

Special Union for the International Registration of Marks (Madrid Union)

Assembly

Forty-Ninth (21st Ordinary) Session
Geneva, October 5 to 14, 2015

MATTERS CONCERNING THE MADRID AND LISBON UNIONS: PROPOSAL OF THE UNITED STATES OF AMERICA TO THE MADRID ASSEMBLY

Document prepared by the International Bureau

1. In a communication dated September 3, 2015, a copy of which is set out in the Annex, the Delegation of the United States of America requested, amongst other, that its submission entitled "Matters Concerning the Madrid and Lisbon Unions" be made available as a working document for discussion at the Forty-Ninth (21st Ordinary) Session of the Madrid Union Assembly.

2. *The Assembly is invited to consider the communication in the Annex to this document.*

[Annex follows]

Dr. Francis Gurry
Director General
World Intellectual Property Organization
34, chemin des Colombettes
1211 Geneva 20
Switzerland

September 3, 2015

Dear Dr. Gurry:

In accordance with Rule 5(4) of the General Rules of Procedure of WIPO contained in WIPO Publication 399 (FE) Rev.3, the United States requests that the following proposals (enclosed) be added to the agendas of the Fifty-Fifth Series of Meetings of the Assemblies of the Member States of WIPO (Geneva, October 5 to 14, 2015), as proposals to be considered under the relevant agenda items, or as new agenda items, as appropriate:

- PCT Union Assembly: Matters Concerning the Lisbon Union;
- Madrid Union Assembly: Matters Concerning the Madrid and Lisbon Unions;
- WIPO General Assembly: Matters Concerning the WIPO Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT);
- WIPO General Assembly: Matters Concerning the Administration of the Geneva Act of the Lisbon Agreement; and
- WIPO General Assembly: Matters Concerning the Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore (IGC).

The United States also requests that the draft agenda (document WO/55/1 Prov. 2) be re-ordered so that the "Global Intellectual Property Services" (agenda items 19-23), upon which WIPO's budget is predominantly dependent, appear before the "Program, Budget and Oversight Matters" (agenda items 10-11).

I would be grateful if you could please provide me with a copy of the revised version of the draft agenda including these items and re-ordered pursuant to this request.

Sincerely,



Deborah Lashley-Johnson
Intellectual Property Attaché
United States Mission to the World Trade Organization

Enclosures

Matters Concerning the Madrid and Lisbon Unions

Proposal of the United States of America to the Madrid Assembly

The United States proposes a decision for consideration at the Forty-Ninth (21st ordinary) Session of the Madrid Union Assembly that would:

- 1) Direct that Madrid Union fee income and reserves shall not be used to fund the Lisbon Union direct or indirect expenses, absent specific authorization by the Madrid Union to do so; and
- 2) Direct the WIPO International Bureau to properly implement the financial terms of the Madrid Agreement Concerning the International Registration of Marks (“Madrid Agreement”) and the Madrid Protocol which provide for any excess revenue to be returned to the contracting parties of the applicable agreement.

The Lisbon Union has been operating at a financial deficit for many years, if not from its inception.¹ In addition to accumulating a deficit regarding its own direct expenses, the Lisbon Union has not been contributing, or has been contributing very little, to expenses common to the unions.² Moreover, unlike the Patent Cooperation Treaty (PCT) Union, Contracting Parties to the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (“Lisbon Agreement”) have never paid contributions³ to the Lisbon Union or established a consistent reserve fund or a working

¹ See, e.g., AB/II/3 (1971), Annex A, page 12 (http://www.wipo.int/mdocsarchives/AB_II_1971/AB_II_3_E.pdf): “As regards the Lisbon Union, the accumulated deficit at December 31, 1969, amounted to...15,261.32 francs,” which was “provisionally covered by an interest-free advance granted by the Swiss Government.”; AB/IV/34 (1973), page 6, paragraph 35 (http://www.wipo.int/mdocsarchives/AB_IV_1973/AB_IV_34_E.pdf): “[A]s regards the deficit of the Lisbon Union, the outlook was not clear in view of the insignificant number of registrations but, for the time being, the deficit was covered by advances from the Swiss Government...”; AB/XX/2 (1989), page 2, paragraph 9 (http://www.wipo.int/mdocsarchives/AB_XX_1989/AB_XX_2_E.pdf): “As in the past, the very small income of the Lisbon Union...will be used to cover its very small expenses, whereas any excess expenditure will be carried forward to future budgetary periods.”; and LI/A/X/1 (1993), page 1-2, paragraphs 2 & 4: “As of December 31, 1991, the Lisbon Union had an accumulated deficit of 24,675 francs. That deficit resulted from the fact that the very small income of the Union has not been sufficient over the last several bienniums to cover the expenses of the Union....The deficit of the Lisbon Union was 12,316 francs at the end of 1985, and increased to 15,372 francs at the end of 1987, to 20,129 francs at the end of 1989, and to 24,675 francs as of the end of 1991.” (http://www.wipo.int/mdocsarchives/AB_XXIV_1993/LI_A_X_1_E.pdf)

² See, e.g., AB/VI/2 (1975), page 26, Para 101 (http://www.wipo.int/mdocsarchives/AB_VI_1975/AB_VI_2_E.pdf): “Common Expenses. The Union will continue to bear a small percentage of common expenses. However, the sums involved are too small to be shown in each of the DC Tables (in which amounts are rounded to the nearest 1,000 francs). It is estimated that contributions to common expenses will be 5,000 francs for the year 1976 and this amount is shown under DC.34 ‘Miscellaneous and Unforeseen.’”; and AB/XX/2, Annex A, page 58 lists the Lisbon Union as financed by the budgets of the Madrid and Hague Unions, noting “[t]he volume of the above tasks under (c) [Lisbon registrations] and (d) [Article 6ter notifications] is so small that the Lisbon and Paris Unions do not participate in the expenses of these Registries.”

³ See, e.g., AB/XX/2, Annex S, Table Indicating the Share of Each State in the Various Contributions In Each of the Two Years of the Biennium 1990-91, which lists the member state contributions to the “Program Unions” of Paris, Berne, IPC, Nice, Locarno, Vienna, and WIPO. The Registration Unions are discussed separately but there is no reference to the contributions of the Lisbon Union members.

capital fund so as to fund the expenses of the Lisbon Agreement or its share of the the World Intellectual Property Organization's (WIPO's) indirect expenses.⁴ The reporting by World WIPO regarding the financial operations of the Lisbon Union does not present a clear picture of that Union's finances. In some years, the budget does not list the income and expenditures of the Lisbon Union at all.⁵ However, the WIPO Program and Budget Report resumed reporting the income and expenditures of the Lisbon System in 2008, which show that the Lisbon System has continued to accrue a substantial deficit. For 2014, this deficit of reported income and expenses was 531,000 CHF. Lisbon Union members have attributed this deficit with the meetings that were held to revise the Lisbon Agreement, but the Lisbon Union's deficit issues long predate the revision process. In 2014, when the Secretariat proposed the first increase in Lisbon fees since 1994, the proposal clearly stated that "fee income is by far not sufficient to cover the expenses of the International Bureau for maintaining the international registration service of the Lisbon System: 98 per cent of the abovementioned income of the Lisbon Union is from other sources than fees, including from its share in the miscellaneous income of WIPO."⁶

Over the years, the Lisbon deficit has not been financed by the main income sources identified in the Lisbon Agreement Article 11(4): fees have not been increased in 20 years and the contributions by Contracting Parties required under the treaty have never been assessed since the treaty went into force in 1966. This is the case even though Article 11(4)(b) directs that "[t]he amount of the said fee shall be so fixed that the revenue of the Special Union should, under normal circumstances, be sufficient to cover the expenses of the International Bureau for maintaining the international registration service, without requiring payment of the contributions referred to in paragraph (3)(v), above." Under Article 11(4)(a), the Director General and the Lisbon Assembly, respectively, bear the responsibility of proposing and enacting fee increases for the Lisbon Union.

The ongoing and growing deficit appears to have been financed from sources other than those identified in Article 11(3) of the Lisbon Agreement.⁷ We understand that the Lisbon Union deficit is being financed by the Patent Cooperation Treaty (PCT) and Madrid System for the International Registration of Marks (Madrid System) international registration systems.⁸ We have serious concerns that this deficit financing scheme is in contravention of the treaty obligations of the Madrid Agreement and Protocol.

⁴ See, e.g., AB/II/3, Annex A, page 15, paragraph 3.6.5 "The [Hague and Lisbon] Unions have no reserve funds."; and AB/7/6 (1976), page 6, paragraph 28 (http://www.wipo.int/mdocsarchives/AB_VII_1976/AB_VII_6_E.pdf): "Lisbon Union. The Stockholm Act of the Lisbon Agreement provides, in Article 11(7), for the creation of a working capital fund. Since, however, the yearly budget of this Union is insignificant (around 8,000 francs in 1976), the creation of a working capital fund would be more of a nuisance than it would be worth, and the Director General intends to come back to this matter only if and when the budget of this Union considerably increases."

⁵ See, e.g., AB/XX/2 (1989), Annexes V – W.

⁶ LI/A/31/2 (2014), page 3, paragraph 10 (http://www.wipo.int/edocs/mdocs/govbody/en/li_a_31/li_a_31_2.pdf).

⁷ See, e.g., AB/XX/2, Annex A, page 58, listing the Lisbon Union registration activities under the heading "INTERNATIONAL TRADEMARK AND INDUSTRIAL DESIGN REGISTRIES," that are "[f]inanced from the budgets of the Madrid and Hague Unions".

⁸ This understanding was confirmed by the WIPO Comptroller during the May 2015 diplomatic conference of the Lisbon Agreement.

The WIPO practice of allocating indirect expenses (common expenses) according to a union's "ability to pay" means that underperforming unions are not held responsible for their indirect expenses and the successful unions such as the PCT and Madrid Unions are forced to pay an increased amount of all of the unions' indirect expenses.⁹ Ultimately, this treatment of common expenses is inconsistent with Article 12 of the Madrid Agreement and uses excess revenues that should have been returned to Madrid Contracting Parties under Article 8 instead to fund the Lisbon Union's indirect and direct expenses. Article 12 of the Madrid Agreement provides that the Madrid Union shall contribute to common expenses of the unions which it defines as "[e]xpenses not attributable exclusively to the Special Union but also to one or more other Unions administered by the Organization," and which are to be paid "in proportion to the interest the Special Union has in them."¹⁰ However, the budget documents define "common expenses" for the Madrid Union inconsistently with Article 12 because the Lisbon Union's direct and indirect expenses, which cannot be considered a common expense to the Madrid Union or the PCT Union, have been allocated nearly entirely to these unions. (This practice stands in stark contrast to the relationship between the Madrid and Hague Unions wherein the Madrid Union took a specific decision to loan money to the Hague Union, rather than having its revenue quietly allocated to cover Hague Union expenses without an express decision to do so as is the case with respect to Lisbon Union expenses.)

In deciding to forgo the advice of the Coordination Committee in 2014, Members of the Lisbon Assembly specifically decided that its actions were of no interest to other unions.¹¹ It is not possible now for the

⁹ See Annex III of the Proposed Program and Budget report for 2016/17. For an explanation of "Union Direct" and "Union Indirect" expenses, see Proposed Program and Budget Report 2016/17, pages 179 and 180, paragraphs 3 and 4.

¹⁰ Incorporated by reference in Article 12 of the Madrid Protocol, Article 12(1) of the Madrid Agreement reads:

- (a) The Special Union shall have a budget.
- (b) The budget of the Special Union shall include the income and expenses proper to the Special Union, its contribution to the budget of expenses common to the Unions, and, where applicable, the sum made available to the budget of the Conference of the Organization.
- (c) Expenses not attributable exclusively to the Special Union but also to one or more other Unions administered by the Organization shall be considered as expenses common to the Unions. The share of the Special Union in such common expenses shall be in proportion to the interest the Special Union has in them.

¹¹ WIPO Coordination Committee, Seventieth (45th Ordinary) Session, Geneva, September 22 to 30, 2014, REPORT, (WO/CC/70/5), see paragraphs 42-65, including the intervention from the delegation of the Czech Republic on behalf of CEBS group: "The members of the Lisbon Union Assembly considered Article 9(2)(b) of the Lisbon Agreement as not applicable, since the decision was not a matter of interest to other Unions administered by the Organization." (para 58) and "The Delegation of Hungary supported the statements made by the Delegations of France and Italy and took note of the proposal by the Delegation of the United States of America for a supplementary agenda item. Nevertheless, the Delegation clarified that the inclusion of such agenda item did not in any way imply that the Delegation of Hungary could agree with the necessity for the Coordination Committee to provide advice on the matter, as its view was quite the opposite. The Delegation recalled that the Lisbon Union Assembly had taken a valid decision to convene a diplomatic conference in 2015. At the time of the adoption of such decision the members of the Lisbon Union, including the Delegation of Hungary, had taken the view that the interests of the other Unions administered by WIPO would not be affected and that by way of consequence Article 9(2)(b) of the Lisbon Agreement would not be applicable and that the advice of the Coordination Committee would not be required." (para 46). Accessed at http://www.wipo.int/edocs/mdocs/govbody/en/wo_cc_70/wo_cc_70_5.pdf

Lisbon Union to take a contrary position simply in order to receive Madrid's excess receipts. Under Article 8(4) of the Madrid Agreement, these excess revenues should be divided amongst the contracting parties.¹²

Finally, a large part of the Lisbon Union's alleged "income" is not from fees, but is "miscellaneous income." We understand that the miscellaneous income is largely rent paid by UPOV for their use of the WIPO main building. For many Proposed Program and Budget reports, the Secretariat allocated this "income" equally across all unions. We challenge the fairness of this distribution, as the building that generates this income was not paid for by the Lisbon Union, but was paid for by the PCT and other unions, in non-equal amounts. Emphasizing that the Unions should not receive equal shares of the "other income" is the Madrid Union's receipt of a larger share because its funds were used to purchase the Meyrin building.

If an income-producing union is deemed by the International Bureau to have an "inability to pay" its own direct and indirect expenses due to its own refusal to meet the financial terms of its own agreement as well as the failure of the International Bureau to manage the budget of that union, it should not receive an equal share of income generated and maintained by the other unions. In other words, if the Lisbon Agreement is of "no interest" to the other unions--as explicitly stated by the Lisbon Union members in 2014 when they decided to have a closed diplomatic conference with the unreasonable expectation that it should be nonetheless funded by the budgets of the other unions--then going forward, the budgets of those other unions should not be used to fund its operations.

The Madrid Union Assembly is invited to decide that:

1) The Madrid Union fee income and reserves shall not be used to fund the Lisbon Union direct or indirect expenses, absent consent by the Madrid Union to do so.

2) The WIPO International Bureau must properly implement the financial terms of the Madrid Agreement and the Madrid Protocol which provide for any excess revenue to be returned to the contracting parties of the applicable agreement.

[End of Annex and of document]

¹² Article 8(4), incorporated by reference into Article 12 of the Madrid Protocol, directs that "[t]he annual returns from the various receipts from international registration, with the exception of those provided for under (b) and (c) of paragraph (2), shall be divided equally among the countries party to this Act by the International Bureau, after deduction of the expenses and charges necessitated by the implementation of the said Act."