Why US corporations should own and manage their European Trademarks and Designs through an Irish Intellectual Property Holding Corporation

by

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US corporations are undeniably the most Intellectual Property conscious in the world and it should therefore come as no surprise that many will spend considerable time and effort in protecting their Intellectual Property rights. It is therefore incumbent on US corporations doing business in Europe to manage and own their European Intellectual Property rights (IPRs) in a secure and tax efficient manner and make the most of the systems and incentives that are on offer within the European Union.

In this article I explain why Trademarks and Designs owned and managed through a holding company incorporated in Ireland should be given consideration by any IPR rich US corporation doing business in Europe. Ireland is the only fully English speaking European Member State amongst the 17 countries that use the EURO currency. Like the United States, Ireland is a Common law country with a highly sophisticated and efficient judicial system. Irish legal concepts and structures will therefore be familiar to many US corporations. Moreover Ireland has some of the most up to-date Intellectual Property jurisprudence in the European Union. Ireland also has a sophisticated Double Taxation Agreement with the United States. Therefore, unlike many offshore locations, Ireland should not be regarded with suspicion by US tax authorities.

A testament to the unique advantages which Ireland has to offer is the fact that many leading US corporations have already located their European headquarters within Ireland. Google®, Microsoft®, Facebook® and LinkedIn® are but to name a few.

My article focuses on how US corporations can use the numerous IPR protection systems available within the European Union to protect, enforce and manage their Trademarks and

Designs and why location and management of these rights should be done through an Irish based company. To assist me in my analysis, Roz Burke, an international tax senior manager with PriceWaterhouseCoopers (PwC), offers some useful advice on how US IPR owners can

avail of various tax incentives on offer to Intellectual Property Holding Companies (IPHCs) which are incorporated in Ireland.

TRADEMARKS

1. **The Community Trade Mark (CTM)**

One of the most effective ways of securing protection for brands, logos and slogans in the European Union is through the Community Trade Mark (CTM) system. The CTM was created in 1996 and is a unitary right that provides protection in all the Member States of the European Union[1]. By means of a single application filed with the Trade Marks and Designs Registration Office of the European Union (OHIM), it is possible to secure a unitary Trade Mark registration enforceable in all European Member States. If a US business has already secured or filed an application for a Trademark registration in the US for its brand/logo/slogans, it is possible to backdate the corresponding CTM to the date of the US application or registration, provided this is done within six months.

1.1. Why choose a CTM

The advantage of the CTM is that it avoids the necessity of having to separately seek Trade Mark protection in each European Member state. The CTM also offers US exporters to the European Union significant cost advantages. Typically, if branded goods and/or services are exported to at least three European States, it is much cheaper to protect the relevant brand as a CTM rather than in each Member State.

Effectively the holder of a CTM is granted an exclusive right to use the relevant Trade Mark throughout the European Union and to prevent others from using anywhere in the European Union, without consent, identical or similar signs in relation to identical and/or similar goods/services. In some cases, it is possible for the holder of a CTM to seek

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[1] Austria, Belgium Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

temporary relief against suspected infringers by way of an injunction through a 'Community Trademark' court anywhere in the European Union. If granted, the injunction will be enforceable in all EU Member States.

If a business already has a number of separate Europe Member State trademark registrations, the cost of renewing them every ten years can be avoided by using the CTM 'Seniority' system. This system works by allowing the holders of European Member State registrations to claim their 'seniority' against the corresponding CTM, provided the Trademark owner and goods/services are identical. In claiming the 'Seniority', a CTM owner ensures that their CTM dates back to the date of the senior national registration.

Holders of CTMs can also request European Customs authorities to seize and retain suspected counterfeit goods that pass through their control.

1.2. Disadvantage of a CTM

The CTM comes with a significant proviso. It is an 'all or nothing' right. If a CTM is cancelled, it is cancelled for the whole of the European Union. However, the holder of an unsuccessful CTM always has the option of converting it into separate European national registrations. The one significant feature of conversion is that the converted applications date back to the date the CTM was originally filed.

1.3. Transactions affecting a CTM

Any transaction involving a CTM (licences, security interests and assignments) only has to be registered centrally through OHIM. There is no need for additional recordals in each European Member State. Cost and administrative burden is thereby reduced.

2. The Madrid Protocol

Like the United States, the European Union is a signatory of the Madrid Protocol; the centralised system that allows for the protection of Trademarks on an international basis by means of a single application filed with the World Intellectual Property Office (W.I.P.O) in Geneva, Switzerland. By designating the European Union (CTM) as part of the International application/registration, a US Trademark owner avoids the need to separately designate those countries of the European Union where it wishes to protect its

International Trademark. The CTM designation is examined in the same way as it would be if it was filed directly with OHIM.

Unless an objection is raised by OHIM within 18 months of filing, or the CTM designation is opposed, protection of the International Trademark is automatically granted. Even if a CTM designation is rejected or successfully opposed, it is still possible to convert it into separate European Member state designations with the same filing date of the CTM designation.

2.1. When to designate a CTM

Designating the CTM as part of a Madrid Protocol may not always be a viable option for some US businesses because of the possibility that the International Registration (IR) may be centrally attacked. In the circumstances, US businesses still have the option of separately designating those European countries where trademark protection is desired.

The one drawback of separate European designations is the administrative burden of having to respond to any objections and/or oppositions that may be raised against the national designation. As it is a requirement to appoint a local lawyer in the event of an objection and/or opposition, costs could easily spiral out of control. In contrast, by designating the CTM, it will only be necessary to deal with OHIM in the event of an objection and/or opposition. Accordingly, unless a business is going to confine use of a Trademark to one or two European countries, it is always better to designate a CTM.

As it is not possible to seek International protection for a list of goods/services wider than those of the base US application or registration, US Trademark owners should file a standalone CTM if they require protection in Europe broader than that they sought in the United States. An added advantage of the CTM is that, unlike the US, there is no requirement file proof of use in order to keep the CTM alive.

2.2. Using a CTM as the basis of an International registration

Another feature of the link between the CTM and the Madrid systems is that is possible to use a CTM as the basis of an IR, but this facility is only available to European companies and businesses with a substantial presence in the European Union. By establishing an Irish IPHC, US businesses can overcome this obstacle. As a result of the ability to file a

CTM for a wider range of goods/services than a US application/registration, using an Irish owned CTM as the basis of an IR is a significant advantage.

Additionally, an Irish IPHC with Irish Trademark registrations registered before 1996 can use these registrations as the basis of an International registration. Under Irish Trademark law, pre 1996 registrations are essentially immune from invalidity on the grounds of non-distinctiveness. This is significant because, as an IR falls in its entirety if its base registration is successfully attacked during its first five years, basing the IR on a pre 1996 Irish registration effectively safeguards it from attack during its first five years. It should be noted that this would however not apply if the Irish base registration was successfully challenged on the grounds of non-use.

3. Separate European Member State Trademarks

Another option open to US businesses wishing to protect their Trademarks in the European Union is to seek separate registration in each European Member State. While this option may seem the least attractive, it is not without its merits. As a CTM, and corresponding designation in an International registration, can potentially fail in their entirety, having numerous separate European registrations for the same Trademark provides more security. Also, in some European countries, a domestic European Trademark registration provides a defence in the case of an infringement claim by the holder of an earlier Trademark. It is doubtful that a CTM could provide a similar defence.

3.1. Disadvantage of separate European Member State registrations

The main disadvantage of seeking separate European Trademark registrations is the possibility of having to deal with different examination regimes. While the standard of examination has been harmonised throughout the European Union, the speed at which Trademark applications are examined has not. Trademark Registries in some European countries have a considerable backlog of applications waiting to be examined. In the event of an official objection and/or third party challenge to the national designation, it will be necessary to appoint a local Trademark attorney. This leads to a greater administrative burden and cost for the Trademark owner.

Overall, the CTM system offers the most flexible and cost effective Trademark protection method for US exporters to the European Union. For those US businesses contemplating or, who already have, an International registration, a CTM designation is worth considering if your branded goods are, or going to be, exported to more than two European countries.

DESIGNS

In Europe, designs can be protected if:

1. They are novel, i.e. no identical design has been made available to the public
2. Have 'individual character', an 'informed user' finds that its overall impression is different to other designs.

4. Community Design

One of the most effective ways of protecting designs in the European Union is through the 'Community Design' system. A European 'Community Design' can be protected in either, its registered, or un-registered form.

4.1. Un-registered Community Design

In its un-registered form, a Community Design is protected for a period of three years from the date it was first made available to the public within the European Union. A Community Design allows its holder to prevent third parties from using either identical designs or designs that have the same overall impression on an 'informed user'. It can however only prevent the direct copying of the protected design.

4.2. Registered Community Design

A Registered Community Design (RCD) allows its owner to prevent the use of identical or similar designs even if they have been innocently created. Unlike CTMs, RCD applications do not undergo a formal examination process. The RCD system is effectively a 'deposit' system where the application is filed and registration is granted shortly thereafter; normally within three to four weeks of filing. An RCD registration lasts for an initial period of five years, but can be renewed thereafter for a further twenty years upon payment of a renewal fee. An RCD is enforceable throughout the European Union and, like the CTM, can be used as a tool to prevent the importation of counterfeit goods into the European Union.

If a third party successfully challenges the validity of an RCD, it falls for the whole of the European Union and it is not possible to subsequently convert it into separate national registrations.

5. Separate European Member State registrations

An alternative to filing an RCD would be to separately seek registration in those European countries where protection is required. Fortunately, Design law has been harmonised throughout the European Union so the requirements of registration are effectively the same in each European Member state. While seeking separate registrations is costly and administratively cumbersome, consideration should be given to pursuing this route if the validity of the design in question is questionable. Anybody wishing to challenge the validity of the design would then have the expense of bringing separate invalidity attacks in each country where the design is registered.

6. Managing your Trademark and Design portfolio

6.1. Using a combination of the CTM and RCD systems

There is some overlap between the CTM and RCD systems in that both can afford protection to certain types of designs such as logos and graphic symbols. Both systems can therefore be used in combination. As it can take up to nine months for a CTM to be registered, filing an RCD is a quicker route to protection for logos, designs and graphic symbols. Legal advice should however always be sought from European Intellectual Property counsel before pursing this route in view of the possibility that a pre filed CTM may destroy the novelty of the relevant design.

All subsequent CTM and/or RCD rights can then be held by the IPHC along with any separately registered European Member State rights.

6.2. Basing your Intellectual Property Holding Company in Ireland

Where to incorporate your IPR holding company depends on a number of factors ranging from ease of incorporation to regulatory and/or legal requirements. Roz Burke, International Tax Senior Manager, who runs the Irish Tax Desk in PwC London, discusses this in more detail. She states:

Now, more than ever, successful multinational groups are increasingly focused on building sustainable tax-efficient business models as a means of maintaining their competitive edge. Intellectual Property is a key profit driver that plays a significant part in how these groups structure their international business. Ireland is an attractive European location which provides a tax efficient regime to manage such assets.

Despite the global economic downturn, foreign multinationals continue to invest in Ireland. Our low (12.5%) corporate tax rate and extensive double tax treaty network, coupled with our highly skilled labour force and other business advantages, has helped position Ireland as a leading location for foreign direct investment.

Ireland can not only offer tax and other business advantages to companies who are looking to access opportunities in Europe (or indeed internationally) for the first time, but also to more developed groups who would like to identify the optimal base for growing their international businesses.

The benefits of locating your Intellectual Property holding company in Ireland include:

- *Low corporate tax rate (12.5%);*
- *Attractive onshore Intellectual Property regime;*
- *Extensive access to EU Directives and tax treaties;*
- *25% Research & Development (R&D) tax credit plus R&D grants;*
- *Extensive domestic law withholding tax exemptions;*
- *Highly skilled and educated workers, youngest workforce in Europe;*
- *Tried and tested location for foreign direct investment.*

Roz adds "A*s mentioned, Ireland's standard corporation tax rate for trading profits is 12.5%. However, it is important to determine how much of the company's profits will be subject to tax at this rate. The Irish onshore Intellectual Property regime provides an opportunity to reduce the amount of Irish profits subject to tax. The key features of this regime include:*

- *A tax deduction is available on the acquisition of broadly defined Intellectual Property (e.g., brands, registered designs, patents, trademarks, domain names, know-how, goodwill attributable to these items etc.).*

- *Companies have the option to elect for a tax deduction over a 15 year period, or alternatively to follow the accounting amortisation rate for tax purposes, which provides some flexibility to the regime.*
- *The tax deduction may be offset against income from Intellectual Property-related activities, including the sale of goods or services that derive the greater part of their value from the Intellectual Property.*
- *The maximum annual deduction (including any associated funding costs) is restricted, in Ireland's case to 80% of the Intellectual Property-related profits arising. Any excess deductions may be carried forward and offset in succeeding years, again subject to an 80% restriction.*
- *There is no clawback of tax deductions provided the Intellectual Property is held for 10 years.*

In addition, the following would need to be considered by potential investors wishing to locate their Intellectual Property holding company in Ireland:

- *To access the 12.5% rate of corporation tax, there would need to be sufficient substance in Ireland. This would mean that some IP personnel would need to be based in Ireland to ensure an active business is being undertaken.*
- *The transfer of Intellectual Property out of the USA may give rise to US tax, and therefore consideration would need to be given to the value of the Intellectual Property and the process of transferring it to an Irish holding company.*

In addition to the Intellectual Property regime, R&D tax credits and grants provide an attractive incentive to locating R&D activities in Ireland as well. The effect of the R&D tax credit can be to reduce the real cost of R&D by up to 37.5% (12.5% tax deduction plus 25% tax credit). These incentives, allied with those mentioned previously, mean that Ireland is increasingly being seen as an attractive onshore location for the creation, management and exploitation of Intellectual Property.

CONCLUSION

Apart from the incentives that Roz outlines above, an Irish Intellectual Property holding company offers the added attraction that Ireland is a full member of the Madrid Protocol, unlike many traditional 'offshore' jurisdictions (e.g. Cayman Islands), which are not. It is not possible for an Intellectual Property holding company registered in a country that is not a member of the Madrid Protocol to own International Trade Mark registrations, unless that company has a substantial commercial presence in Europe. This therefore makes centralised and consolidated ownership of a Trademark portfolio difficult, inefficient and costly.

Even a Swiss based Intellectual Property holding company (Switzerland is a member of the Madrid Protocol/Agreement, but not the European Union) will not offer the flexibility of an Irish Intellectual Property holding company because it may be difficult for such a company to use any CTMs it owns as the basis of a Madrid Protocol application, unless that company has a substantial commercial presence in the European Union.

In conclusion, the most cost effective and efficient way a US exporter to Europe can protect, manage and exploit its brands and designs is by incorporating an Irish IPHC to own, enforce and exploit these rights. The location of choice should provide a unique mix of valuable tax incentives and the ability to use the CTM, RCD and Madrid Protocol systems to their full effect. Given that it is the only English speaking Common law European Member State that uses the EURO, Ireland is an attractive location for incorporating an IPHC.