

# Going Global: Real World Trademark Triage and Portfolio Management Strategies

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## What is a “Trademark Portfolio?”

A trademark portfolio is a collection of registered marks, pending applications and often unregistered marks owned by a business venture. Apart from the traditional route, these rights arise through licenses or franchise agreements, co-branding agreements or other transactions. “Portfolio management” involves developing strategies for acquiring, exploiting, maintaining and enforcing these rights in a way that maximizes their value.

Companies conducting business outside the U.S. face growing challenges in determining how best to obtain the widest trademark protection possible, exploit the properties and provide meaningful enforcement in an era of shrinking budgets and staff.

## Why Register Trademarks?

- Trademark rights are territorial: With the exception of certain treaty-based protections, the legal effect of a national trademark registration extends only to the border. Accordingly, U.S. rights are generally irrelevant in a foreign territory, i.e., a U.S. registration confers no rights in Mexico, Europe, or elsewhere.
- Most countries protect marks through a “first to register” system, rather than a “first to use” scheme. In “first to register” countries, a “defensive” registration either preserves the right to continue using the mark in the country, or the ability to enter the market in the future without fear of an infringement suit. Registration is also a prerequisite to filing suit against infringers in virtually all “first to register” countries.
- Many businesses lose rights by failing to secure marks prior to entering foreign markets. We counsel clients considering use of an unregistered mark in a new territory to assume it could become impossible to enforce rights in that country, maintain the right to use the mark, or re-enter the market with any similar mark. Depending on the territory, use of an unregistered mark may pose additional risks, including:
  - “Lock-out” of markets by conflicting third party registrations or use.
  - Infringement liability, such as an injunction and/or monetary penalties.
  - Lost or impaired rights to stop infringements or counterfeits.
  - Penalties for misrepresenting ownership of the mark, and/or violating distribution or licensing laws.

Difficulties may also arise in seeking to license third parties or authorize distributors to use unregistered marks. Failure to register could also affect tax planning, valuation efforts, or the ability to pledge trademark properties as collateral.

- The registration and/or use of similar marks by third parties in “first to register” countries such as Japan, Korea or Spain is most likely to present these or similar issues.
  - It is not uncommon for competitors, hoping to block or stall market entry, to step in and register unprotected marks
  - Marks may also be lost to distributors who independently register, then assert rights when termination is threatened
  - Rights can also be lost when speculators, hoping to register and sell marks for profit or even innocent third parties intervene and first register.
- When reviewing client portfolios, we often learn U.S. protection is relatively inclusive, while foreign protection is limited to territories such as Europe and Australasia, despite broad product distribution.

Bottom Line: Marks must generally be registered for effective enforcement outside the U.S.

### **Pre-Filing Considerations**

- Considerations Relating to the Mark
  - Ability to Function as a Mark – Surnames, merely descriptive or laudatory marks, and geographic terms are commonly not registrable; however, the rules for determining what falls into these categories differs among countries. Further, even where the rules are equivalent, their application may differ. For example, a term recognized as a surname in Europe may not be recognized as a surname in Asia.
  - Language Considerations – Can the proposed mark be pronounced in the native language? What will its meaning be? As two well-known examples, GM learned the hard way in Mexico that NOVA meant “no go” in Spanish; in Brazil, Ford learned to its surprise that “Pinto” was a derogatory term meaning “small male genitals.” Oops.
  - Customs/Cultural Considerations – The meaning of some marks in the U.S., such as those related to popular expressions or slang, may not be understood abroad. Others may be offensive in some countries due to cultural differences.
- Searching Considerations
  - The Decision to Search -- It is always advisable to search as time and (especially) budget permit: A third party may have prior rights in a similar mark as either the first to use a mark in a particular region, or the first to register the mark there: The difficult question is whether you can afford to search internationally and, if so, how broadly to search.

- Types of Searches – Thomson CompuMark’s WISS, RISS and KISS searches merely identify published marks since 1976: The searches do reveal the subsequent fate of the application, i.e., whether the mark eventually registered, or whether any registration was thereafter maintained. Country by country searches are more costly, but offer more accurate information.
- Analysis of Search Results --Foreign searches should generally be reviewed by qualified foreign counsel and, as in the U.S., additional investigation could be needed. For example, a registered mark could no longer be in use, and potentially available. For your safety, leave the evaluation of different levels of availability to foreign counsel.
- Searching is No Guarantee -- The search is the primary means for determining with reasonable certainty whether use of a proposed mark is likely to infringe a third party’s prior rights; however, no search is guaranteed to reveal all potential conflicts. The goal of searching is to minimize the risk to a generally-accepted level.

### **Foreign Filing Systems**

- National Applications – Despite the existence of several treaties and filing conventions, many applications are filed on a per-country basis. Foreign registrations based on national applications often comprise the bulk of a portfolio.
- Paris Convention --The widely-adopted Paris Convention provides foreign trademark owners the same protections in a member country as that country would provide its own citizens. The Paris Convention also provides a trademark applicant with a six month “priority filing” period following the filing date of a trademark application in a territory where it resides to file further applications in member countries and claim a “priority” application date based on its initial filing.
- European Union Community Trademark (“CTM”) --The European Union has adopted a procedure for filing a single trademark application which covers all countries in the Union. Use of a mark in one member satisfies the use requirements in all member countries. As a general rule, if a company would otherwise seek registration in three or more EU territories, it is more cost-effective to obtain a CTM registration.
  - Permits a single trademark application covering the entire European Union
  - Single CTM registration replaces 25 registrations necessary for protection in 27 EU members
- Madrid Protocol -- Citizens of Protocol member countries can deposit their “home” application or a registration with the World Intellectual Property Organization (“WIPO”) in Geneva, Switzerland, and “designate” additional member countries where registration is sought, potentially simplifying registration and subsequent maintenance. US brand owners, however, should bear several “Pros” and “Cons” in mind.
  - “Pro” --Potential cost savings in applications, associate fees, renewals and simplified “single filing” assignment and license records. Madrid can result in faster registrations; applications must be accepted or rejected within 18 months.

- “Con” --Narrower rights for U.S. applicants due to reliance on U.S. rights as registration basis. Madrid registrations are vulnerable to “Central Attack”; a logistical problem if U.S. rights are invalidated during first five years term. Limited transferability because registrations may be transferred only to other Protocol members (Canada is not a member, for example.)

### **“Big Picture” Registration Considerations**

Every brand owner has unique considerations; however, some general considerations and rules apply in all cases. First and foremost, it is important to bear in mind that it’s virtually impossible to register any mark globally, due to several factors, primarily:

- Cost -- Individually, foreign protection is not prohibitively expensive. The cost to register an uncontested mark averages \$2,000, and renewals average \$750. However, there are over 200 filing jurisdictions worldwide, however; so costs quickly mount. Economic considerations affecting registration decisions include:
  - Anticipated level of commercial activity;
  - Anticipated duration of use (long-term use means value of rights far exceeds registration cost);
  - Anticipated cost of being forced to adopt alternate mark if rights not established and maintained; and
  - Value of ability to stop competitors from using mark

Taking advantage of international trademark conventions may reduce foreign filing costs, but the effect becomes marginal in larger-scale filings.

- Target Country Legal System Effectiveness -- The effectiveness of trademark protection varies widely between territories. Most major industrial nations have effective systems in place, but there are exceptions. In addition, administrative delays in certain countries can delay registration for years, even a decade.

In reviewing registration options, consider using a program such as Global IP Estimator to provide a rough idea of costs (<http://www.globalip.com>).

Bottom line: Quantifying the ROI for securing registration in a given territory can be challenging. There may be little to no connection between "price" and "quality." Registration in an expensive territory does not necessarily provide superior rights.

### **“Major Marks in Major Markets”**

Because of the above considerations, as well as others, we encourage focusing resources on protecting and securing “major marks in major markets.”

This phrase describes an international registration scheme focusing on the business value and strength of a mark (i.e., arbitrary or fanciful mark/core and primary brands, strong mark/secondary brand, and weak mark/tertiary brand) alongside a relative scale of the target market’s value and legal system efficacy.

If these considerations are overlaid atop one another, this admittedly-rough analysis can yield a “triage” of potential registration targets, which one could visualize like this:<sup>1</sup>

Mark vs Territory Considerations	Core or Target Market/"Strong" IP Protection	Significant or Growing Market/"Workable" IP System	Minimal Sales or Limited Upside/"Sketchy" System
Arbitrary/Core and Primary Brand	<b>10</b>	<b>9</b>	<b>4</b>
Strong/Secondary Brand	<b>9</b>	<b>8</b>	<b>3</b>
Weak/Tertiary Brand	<b>6</b>	<b>5</b>	<b>0-1</b>

**Vital Protection** -- Cover strong core, primary and secondary brands in major markets with strong or at least effective enforcement systems. These markets may be characterized by one or more (not necessarily all) of the following:

- Industrialized territories with strong IP protection and active U.S. trade ties, such as the European Community, Australia, Canada and Japan
- Territories with good U.S. trade ties, effective or strong IP laws, and significant future expansion potential, such as Canada, China, Hong Kong, Israel and Mexico

**Desirable Protection** – Depending on resources, weaker marks and tertiary brands should also be registered in territories with strong or at least effective enforcement systems. Territories falling into this category may include, depending on the circumstances, Switzerland, Ireland, Scandinavian countries outside the EC and most of Central and South America.

If resources allow, strong core and primary and secondary brands should be considered for registration in territories with less-effective IP protection schemes and minimal sales or limited upside. Consider filing in these territories when it appears in the short term that sales may occur or prior to discussions with potential licensees, distributors or manufacturers. Clients are also advised to file in these territories for defensive purposes. Based on the situation, these territories could include portions of the Middle East and certain African republics.

**Optional Protection** – Markets with only sporadic or spillover sales and/or less-developed, inefficient or corrupt trademark enforcement often do not warrant consideration absent extenuating factors, particularly since the costs in certain territories can be relatively steep compared to the size of the potential market. Typically, it may make sense to postpone registration in territories such as Angola, Egypt, Haiti Lesotho, Zaire etc., unless particular circumstances warrant action.

<sup>1</sup> Please bear in mind this is only *one* foreign filing scheme, focused on *legal issues surrounding effective protection rather than business factors*, which will vary tremendously.

## Portfolio Maintenance Issues

Once registered, trademark rights must be maintained to remain valid. Maintenance and use requirements vary from one territory to the next.<sup>2</sup> To avoid damaging trademark rights, initiate a proactive program to ensure registration or defensive registration when appropriate, proper use, timely maintenance, and suitable control over authorized third party uses. Setting aside pure docketing issues, several items deserve legal attention in this area.

- **Ensure Continued Use** – In many jurisdictions, a registration becomes vulnerable to cancellation if the mark is not used for any extended period (typically three to five years) following issuance. If this could become an issue, implement a plan to anticipate and satisfy any statutory or regulatory use requirements. To guard against cancellation and ensure validity for defensive or enforcement purposes (i.e., by arranging for regular "use" of the mark).
- **Ensure Consistent Use** – Consider adoption of brand use guidelines setting forth the manner in which the company's trademarks should appear. Educate personnel to recognize and properly use registered marks, and provide a mechanism to report and address improper use.

Monitor changes to existing marks over time in light of existing registrations, and evaluate the need for new filings based on the nature of the registration and the extent of the change.

- **Control Licensee Use** -- If marks are licensed for use to others, the brand owner must maintain control over their proper use, and ensure the quality of the goods sold under the marks is maintained. The license may also need to be recorded, depending on the territory.
- **Prohibit Distributor Registrations** -- Distributors may do the manufacturer/mark owner a "favor" by securing trademark rights in their name; however, when the relationship is terminated, the trademark owner could lose its rights.

## Trademark Portfolio Audits

Consider regular audits to ensure the portfolio is up to date and in line with overall business strategy, competitive intelligence and market analysis.

- Many mature portfolios reveal omissions in protection for major marks in significant new or established markets; irrelevant, redundant or expired registrations; and registrations vulnerable to non-use cancellation.
- In these cases, the ongoing cost of maintaining the existing portfolio "as-is" may exceed the resulting protection benefit and force postponement of other needed protections.
- These problems often arise in portfolios grown primarily through acquisition, in companies with considerable internal turnover, and in companies where trademark responsibility is either scattered or delegated to someone outside the legal group.

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<sup>2</sup> Most countries protect a registered trademark for an initial period of 10 years from the filing date, and allow for indefinite renewals at subsequent 10 year intervals upon payment of the requisite fees. If the renewal deadline and the grace period are missed, the registration could be irretrievably lost.

- Regular audits may reveal defects while remedial action remains possible, i.e., by making use of a previously-dormant mark to avoid non-use cancellation exposure. In addition, an audit will identify irrelevant, obsolete or redundant trademark properties, and assist in determining the appropriate response, such as licensing out or allowing a registration to lapse.
  - For instance, a client acquired a portfolio covering a single mark in approximately 80 territories. The brand, however, had been “secondary” to the seller. As a result, the mark was typically used and registered in territories where the seller’s principal mark was not available, resulting in uneven (and often impractical or unnecessary) coverage.
  - We audited the portfolio, and cut approximately 40 properties in non-vital markets: This decreased maintenance costs by 50%, freeing capital to invest in protecting the mark in other key markets, and to invest in a CTM registration to supplant multiple European single-country and reduce future maintenance costs.

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## **How Does the Continued European Union Expansion Affect Trademark Rights?**

On January 1, 2007 the European Union expanded to 27 member states, adding Bulgaria and Romania, joining the ten new members added in May of 2004.<sup>1</sup>

The EU's continued expansion has made its Community Trade Mark ("CTM") system even more attractive: A single CTM registration now replaces up to 25 separate registrations in the 27 member states, providing economical, broad protection. Further, the single CTM registration eases maintenance through a single renewal filing and use in one EU territory satisfies use requirements for the EU as a whole. Finally, the CTM simplifies ownership changes by allowing a single filing effective for the entire Community.

Seniority claims in existing registrations in individual EU member states may be protected through CTM registration by claiming "seniority" to the prior registrations, eliminating the need to maintain the prior registrations.

Please feel free to contact us if you have any questions on the CTM, or any other trademark matter.

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<sup>1</sup> Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.

## **Lou Ebling - Introduction**

Lou is a partner at Thompson Hine and a graduate of Albion College and the University of Michigan Law School. Lou concentrates his legal practice on all aspects of US and international trademark law and also advises on internet, advertising, data privacy, patent and copyright issues.

Lou is an active member of the International Trademark Association, presently serving on the U.S. Legislation Subcommittee, and immediate past Chair of the US Roundtables Project Team. He has been honored by several of the most respected peer-review rating publications in the legal profession, including *Best Lawyers in America* and *Chambers USA, America's Leading Lawyers for Business*.

Lou's topic includes taking IP assets global and the often overlooked issues with this practice. Lou deals with these problems on a regular basis with his own clients and is here to share some of those experiences with you today. He is among the most active lawyers in trademark prosecution in the Midwest and provides representation, counsel and advice to IP owners and managers of all types, from individual inventors and business owners to US and foreign companies.