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2007

Online at <https://mpra.ub.uni-muenchen.de/36977/>

MPRA Paper No. 36977, posted 28 Feb 2012 00:16 UTC

TRADEMARK OWNERS' PERSPECTIVE ON THE MADRID SYSTEM: Practical Experiences and Theoretical Underpinnings

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ABSTRACT

Based on the assumption that possible future reforms of the Madrid System for the filing and renewal of trademark registration at the international level must be user driven, the paper explored in a series of 23 in-depth interviews, the views of companies varying in size, geographical distribution, market context and number of trademarks filed for a company through the Madrid System. The empirical analysis underlined the important role of the Madrid System in expanding their market coverage, but also showed that a major challenge will be to meet the diverse needs of business operating in varied contexts of developing and developed countries. While firms in developed countries need a system that fits high-speed post-fordist business operations, further awareness raising and capacity building is necessary to fully integrate the private sector in developing countries and to expand participation beyond current usage levels.

INTRODUCTION

Intangibles, like trademarks, have historically been perceived as **in**visible and hence as **in**significant or irrelevant to business performance. The growing use of the 'Madrid System' for the filing and renewal of trademark registrations in a large number of countries around the world, suggests however that trademarks may well be **in**tangible but everything else than **ir**relevant to business.

According to WIPO a trademark is '*a sign capable of distinguishing the goods and services produced or provided by one enterprise from those of other enterprises. A sign may be a word, a letter, a logo, a colour, a picture or a combination of these.*'¹

Trademarks are hence an important tool to communicate the value proposition of a company's product or service to the market. Trademark protection forms the basis for a

variety of brand strategies based on product differentiation and market segmentation which are very important for managing competition, creating customer demand and securing market share. Without a legal system in place guaranteeing private property over the image of a product or service it would not be possible to capture the gains from marketing activity. Efficient and effective trademark protection is essential to keep the market-based economy going.

*'Markets are alive because there is IP protection. The protection of a brand is like a guarantee that a car is actually yours. Nobody enters a third market without legal protection and an analysis of costs. From an investment point of view IP protection is a major criteria. Will I get copied in the market? Do I have legal recourse? These are important questions. The Madrid System encourages us to go into markets, where protection would otherwise be difficult to obtain.'*²

Considering the crucial role of trademarks in marketing, the impressive growth rates of the filing activities under the Madrid System (15% in 2005) become more comprehensible. In a world where business activities have become increasingly international and companies constantly seek to develop markets beyond their traditional home markets, a filing system that facilitates the process of obtaining trademark protection abroad becomes increasingly relevant.

To obtain empirical support and qualitative insights into the use of the Madrid system in relation to a company's business strategy, a series of 23 in-depth interviews with companies were conducted with companies varying in size and geographical distribution,

¹ WIPO, *Making a Mark: An Introduction to Trademarks for Small and Medium-sized Enterprises*, (Geneva, 2003)

² U. Over, 'Novartis,' (19.11.2004)

so as to get a real world glimpse into the opportunities and potential pitfalls of the Madrid System.

This paper will present the Madrid System from an international business perspective, link the treaties governing the Madrid System with trade and conclude with an evaluation of the Madrid System from a practitioner's point of view.

THE MADRID SYSTEM FROM A TRADING PERSPECTIVE

*'Exports make up for 30% of our turnover. We, therefore, need a system like Madrid that allows us to have our brands protected in export markets. It's cheap and it's handy. We can use it without the support of lawyers which helps us bring down costs.'*³

The Madrid System for the registration of trademarks is currently based on two international treaties. The Madrid Agreement Concerning the International Registration of Marks (Madrid Agreement), which was adopted in 1891⁴ and the Protocol Relating to the Madrid Agreement Concerning the International Registration Of Marks (Madrid Protocol), which undertook major reforms to a system created in the 19th century, was adopted in 1989 and entered into force in 1996. The objective of the Madrid System is to assist firms with obtaining trademark protection at the international level and to facilitate the management of trademarks at the worldwide level. Currently, the Madrid System allows trademark owners to have their trademark protected in 77 contracting parties by filing one single application through their office of origin with the World Intellectual

³ H. Zishi, 'Guangzhou Yafu Stationary Industrial Co.Ltd,' (12.1.2005)

⁴ Revised at Brussels (1900); Washington (1911); The Hague (1925); London (1934); Nice (1957); Stockholm (1967) and amended in 1979

Property Organization (WIPO). The Madrid System is designed as a one-stop shop⁵ and is praised for *‘allowing one single application that is filed in one place, in one language, with a minimum of formalities, with one fee paid in a single currency. This results in one single registration, with one number and one renewal date. It allows nationals of member countries⁶ to protect their trademarks, whether for goods and services, in any or all of the other member countries.’*⁷ For readers familiar with the current debate on international trade this rings a bell:

The term ‘trade facilitation’ describes best the value proposition of the Madrid System to business. Trade facilitation is welcomed by developing and developed countries alike and, in recent negotiations on international trade, was considered a common denominator for countries with the most varied trading contexts. Trade facilitation seeks to reduce administrative burdens to business and is based on the assumption that heavy administrative procedures sometimes cost companies more than tariff barriers. For example, according to a study of the Asia-Pacific Economic Cooperation (APEC), reducing red tape at country borders generates approximately twice as much gain to GDP than tariff liberalisation.⁸

Further reading of the features of the Madrid System from a trade point of view suggests that many regulatory conditions considered to promote international trading activities are being met by the treaties composing the System. The Organisation of Economic Co-

⁵ A.W. Finkelstein, ‘One-stop Shopping is On the Way for International Trademark Protection’, (2003) 35 Franchising World, 30-38

⁶⁶ Countries have chosen to be either part of the Madrid Protocol or the Madrid Agreement or both. Depending on the status of membership of the country of origin of the applicant, the trademark owner can choose among the other participating countries where to file a registration of a trademark.

⁷ International Trademark Association, *‘The Madrid Protocol: Impact of U.S. Adherence on Trademark Law and Practice,’* (New York 2003)

⁸ Y. Woo and J. Wilson, *‘Cutting Through Red Tape: New Directions for APEC's Trade Facilitation,’* (Jakarta 2000)

operation and Development (OECD) identified through a recommendation to its Council in 1995 several principles that promote international trade.⁹

Regulation should be transparent and provide a clear and predictable framework for business, it should be non discriminatory and based on the principle of national treatment and the most favoured nation clause,¹⁰ avoid trade restrictiveness by providing one administrative procedure for all applicants and all member countries, use harmonised measures which brings down transaction costs since companies need not deal with many different national procedures at first instance and the application of competition principles from a regulatory perspective which again allows foreign market participants to operate at the same level playing field as domestic players. All of these principles underpin the Madrid System.

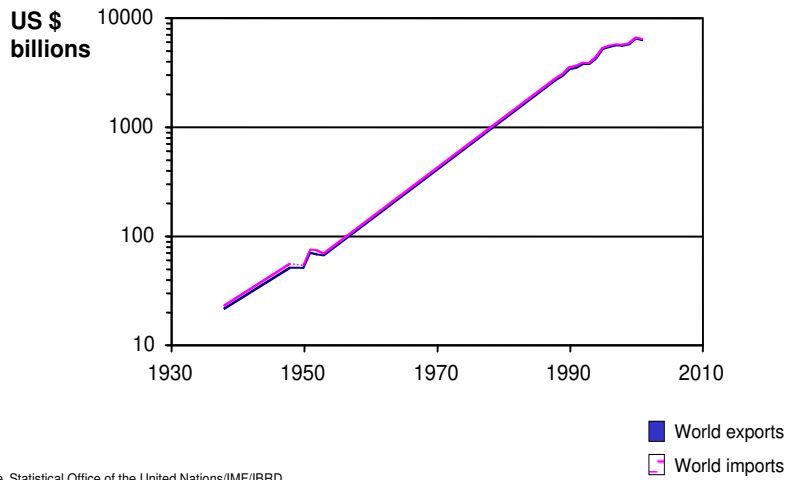
Data substantiates the argument that the Madrid System provides an apt regulatory framework for international trade. The following two charts suggest that there is an overall positive correlation between international trade and the Madrid System. The chart below documents the development of world trade since the inception of the General Agreement on Trade and Tariffs (GATT) that was to become the World Trade Organization (WTO) in 1995. The substantial growth rate of the global trading volume throughout the 20th century is evident.

Insert Figure 1: The strong increase in world trade asks for an apt regulatory context

P.Walkenhorst and R.Ghafele, 'Enhancing Market Openness through Regulatory Reform. OECD Reviews of Regulatory Reform: Regulatory Reform in Germany,' (Paris 2004)

¹⁰ Article 4 of the Madrid Protocol states: „Each mark is protected in the same way it would have been if the mark was independtly registered in that country.”

The strong increase in world trade asks for an apt regulatory context



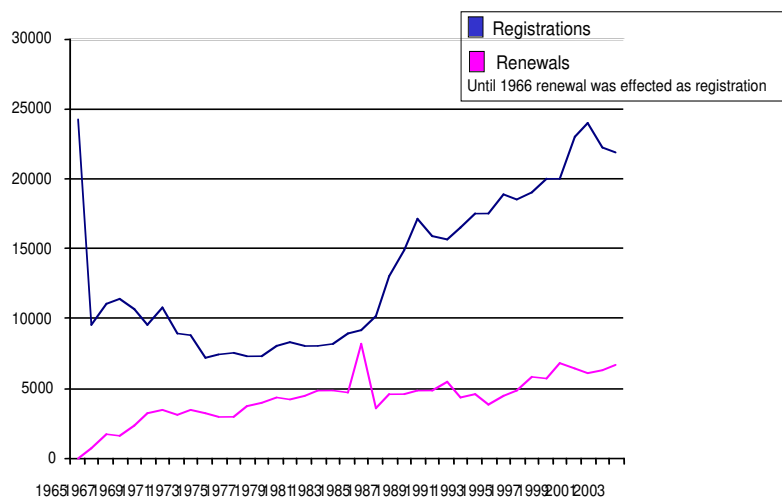
While the evolution of the Madrid System suggests that the treaties governing the system have had very much a life of their own, an overall positive correlation between the growth of global trade and the growth of filings and renewals of registrations under the Madrid System becomes evident. A few words though on the particularities of the development of the Madrid System.

The climax in 1966 is misleading as it resulted from a change in terminology. Until 1966 renewals were effected as registrations, whereas thereafter these were not treated so.

Insert Figure 2: Increase over time of the use of the Madrid System¹¹

¹¹ Based on data provided by the WIPO Gazette of International Marks 2003

Increase over time of the use of the Madrid System



Source:
Roya Ghafale, WIPO Gazette of International Marks 2003

The introduction of the Madrid Protocol in 1996 translated into higher levels of growth of trademark registration. Novartis, a top user of the Protocol outlines its major advantages as follows:

*'We are using the Madrid Protocol because it is very well organised, easy to use and supports our strategy of going international with our products. Cheap, flexible and easy to handle, the Madrid Protocol provides the regulatory framework for a company that operates globally.'*¹²

The adoption of the Madrid Protocol reflects the consensus arising from a review of the system's architecture so as to adapt it to the needs of its time. Revising the language requirements from only French for example allowed more than a billion people worldwide to file in their native language. Recognising English and Spanish was hence an important step to transform a system that was primarily European in character into a

¹² U. Over, 'Novartis,' (19.11.2004)

truly international business tool. The link to the Community Trademark System of the European Community and the accession of the U.S.A. to the Madrid Protocol in the first decade of 2000 gave further meaning to the system and underlines the argument that the Protocol provides the necessary incentives for more countries to join.¹³ Generally speaking, the Protocol's requirements for registering a mark are more liberal than under the Madrid Agreement.

STANDARD ASSESSMENT OF THE MADRID SYSTEM

*'The Madrid System has paved our way into international markets.'*¹⁴

According to the French news agency (AFP), international trademark applications by Chinese firms rose by 31.4% in 2005 to 1 334, leading the list of developing country users which rose overall by 30.6%. The People's Republic of China was also the most designated country, accounting for 13 576 out of a total of 356 476 designations listed on international trademark application. (Chinese figures do not include Hong Kong.)

Equally, applications from the U.S.A., a country that only joined the Madrid Protocol two years ago and where scepticism about the Madrid Protocol was wide spread primarily because major trading partners on the American Subcontinent are not members to the Protocol, rose to 5802 in 2005, amounting to a 64% increase of filings by U.S. companies.

¹³ J.P. Hines and J.S. Weinstein (2004) 'Using the Madrid Protocol after U.S. Accession', (2004), The Trademark Reporter 93, 1003-1028

¹⁴ H.T. Anhui, 'Chinese Medicine Manufacturing Factory,' (15.1.2005)

While this data clearly suggests that the Madrid System is highly beneficial to business going international, it is nevertheless helpful to take a closer look and identify the system's main advantages and shortcomings so to grasp a better understanding in which specific business contexts it is beneficial to trademark owners.

Advantages

Under the Madrid System total registration costs are significantly lower than undertaking separate registrations on a country-by-country basis. Compared to individual filing on a country-by-country basis the Madrid System also allows companies to operate in a relatively fast timeframe and a predictable time scale.¹⁵ While in some countries an application filed through a national registration can take more than six years to process, membership to the Madrid Union obliges each national trademark office to notify WIPO within a limited amount of time (12-18 months) of possible objections to the international registration.¹⁶

To appreciate the cost saving potential of the Madrid System, consider the example of a hypothetical Kenyan company that seeks trademark protection for its product in fifteen countries. Filing through the Madrid Protocol would cost the Kenyan company 5.6 times less than filing its trademark on an individual basis in each of the designated countries. For any company and particularly for a Small- and Medium Sized Enterprise (SME) this huge cost saving would allow it to concentrate its scarce resources on other business purposes.

¹⁵ W.B.Borchard, 'The Madrid Protocol and the Community Trademark', (2003) Electronic Publication of Cowan, Liebowitz & Latman, P.C

¹⁶ Briggs & Morgan, 'The Madrid Protocol: A Primer for United States Trademark Owners', (2006) Electronic Publication of Briggs & Morgan LLP

Insert Figure 3: Cost estimate of filing in 15 different countries on an individual basis

<i>Cost Estimate</i>	<i>Swiss Francs</i>
Attorney Fees (in Kenya):	750 ¹⁷
Translation Costs (in Kenya):	700 ¹⁸
Currency exchange costs (4% ¹⁹ of total filing costs, rounded)	175
Attorney Fees ²⁰ in E.U.	2500
Attorney Fees in the U.S.A.	2500
Attorney Fees in China	2300
Attorney Fees in Japan	7300
Attorney Fees in the Republic of Korea	2250
Attorney Fees in Switzerland	3000 ²¹
Filing Costs in the E.U.	508
Filing Costs in the U.S.A.	447
Filing Costs in China	500
Filing Costs in Japan	980
Filing Costs in the Republic of Korea	247
Filing Costs in Switzerland	700
Total	24 857 SFr

¹⁷ We interviewed two Kenyan Law firms, as well as the Kenyan Industrial Property Institute (KIPI). Fees range from 600 to 900 SFr. For this example we hence use an average of 750 SFr. For Kenyan standards this is an important sum of money. In comparison, a civil servant would make 1500 SFr per a month.

¹⁸ According to experience of trademark attorneys in Kenya translations conducted abroad amount to 20 SFr per page. Translation conducted in Kenya is substantially lower in cost. We hence assume an average price of 700 SFr, although actual costs would very likely be higher.

¹⁹ Financial transaction costs range from 3-5%. We have chosen the average value of 4%.

²⁰ According to our interviews with Kenyan trademark professionals the actual cost to the Kenyan client will depend on the legal fees charged by the lawyers abroad. In Germany, for example, these would amount to 1800 SFr, in the UK an attorney would charge 450 SFr per hour. In Russia one law firm reported to have paid 1400 SFr for the legal services provided by the Russian attorney.

Insert Figure 4: Cost estimate of filing in 15 different countries through the Madrid Protocol

<i>Cost Estimate</i>	<i>Swiss Francs</i>
Attorney Fees (in Kenya)	750
Translation Costs	0
Currency exchange costs	0
Basic Fee where any representation of the mark is in color, August 9-16	903
Complementary Fee of 73 SFr per Country	657
73 Sfrs*8	
United Kingdom (Individual fee)	386
Japan (Individual fee first part)	226
Individual fee: 1*754 (second part)	754
Republic of Korea	297
Individual fee : 1*297 (o classes free)	
U.S.A.	456
Individual supplementary fee (mixed application): 1*456 (o classes free)	
Total	4 429 SFr
<i>Estimated Cost Saving Potential</i>	<i>20 428 SFr</i>

The streamlined process of international trademark registration and renewal also eliminates administrative burdens and red tape to business. The assignment of trademark

rights may be recorded with just one agency for all the countries where protection is desired rather than on a country-by-country basis. For companies having international trading interests this may eliminate the need to hire foreign counsel in each country, unless the international application meets objections or refusals in a particular designated country.

Under the Madrid System, protection can also be maintained in a fairly uncomplicated matter. The principle of ‘one-stop-shopping’ is sustained in the post-registration phase.²² International registration, which lasts for ten years, may be renewed for additional ten-year periods by paying a single renewal fee to WIPO. By renewing its international registration, a trademark holder renews at the same time the individual national rights, which it has obtained through extension of its international registration. The centralised system hence greatly simplifies the process of maintaining international trademark protection.

Following the same principles, the Madrid System allows users to make an international application based on a national application/registration. Trademark owners can file a registration directly in their country of origin allowing them to deal with administrative procedures familiar to them.

Current language requirements also work to the benefit of trademark owners all over the world. Filing in English, French and Spanish (since April 1st 2004) facilitates 540 million people of the world to seek international trademark protection in their native language. This makes the system not only accessible to a wide range of companies, but also avoids possible confusions arising from the translation of unique words.

²² M. Mutterperl and S. Vale, ‘U.S. Accession to the Madrid Protocol Should Streamline International Protection for Trademarks Owned by American Businesses and Citizens,’ (2003) Electronic Publication by Fulbright & Jaworski LLP

The Madrid System may also provide business with a first mover advantage in a given market since it allows to secure international priority date. International applications need to provide only the name of the national or regional office in which the earlier application was filed together with the date of filing and (where available) the number of the application. No certification is necessary to establish a priority date in a designated country.

Under individual filing rules applicants must often submit a certified copy of the basic application to confirm filing priority under the Paris Convention. Under the Madrid System this process is greatly simplified.

Under the Madrid System, Least Developed Countries (LDCs) only have to pay 10% of regular fees. In this way, the particular conditions of this group of countries are met.

To a certain extent, the Madrid System is suited to meet evolving market considerations since it allows to expand an international trademark ex-post into additional markets.

Further, any changes regarding name, address or ownership can be communicated directly to WIPO through one single process. Also, WIPO has now made a system of electronic renewal of international marks ('E-Renewal') available on its website, which should further facilitate administrative steps.

The Madrid System covers a market of 3.1 billion people, which is more than half of the world's population. Through the Madrid System even the most remote markets become accessible to business independently of their size. Costs, difficult administrative procedures and lengthy time scales are significantly reduced, lifting hence a major entry barrier to foreign markets.

Shortcomings

A closer look at the cost structure reveals that the Madrid System does not eliminate many of the costs associated with trademark rights in foreign markets. The cost of trademark clearance, due to the additional registers that must be reviewed and the larger pool of potential marks is not reduced through the Madrid System. If an application is refused registration in a selected country, counsel must be retained to respond to the national trademark office. If there are prosecution costs they are the same as under national procedures.²³

While time scales are relatively fast, European companies in the consumer goods sector feel that product cycles are sometimes shorter than the time taken to obtain international trademark protection, making the system hence less relevant for this industry.

*'Un grand handicap c'est le fait qu'il y a un délai de 18 mois. Le cycle de nos produits est de plus en plus court.'*²⁴

An international registration depends on the home application or registration for a period of five years. If that (home) application is amended denied, withdrawn, or cancelled, the international registration is treated likewise and the rights in the designated countries are also affected. The scope of the home application defines hence the scope of the international application.²⁵ (Borchard, 2003 and Briggs & Morgan, 2006) This feature of the Madrid System deterred for a long time the U.S. to join. Since the U.S. Patent and

²³ S. Fox Morrison, 'The Madrid Protocol A Centralized, Streamlined, and Cost-effective Solution to the High Cost of Worldwide Trademark Protection – Is it too Good to be True?,' (2003) Electronic Publication of the Intellectual Property Group of Davis Wright Tremaine LLP

²⁴ J. Monteiro, 'L'Oréal', (8.12.2004) Translation: a delay of 18 months is a big handicap for us. The cycle of our products is increasingly shorter.

Trademark Office (USPTO) asks for a more narrow and precise description of goods and services than other trademark offices, there was an inherent fear that U.S. business may be disadvantaged.

The 'central attack' is also related to the question of dependency. If during the first five years the home application is refused registration, opposed or successfully cancelled, the international registration in all of the elected jurisdictions is equally affected.

There is, however, a safety net built into the system. The so-called 'opting-back' allows conversion into national applications. However, doing so is a rather expensive undertaking. Statistically speaking the 'central attack' is not an issue for the vast majority of business. According to 2004 trademark data the 'central attack' only concerned 3% of all registrations of which only 0.7% were totally refused.

The Madrid System was designed to meet the demands of a fordist production model, as there is no variation in the product or its mark. It is, therefore, suitable for a particular trademark that can be used in many different markets at the same time, yet there is no scope for manoeuvring its features to tailor it for use in marketing according to cultural sensitivities and local tastes of different parts of the world.

Even if there is only a slight change in the trademark, the owner of the mark is required to file a new international application. However, cultures across regions vary and the success of a mark in one country does not necessarily imply its success in another country. Marks transport cultural values that are bound to the logic of the market. If the market is not studied carefully marks can be in contradiction to religious values, a

²⁵ W.B.Borchard, *ibid*, (2003) and Briggs & Morgan, *ibid* (2006)

society's common historical memory or other factors determining the common cultural context of a community. Placing one mark, that is without any variations of the mark, in many different markets at the same time can, therefore, sometimes be counter productive. So far, the Madrid System does not address this aspect of international trademark management.

Of course, the Madrid System has no relevance to a company that has no foreign interests. A mere domestic market participant does not need a system like Madrid.

*'The Madrid System is only of relevance to companies who actually ARE trading!'*²⁶

Companies with major market interests outside the territories covered by the Madrid System may also find the Madrid System irrelevant. In this context, expanding membership to the Madrid Union will further increase the system's relevance to international business. Major markets, particularly in Latin America and South East Asia, are currently not covered by the system. Membership may however be accompanied by awareness raising, technical training and adequate human and technical capacities in Patent and Trademark Offices. Under these conditions, the Madrid System may in due course be beneficial to companies operating in other markets.

PRACTICAL EXPERIENCES WITH THE MADRID SYSTEM

In a set of twenty-three in-depth-interviews, we asked trademark owners standardised questions, such as how they evaluate the Madrid System, in which business context they use the Madrid System and how it relates to their economic gains. We believe that the sample is sufficiently wide spread to be considered representative enough to provide varied qualitative insights on users' experiences with the system: However, we admit that

further budgetary means would have allowed to provide even more defined and precise analysis.

In order to gain a wide spectrum of views, an effort was made to cover as wide a range of business contexts as possible. The six top users of the Madrid System were consulted, as well as thirteen Small and Medium Sized Enterprises (SMEs), ten companies from developing countries, three companies from countries in transition and one U.S. company. In addition, we have used an interview given by a Latin American company in the journal 'Managing Intellectual Property' and an interview by the Brazilian comic writer, Mauricio de Sousa in the same journal. We have consciously preferred a qualitative approach over a quantitative analysis since the information provided allows us to draw better conclusions concerning the impact of the Madrid System on individual businesses. For the same reason, the information provided below does not apply to ALL users of the Madrid System; rather it aims to provide a better insight into how a selected sample of companies has integrated the use of the Madrid System in their business strategies.

The low costs and quick time scales associated with the Madrid System promote trade

ALL companies interviewed quoted low costs and relatively uncomplicated procedures as the main value proposition of the Madrid System.

*'For Nestle it's a vital working tool. It's cost and time saving. Since all our projects are international, we need a system like Madrid.'*²⁷

²⁶ I. Des Rois, 'Procter&Gamble', (16.11.2004)

Business further confirmed that there is a correlation between increased international trading activities and the use of the Madrid System. ALL companies interviewed confirmed that the Madrid System facilitates the penetration of foreign markets. The system may therefore be viewed as a means to bring markets closer together. The strong link between international trade and the Madrid System is explained by the design of the treaty:

It takes the role of a supranational system, while at the same time respecting national sovereignty.

*'La mondialisation fait qu'on utilise le système de Madrid, c'est plus pratique est moins cher.'*²⁸

*'The Madrid System replaces expensive national systems with an inexpensive supranational legislation.'*²⁹

Companies in developing countries viewed the system primarily as a means to avoid accusation of piracy and illegal copying of trademarks.

*'Personne ne peut dire que nous avons copié une marque.'*³⁰ (Induver, 2004)

*'Pour éviter des problèmes au niveau international et ne pas créer des marques qui existent déjà, on utilise le système de Madrid. Nous économisons de l'argent et jouissons en même temps d'une sécurité internationale de nos marques.'*³¹

²⁷ J.P.Maeder and C. Lelieur, 'Nestle', (9.12.2004)

²⁸ Translation: Globalization drives us to use the system. It is more practical and less expensive.

²⁹ U. Over, 'Novartis', (19.11.2004)

³⁰ M. Negible, 'Induver', (2.12.2004)

Translation: Nobody can say that we copied a mark.

While the Madrid System facilitates market access, it can not replace branding and advertising

Firms confirmed that foreign market access is strongly facilitated through the Madrid System. It helps to stand up against competition, promote products in the relevant markets and protects against piracy and counterfeiting.

'Trademark protection is key when we aim to enter a new market and are launching an advertising campaign.' (Belarus Minsk Tractor Works, 2004)

'The Madrid System offers a significant competitive advantage. With Persil for example we protected the brand before we entered the Nordic markets. When we finally expanded into these markets we had a major advantage over competitors.' (Henkel, 2004)

In today's business reality getting quickly into new markets may be a decisive factor for business success.

*'Through Madrid we can get quicker into markets. This means we gain time and the whole management of IP is different. There are not 50 different systems, but everything is much simpler.'*³²

³¹ F. Fayzel, 'Ste. Agriland' (2.12.2004)

Translation: In order to avoid problems at the international level and not to create a mark that exists already we use the Madrid System. We save money and profit at the same time from international trademark protection.

³² J.P. Maeder and C. Lelieur, 'Nestle', (9.12.2004)

Although the Madrid System is an important factor driving market access it needs to be aligned to marketing and advertisement. Legal protection of a mark alone does not guarantee market share, but needs to be aligned to an overall brand strategy.

*'Il ne faut pas renverser les rôles. On n'acquiert pas des parts de marché à cause du système de Madrid, mais on utilise le système de Madrid parce qu'on veut acquérir des parts de marché.'*³³

Global Brand strategies go hand in hand with the use of the Madrid System

Branding has taken more and more international dimensions. The top users of the Madrid System follow a global branding strategy, where one mark is branded in many countries at the same time. Such a branding approach is well supported by the Madrid System.

*'At Novartis we only have global branding concepts. Our products are introduced at the global scale. We really do need a legal tool that allows us to do this. We at Novartis have made very good experiences with the Madrid System.'*³⁴

*'At Henkel we have a global marketing strategy. This means we save money since we only use one name that is globally branded. We also seek to anticipate market needs.'*³⁵

³³ J. Monteiro, J. 'L'Oréal', (8.12.2004)

One should not reverse the roles: One does not acquire market share because of the use of the Madrid System, but uses the Madrid System because one wants to acquire market share.

³⁴ U. Over, 'Novartis', (19.11.2004)

³⁵ B. Jäger, 'Henkel', (30.11.2004)

*'On demande toujours une marque mondiale. C'est plus rapide. Pour ceci le système de Madrid est l'outil idéal ou autrement dit: On n'a jamais crée une marque internationale sans le système de Madrid.'*³⁶

Chinese companies and firms operating in countries in transition alike confirmed the strong correlation between the use of the Madrid System and global branding. Trademark management is, however, primarily perceived as a means to protect a mark against unfair competition, counterfeiting and piracy.

*'The Madrid System can help to extend the influence of our trademark in international markets.'*³⁷

*'The Madrid System has accompanied our international business transactions since 1997. We use it to promote and protect the 'Sunshine' mark in foreign markets. We hope to give our products in this way an international face.'*³⁸

*'For us marketing and the use of the Madrid System go hand in hand. When we export products in new markets we use the Madrid System because it is easier to use than filing a national application.'*³⁹

Does the use of the Madrid System translate into Market Power?

Legal protection at the global level does not necessarily equate to market power. On the other side, several firms had a significant advantage over competitors because the

³⁶ M. Philbert, 'Sanofi-Aventis', (1.12.2004)

³⁷ J. Li, 'Beijing Yunjing Futong Business & Trade Co. Ltd.', (16.1.2005)

³⁸ W. Qiang, 'Jiangsu Sunshine Group Ltd.', (31.12.2004)

³⁹ D. Aktsionerno, 'Balkanholding Pharma,' (25.11.2004)

Madrid System guaranteed them a presence in the market before there was a receptive market.

*'The Madrid System secures trademark protection abroad which is key to our marketing strategy... However the promotion of Chinese brands abroad takes time. It is relatively easy to open up a new market, but very difficult to increase the recognition of brands.'*⁴⁰

*'Trademark protection is key when we aim to enter a new market and are launching an advertising campaign.'*⁴¹

Henkel and several other European companies confirmed that they had their trademarks protected in Eastern Europe even before the political changes that occurred at the end of the 1990s that allowed them to penetrate the market more easily. When markets opened up, these firms fully profited from a first mover advantage.

*'We filed registration in Eastern Europe more than a decade before we entered the markets. Since costs were so low, it did not really matter. When communism fell we were already in the market before the market had even started!'*⁴²

*'Même si on n'a pas d'intérêt économique dans un pays, on protège la marque quand-même puisque ce n'est pas cher. Dans les pays de l'Est ça nous a donné un avantage significatif.'*⁴³

⁴⁰ W. Qiang, 'Jiangsu Sunshine Group Ltd.', (31.12.2004)

⁴¹ P. Parkhomchik, 'Belarus Minsk Tractor Works,' (9.12.2004)

⁴² B. Jäger, 'Henkel', (30.11.2004)

SMEs and Multinational Corporations use the Madrid System in different ways

While all companies use the Madrid System to anticipate sales and profits, big companies tend to protect their trademarks also in countries that may possibly not offer attractive business opportunities in the short run.

*'At Henkel we first file and then we see what happens.'*⁴⁴

*'We usually protect more than necessary since it is really cheap.'*⁴⁵

On the contrary, SMEs have a much tighter cost/benefit analysis before using the Madrid System. These different approaches to the use of the Madrid System suggest that the statistics on the use of the Madrid System should be read in a more cautious way. The top users of the Madrid System may not necessarily be the firms having the most influential brands.

'The use of the Madrid System is determined by an anticipation of expected sales.

*Profits need at least to cover registration fees. Before we use the Madrid System we make a valuation of expected returns and compare them to expected costs. Before we use the Madrid System we ask ourselves the following questions: Where will we sell? How do costs for protection compare to expected profits? Is there a country where we aim to sell in the future? In general, we always try to anticipate our future needs.'*⁴⁶

⁴³ M. Philbert, 'Sanofi-Aventis', (1.12.2004)

Translation: Even if we do not have a market interest in a given country, we protect the mark since it is really not expensive. In Eastern European countries this provided us with a significant advantage.

⁴⁴ B. Jäger, 'Henkel', (30.11.2004)

⁴⁵ J.P. Maeder and C. Lelieur, 'Nestle', (9.12.2004)

The Madrid System facilitates trademark management

The companies interviewed confirmed that the Madrid System positively impacts trademark portfolio management. It may hence be concluded that the System fulfils one of the main reasons why it was created.

*'The Protocol provides us with more flexibility when choosing which countries to protect... most important of all: the management of our trademark portfolio is significantly simpler, more efficient and less cumbersome.'*⁴⁷

However, trademark protection and the use of the Madrid System are generally not on the agenda of senior management. This may possibly be understood in the light of the fact that most companies have so far not succeeded in leveraging their trademarks as business assets and have missed out on important business opportunities that adequate trademark management may provide.

*'The Madrid System secures the Marketing strategy and the branding concept, but it is not a top management subject. It is a merely technical tool and nobody in the company is interested in how it works.'*⁴⁸

How Companies evaluate the Madrid System

Amongst the companies interviewed, the benefits of the Madrid System clearly outperform the improvement needed. Low costs and uncomplicated procedures are cited as the biggest advantages. Companies further explained that the design of the

⁴⁶ T. Graulund, 'Arlafoods', (16.12.2004)

⁴⁷ P. Parkhomchik, 'Belarus Minsk Tractor Works', (9.12.2004)

M. Philbert, 'Sanofi-Aventis', (1.12.2004)

⁴⁸ U. Over, 'Novartis', (19.11.2004), see also T. Graulund, 'Arlafoods', (16.12.2004)

System makes it particularly attractive for SMEs and companies operating in developing countries.

*'The Madrid System is very helpful to SMEs which don't have a lot of money, but still need a lot of protection. There is no need for expensive lawyers and it opens up new markets. Of course this is a bigger concept, but IP clearly is a part of it.'*⁴⁹

The business relevance of the System has been further increased through the membership of the U.S.A. and the E.U. For many companies, this will mean even smoother business operations.

*'The usefulness of the Madrid System has been reinforced through the membership of the European Communities and the U.S.A.'*⁵⁰

*'It widens the scope of countries for trademark registration and has become even more attractive now that the E.U. joined.'*⁵¹

Another major advantage of the Madrid System relates to the protection against trademark piracy and counterfeiting.

*'The Madrid System prevents confusion with our trademark in our target markets and provides a helpful safeguard mechanism.'*⁵²

⁴⁹ U. Over, 'Novartis,' (19.11.2004)

⁵⁰ B. Jäger, 'Henkel,' (30.11.2004)

⁵¹ P. Parkhomchik, 'Belarus Minsk Tractor Works', (9.12.2004)

⁵² J. Li, 'Beijing Yunjing Futong Business & Trade Co. Ltd.,' (16.1.2005)

*'Our trademark has been the subject of abuse. The Madrid System has allowed us to take legal action against this.'*⁵³

As to major deficiencies of the Madrid System, companies quoted that the system is still more formalistic than necessary, could be even quicker and that electronic filing systems are currently only partially in place.

*'While it allows to safe registration fees, it lacks flexibility.'*⁵⁴ (China National Cereals, Oils & Foodstuffs Imports & Exports Corp, 2005)

Compared to individual filing at the national level, the Madrid System is quick in providing a response, but time scales could be even shorter.

'Some countries are a little bit slow.' (Novartis, 2004)

'It takes a long time to file an opposition.' (Balkanholding Pharma, 2004)

'12 months of examination is better than 18 months.' (Nestle, 2004)

'The whole process is too long, as is the case with the registration process in China.' (Jiangsu Sunshine Group Ltd., 2004)

Moving from paper filing to electronic filing was also considered to be a major improvement that was needed.

⁵³ H.T. Anhui, 'Chinese Medicine Manufacturing Factory,' (15.1.2005)

*'Un enregistrement à travers internet n'est pas possible.'*⁵⁵ (Ste. Agriland, 2004)

Taking the Madrid System forward

Expanding membership of the system to cover more countries, raising further awareness about the business relevance of the Madrid System, and providing technical assistance to developing countries were considered to be the key challenges that lie ahead.

'The more countries join, the better.' (Nestle, 2004)

'It is our hope that all countries would become party to the Madrid Agreement.'

(Jiangsu Sunshine Group Ltd., 2004)

'More countries that Chinese companies target for exportation need to be party to the system, such as South East Asia, the Middle East and South America.' (CCPIT Patent & Trademark Law Office on behalf of TCL Corporation, 2005)

Overall, lack of knowledge about the enabling opportunities of the Madrid System was quoted as a major handicap among companies interviewed in Russia, Bulgaria and Poland. Companies in Latin America also confirmed this view.

'In Bulgaria, most companies don't know about the Madrid System. We are the biggest company in the country, so, of course, we know about it, but honestly SMEs don't even know that it exists.' (Balkanholding Pharma, 2004)

⁵⁴ H. Liu, 'China National Cereals, Oils & Foodstuffs Import & Export Corporation,' (20.1.2005)

⁵⁵ Translation: Internet registration is not possible.

*'Au Marocqu in n'y a pas assez d'entreprises qui savent que le système de Madrid existe. Il est donc nécessaire de répandre la communication.'*⁵⁶

According to users, there is a continuing need to bolster further training, capacity building and technical co-operation programs, after a country joins the Madrid System, for the enterprises, especially SMEs in the relevant country to benefit from the membership to the Madrid System. Companies need to be provided with a toolkit showing how, when and why to use the system.

CONCLUSION

The Madrid System is doing well, but can it do even better?

The empirical findings of this study suggest that users all over the world are generally satisfied with the value proposition of the system and confirmed that it is an important tool to manage trademarks at the international level and to expand business activities globally.

The empirical part of this paper also revealed that the architecture of the Madrid System may be even further tailored to customer needs. While even less formalistic procedures, electronic filing and possibly even shorter time scales (twelve months is better than eighteen months) are on the top of the wish list of the system's main users, firms operating in developing countries and countries in transition expressed a concern that the overall level of awareness of the enabling opportunities of the Madrid System continues to be low in the market.

⁵⁶ F. Fayzel, *'Ste. Agriland,'* (2.12.2004)

Translation: In Morocco there are not enough companies which know that the Madrid System exists. It is hence necessary to expand communication.

The latter point matters particularly with regard to expanding membership. WIPO has so far taken important steps –jointly with local IP offices- to raise awareness about the enabling opportunities of the Madrid System. Morocco may be quoted in this context as a successful case example. The significant amount of time and resources spent on explaining how the Madrid System facilitates trading activities helped the local companies to fully leverage the system. Over a period of 10 years international filing by Moroccan companies increased by 117%. (590 international marks registered in 2004) The increased workload resulting from international trademark application and renewal may also be met with an increased provision of human capacity and technical infrastructure, both at the national level and in the International Bureau at WIPO.

Checking the users’ arguments for the Madrid System against the arguments put forward in the literature also showed that companies associated the Madrid System much more with international trade than reported in the literature. It may, hence, be deduced that academic thinking is not yet fully in line with current market realities. We suggest that a further analysis of the Madrid System be done from a trading perspective.

To meet the differentiated demands of firms operating in differing market conditions, we also believe that there is a need for a further systematic analysis. If the Madrid System is to report even more impressive growth, its’ design needs to be even more user-driven. A more comprehensive survey would allow to gain a much better understanding of the needs of the customers’ concerns, which again may be fed into discussions taking place in Geneva on how to take the Madrid System forward. Clearly, companies varying in size, geographical distribution and market context do have different needs and request the system to fulfil different criteria. While it is undoubtedly a challenging task to meet the demands of business all over the world, we believe, however, that this challenge can be

overcome by listening closely and responding effectively to what business actually wants the Madrid System to do for them so as to continue to be relevant to their emerging needs and concerns.

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