user to obtain certainty, as soon as possible, on whether or not an international registration has been accepted by the countries designated. The repeal of the Safeguard Clause could - theoretically - have the consequence that further countries may opt for an extension of the refusal period from 12 to 18 months, or longer, if the refusal is based on an opposition. According to the statistics of WIPO, however, in practical terms, the impact of this change is likely to be insignificant. Of those countries currently bound by both treaties and which have requested the extension of the refusal period to 18 months, only 20 provisional refusals were issued in 2005 between 12 and 15 months, which accounts for 1.4 % of all notifications issued by those offices in 2005. None were issued between 16 and 18 months, and just three were issued after 18 months. This seems to indicate that the vast majority of notifications will be issued within a period of one year also by those countries which have opted for an extension of the refusal period. If these statistics are anything to go by, in practice, the effect will be negligible.

The biggest stumbling block is, no doubt, the issue of costs. Keeping their budgets in check is crucial to brand owners with large portfolios. Under the Agreement, the "standard" fee for a designation amounts to Swiss Francs 73.- and, additionally, Swiss Francs 73.- for each class of goods and services beyond the third. The Protocol allows for an "individual" fee which may not exceed the costs for filing in the specifically designated country. No meaningful conclusions can be drawn from the statistical data available as to how costs may increase based on the change. In certain countries, the increase may be substantial, whereas others may choose to effect a moderate rise. As a counterbalance, the Working Group has explored the implementation of measures ensuring that the level of services provided by the offices in those countries is commensurate with the individual fees charged and the length of the applicable refusal period, such as, e.g., issuing statements of grant of protection directly to users, or free online access to information on the status of a given designation. In addition, more precise criteria and maximum levels are to be established for fixing the individual fees.

Conclusion

At some - not too distant - point of time in the future, the Madrid System will be governed just by one Treaty. Most changes are unanimously seen as advantages over the "older" system. Those topics which are still subject to debate - costs and speed of processing - will hopefully be resolved in a user-friendly compromise. The Agreement has been a helpful and efficient tool serving users for many decades, but the 21st century belongs to the Protocol.

Notes

1 Document MM/LD/WG/2/3. dated 1 May 2006, of the ad hoc Working Group on the Legal Development of the Madrid System for the International Registration of Marks (WIPO)

2 Document MM/LD/WG/3/2 dated December 21, 2006, of the ad hoc Working Group on the Legal Development of the Madrid System for the International Registration of Marks (WIPO)