Bad faith: Are developments in Luxembourg making the waters become less muddy?

Cases cited:

- POLLO TROPICAL CHICKEN ON THE GRILL
  (01.02.2012, T-291/09, Pollo Tropical chicken on the grill, EU:T:2012:39)
- (28.02.2013, C-171/12 P, Pollo Tropical chicken on the grill, EU:C:2013:131)
- MALAYSIA DAIRY (27.06.2013, C-320/12, Malaysia Dairy, EU:C:2013:435)
- SIMCA (08.05.2014, T-327/12, Simca, EU:T:2014:289)
- Judgment of 11 July 2013, in Case T-321/10; GRUPPO SALINI / SALINI
- PELICAN (17.04.2008, T-389/03, Pelican, EU:T:2008:114)
- LINDT GOLDHASE (11.06.2009, C-529/07, Lindt Goldhase, EU:C:2009:361)
- BIGAB (14.02.2012, T-33/11, Bigab, EU:T:2012:77)

Synopsis

Over the past two years the GCEU has handed down two important judgments concerning the topic of 'bad faith'. In *Gruppo Salini*, family squabbles in Italy in a corporate context provided the backdrop for clarification of an objective dimension to the subjective notion of bad faith. The Court went even further in *Simca*, where an ex-employee of the once famous and now defunct French car company Simca, was held to have acted in bad faith by filing a mark of the same name.

This has made a refreshing change from the approach in the *Pelican* judgment which, citing the *Lindt* and *Bigab* judgments, allows a company or individual to reproduce its earlier marks, making only slight alterations to the representation and the list of goods and services, and obtain valid registrations.

On the other hand, when it comes to marks that are registered in third countries and then filed in almost identical form in the EU, the Court is less willing to find bad faith. Thus, in *Pollo Tropical* the CJEU confirmed the lower court's finding that the Italian owner of a pizzeria in the Canary Islands had not acted in bad faith by making a virtual carbon copy of the sign used by a restaurant in Miami, USA. The Court also found in its judgment in *Malaysia Dairies Malaysia Dairy Industries Pte. Ltd* v *Ankenævnet for Patenter og Varemærker*, Case C-320/12 that all EU member states must have a uniform interpretation of the concept of bad faith and that a Member State may not introduce a specific protection of third country marks based on bad faith being established where the applicant knew or ought to have known of the existence of that mark.

The presentation will argue that while life is getting better for bad faith litigants in an EU context, a third country dimension remains problematic. A brief examination will be made of why third country litigants may continue to expect a raw deal.

Introduction

This paper starts by considering what clarity legislation and case law has brought to the matter of bad faith. More specifically, analysis is made of the stage of proceedings before OHIM at which bad faith may be invoked; the point at time bad faith is evaluated; what is meant by the term bad faith; what elements do and do not indicate bad faith; burden of proof and consequences of a finding of bad faith. Next, two cases considering EU litigants ('Gruppo Salini' and 'Simca') are considered and contrasted with two cases in which one or both of the litigants were third country nationals and the earlier mark(s) was a third country registration ('Pollo Tropical' and 'Malaysia Dairy').

Bad faith as an absolute ground of invalidity

The CTMR considers bad faith only as an absolute ground in invalidity proceedings concerning a Community trade mark. It may be raised by means of an application to OHIM or by filing a counterclaim in an infringement action (Article 52 (1)(b) CTMR).

It follows that bad faith is not relevant in examination or opposition proceedings (see judgement of 17 December 2010, T – 192/09,'Seve Trophy', para. 50). Although the legal reform to the CTMR may change this situation[1].

When is bad faith to be evaluated?

The examining authority must determine whether the holder of the Community trade mark acted in bad faith at the time of filing the trademark application. However it may also be appropriate to take into account:

- facts and evidence prior to the trade mark application in order to construe the intention of the trade mark holder at the time of applying for the mark;
- Facts and evidence subsequent to the trade mark registration (in particular, whether the holder has used or not the mark since obtaining the registration) may also serve to demonstrate the holder's intention at the time of filing the application.

The concept of bad faith

The CTMR does not define, restrict or describe the concept of bad faith (see opinion of AG Sharpston of 12 March 2009 in case C – 529/07, 'Chocoladenfabriken Lindt & Sprüngli).

In that case Advocate General Sharpston stated that the concept of bad faith involves 'conduct which departs from accepted principles of ethical behaviour or honest commercial and business practices, which can be identified by assessing the objective facts of each case against such standards' (para. 60 of the opinion).

[1] Proposal COM (2013) 161 of 27 March 2013) states: "Upon opposition by the proprietor of the trade mark, a trade mark shall not be registered….where the trade mark is liable to be confused with an earlier trade mark protected outside the Union, provided that, at the date of the application, the earlier trade mark was still in genuine use and the applicant was acting in bad faith."

In its response to the preliminary reference made in C-320/12, 'Malaysia Dairy Industries', the CJEU stated that bad faith is an autonomous concept in EU that has to be interpreted in a uniform manner throughout the EU (para. 29).

Factors indicating bad faith

Three factors are particularly important:

1. **The identical nature or similarity of the signs that gives rise to a likelihood of confusion.**

However, the identical nature of the sign, own its own, is insufficient ('Pollo Tropical Chicken on the Grill', judgment of 1 February 2012, T-291/09).

2. **Knowledge of the use of an identical sign or of a similar sign that gives rise to confusion.**

The holder of the CTM knew or ought to have known of use of an identical sign or of a similar sign that would give rise to confusion. Thus, when, for example, the parties have had a commercial relationship the CTM proprietor 'could not be unaware, and was probably informed that the invalidity applicant had been using the sign for a long time' (judgment of 11 July 2013, T-321/10, Gruppo Salini, para. 25).

Similarly, when the reputation of the sign, including where it is a 'historical' mark, is a well known fact (judgment of 8 May 2014, T-327/12, SIMCA, para. 50)

Knowledge may be presumed ('ought to have known') on the basis, inter alia, of a general knowledge of the economic sector in question or by reference to the duration of use. The longer a sign has been used, the more probable it is that the CTM holder knew it (Lindt, para. 39).

However, it is more difficult to presume such knowledge if the sign was registered outside the EU and a short period of time has gone by between the application for registering the mark in a third country and the application for registration in the EU (Pollo Tropical, para. 61).

3. **An intention of unfair competition on the part of the holder of the CTM**

This is a subjective factor that must be determined by reference to objective circumstances (Lindt, para. 42). Various factors may be important:

- There will be bad faith where it can be deduced that the CTM holder's intention was to exploit in a parasitic way and take unfair advantage of the reputation of the registered marks of the invalidity applicant.
- Where it is clear that after the registration of the mark the sole intention of the holder was to prevent third parties coming onto the market, this will be an indication of unfair competition (Lindt, para. 44).
- Where there is a commercial logic to registering the CTM (for example, a laying down a 'commercial trajectory') and where it may be assumed that the holder intended to use it (for

example, through a licence agreement), this will be an indication that there was no intention of unfairness (Pollo Tropical, paras 58 and 67).

- The same will also be true if the CTM holder had a commercial incentive to protect the mark in the widest possible territory (judgment of 14 February, T-33/11, BIGAB, paras. 20 and 23).
- The existence of a direct or indirect relationship between the parties prior to the registration of the trade mark can be an indication of bad faith (Pollo Tropical, 85-87; Gruppo Salini, 25-32).
- Where the holder tries artificially to extend the 'grace period' in which there is no obligation of use (for example, by filing a repeat application for the same mark in order to avoid the consequences entailed by total or partial revocation of earlier trade marks for reasons of non-use) that fact is something which may be taken into account in order to assess whether the proprietor acted in bad faith (judgment of 13 December 2012, T-136/11, Pelikan, para. 27). This situation is very different from the one in which the trade mark holder, in accordance with normal business practice, tries to protect various variations of its sign, for example, where the logo has evolved over time (Pelikan, para. 36 et seq.)
- Account may also be taken of the circumstances surrounding creation of the sign at issue and its use since creation, and of the commercial logic underlying the filing of the application for registration of that sign as a Community trade mark (BIGAB, para. 21 et seq.; SIMCA, para. 39).
- '…The nature of the mark applied for may also be relevant to determining whether the applicant is acting in bad faith. In a case where the sign for which registration is sought consists of the entire shape and presentation of a product, the fact that the applicant is acting in bad faith might more readily be established where the competitors' freedom to choose the shape of a product and its presentation is restricted by technical or commercial factors, so that the trade mark proprietor is able to prevent his competitors not merely from using an identical or similar sign, but also from marketing comparable products' (Lindt, para. 50).

Other important factors in determining the existence of bad faith

- The degree of distinctiveness – inherent or acquired – of the sign of each of the parties as well as the extent of the reputation, including where it is merely a 'certain surviving reputation' (SIMCA, paras. 40, 46 and 49).
- A demand for financial compensation made by the trade mark holder to the invalidity applicant may be relevant if there is evidence that the trade mark holder knew of the existence of the earlier sign and could expect — not altogether unrealistically — to receive an offer of financial compensation (SIMCA, para. 72).
- A proposal for financial compensation in a disproportionate amount (e.g., USD 5 million) for the transfer of the Community trade mark, made by the CTM proprietor to the invalidity applicant, 'whilst considerable, does not by itself establish bad faith on the part of the [CTM proprietor] in the present case at the time the mark at issue was filed' (Pollo Tropical, T-291/09, para. 88).

Factors that generally do not indicate bad faith

- Extending the protection of a national mark by registering it as a CTM is within the normal business strategy of an undertaking (BIGAB, para. 23, Pollo Tropical, para. 58)

- Bad faith cannot be based on an extension of the list of products and services applied for (judgment of 7 June 2011, T-507/08, 16PF).
- There is no presumption of bad faith flowing from the fact that the holder of various national marks decides to apply for a CTM for only one of them (BIGAB, para. 29).

Burden of proof of bad faith

- Where the applicant for a declaration of invalidity seeks to rely on that ground, it is for that party to prove the circumstances which substantiate a finding that the Community trade mark proprietor had been acting in bad faith when it filed the application for registration of that mark (see Case T-33/11 *Peeters Landbouwmachines* v *OHIM – Fors MW (BIGAB)* [2012] ECR II-0000, paragraph 17).
- There is a presumption of good faith until proof to the contrary is adduced (Pelikan, para. 57).
- The invalidity applicant must demonstrate that bad faith existed on the part of the CTM proprietor at the time he applied for the CTM. For example, it may be shown that the proprietor had no intention of using the mark or was trying to avoid a third party entering on the market.

Effects of a finding of bad faith

Where the bad faith of the CTM proprietor is found to have existed, the CTM is declared invalid *in toto*, including for goods and services which are not related to those protected by the invalidity applicant's mark (Gruppo Salini, para. 48).

However, where the invalidity applicant successfully directs the request for a declaration of invalidity against only some of the goods or services, only those goods or services will be cancelled.

Are all litigants equal when it comes to establishing bad faith?

The question is hard to answer. The application of bad faith is fact specific. A body of case law has now started to build up which establish specific criteria for finding bad faith and thus help clear waters which were hitherto rather murky or muddy. However, the rules that have been described above do seem to have been applied with various nuances and distinguishing factors when it comes to third country litigants.

To demonstrate this point four cases are considered: 'Gruppo Salini' and 'Simca', in which the parties are EU nationals and the signs are earlier rights in the EU and 'Pollo Tropical' and 'Malaysia Dairy', in which one or both of the litigants were third country nationals and the earlier mark(s) registered in a third country.

Judgment of 11 July 2013, in Case T-321/10, GRUPPO SALINI / SALINI

This case is perhaps somewhat atypical in that the parties involved were members of the same family and were in the same group of companies. However, as is so often the case, the preexisting relations between the parties seems to have been at the root of the trouble, with the CTM holder trying to take advantage of a period of weakness in the invalidity applicant company.

The General Court upheld the findings of the Board of Appeal, invalidating a CTM for the word mark 'GRUPPO SALINI' on the ground of bad faith at the time of filing the contested mark. The Court found that the CTM owner could not ignore, and was probably aware of, the fact that the invalidity applicant had been using the sign 'SALINI' (alone or in combination with the word 'COSTRUTTORI' meaning 'builders') both in Italy and abroad for a long time in respect of building activities and the of public infrastructure planning activities.

It had been shown that the directors of the CTM proprietor were not only members of the (extended) Salini family, but were also sitting on the board of directors of the invalidity applicant. One of them had, in fact, acted as chairman of the board of directors between 2000 and 2003. They were, therefore, in a position to influence the business strategies of the invalidity applicant, including the choice of applying to register, or not register, the SALINI trade mark, that had been in use for several decades.

The Court paid particular attention to the timing of events and noted that the CTM proprietor had filed the contested mark only a few months after the start of (on-going) Italian court proceedings between the same parties and had thus taken advantage of a period in which there was some legal uncertainty. This period of uncertainty also coincided with a phase of rapid growth, both domestically and internationally, of the invalidity applicant in which there was a good degree of instability within the invalidity applicant company. The GC thus held that the CTM owner could not possibly be unaware of the potential damage that the filing of the contested mark would imply for the invalidity applicant's business strategies.

It was also apparent that the invalidity applicant had not registered the sign 'SALINI' because it believed that its prior use of the sign conferred it legal ownership under Italian law and also that it was willing to observe a 'gentlemen's agreement' that had been in force between the various members of the Salini family and which meant that they could use the name Salini to distinguish their different business activities, but not attempt to register it.

It was further noted that the invalidity applicant had adopted an ethical code, which referred to 'Gruppo Salini' and was binding on all the members of the group of companies (including the CTM propietor) and that the expression 'Gruppo Salini' designated the invalidity applicant and any other company controlled by it (i.e. also the CTM owner). The CTM proprietor was aware of that code at the time the CTM application was filed.

Finally, the Court confirmed the Board's finding that the existence of bad faith at the time of filing entails the invalidity of the contested mark in respect of all of the services covered by it and not just those which are similar to the earlier right.

While the finding of bad faith was undoubtedly correct on the facts of this case, it does seem that the Court took a somewhat moralistic approach and was willing to take ethical codes and even gentlemen's agreements into account as circumstances that could contribute to bad faith. That same ethical approach was apparent in the next case, where seeking financial compensation in return for giving up the offending CTM was seen as unacceptable behaviour, rather than a negotiation technique.

Judgment of 8 May 2014, in Case T-327/12, SIMCA

A former employee of Automobiles Peugeot, the company manufacturing Simca brand cars up until the 1970s, registered a CTM for the word sign 'SIMCA' for 'vehicles' in Class 12.

Peugeot Citroen, the successor of Automobiles Peugeot, brought a cancellation action on the basis of Article 51(1)(b) CTMR[2]. The invalidity applicant argued that, although it had not manufactured Simcas since the late 1970s, the brand had been created in 1934 and was still well-known. Thus, its rights were maintained.

Having worked for the owners of the brand, the CTM proprietor was aware of the mark and had purposely tried to find an unused mark to market electric bicycles and, subsequently, niche motorised vehicles. When asked to surrender the CTM, the CTM proprietor refused to do so unless given financial compensation. The invalidity applicant argued that the registration had been made in bad faith with the sole objective of preventing Peugeot from marketing vehicles under the SIMCA name. It relied on an earlier international registration for the mark SIMCA, which designated a number of EU Member States (going back, in some cases, to 1959).

The Board of Appeal upheld the cancellation action, finding that Peugeot had prior rights and that, although it had stopped manufacturing vehicles under the SIMCA name in the 1970s, the brand nonetheless enjoyed a reputation in relation to motor vehicles and that the sole purpose of the registration application was to 'free-ride on the reputation of [the invalidity applicant's] registered marks and to take advantage of the good reputation of those marks through the deliberate unlawful use of the sign SIMCA'.

The Board's decision was confirmed General Court. The Court confirmed that bad faith is to be analysed by making an overall assessment of the relevant factors, including the fact that the applicant knew or should have known that a third party had been using, in at least one Member State, an identical or similar sign for identical or similar products liable to be confused with the contested sign. Furthermore, Court confirmed that the intention of preventing a product from being marketed can be indicative of bad faith. In this case, the CTM proprietor was aware of the brands' reputation. Moreover, the facts established that the CTM proprietor's real intention in registering the mark was to 'free-ride' on and take advantage of SIMCA's residual reputation.

This case is interesting in the way that it demonstrates the potential for bad faith in a free riding context. It also demonstrates that a historic reputation may need to be protected, even if the marks are not in use for their primary intended purpose. Here, the SIMCA mark had been used for vehicle manufacturing but it was clear that there was still a trade in spare parts for these cars among collector enthusiasts.
However, the concern for business ethics and preventing the taking unfair advantage does not seem utmost when earlier rights outside the EU are involved.

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[2] A Community Trade Mark shall be declared invalid where the applicant was acting in bad faith when he filed the application for the trade mark.

Looking at the Pollo Tropical judgments and the preliminary ruling in the Malaysia Dairies case, one cannot help but conclude that the fact that there is an earlier mark, or even earlier marks, in one or more third countries is not fatal to trade mark registration in the EU. Whilst it is undeniable that bad faith cases very much stand on their own particular facts, it does seem perplexing that in cases like Salini where awareness of use of the earlier sign was a crucial factor, in the Pollo Tropical case the General Court sought to downplay the awareness factor on the basis of a short period between registration of the earlier mark and the filing of the offending sign. In the Malaysia Dairy case, awareness of the earlier foreign mark(s) does not appear to have played a role.

Preliminary ruling of 27 June 2013, in Case C-320/12, Malaysia Dairy Industries Pte. Ltd v Ankenævnet for Patenter og Varemærker (C-320/12) –

In the Mayalsia Dairy ruling, the CJEU considered the effect of earlier foreign trade marks on the registrability of trade marks in an EU Member State. The ruling is set in the context of a referral by the Supreme Court of Denmark, concerning the interpretation of 'bad faith' under Article 4(4)(g) of the Trade Mark Directive[3]. The CJEU ruled that bad faith was not automatically implied by the prior existence of a similar or identical mark in a foreign state.

In 1965, Yakult obtained in Japan, the registration of a model or design of a plastic milk bottle, which was subsequently registered in a number of other countries. Malaysia Dairy registered a similar three dimensional trade mark in Denmark of a plastic milk bottle it had registered in Malaysia in the 1980s. Yakult applied to have Malaysia Dairy's new mark revoked on the grounds that the application was in bad faith because of Yakult's earlier marks in other jurisdictions. Yakult was unsuccessful before the Danish Patent and Trade Mark Office but succeeded at the first level of on appeal. The decision was appealed again and the case eventually came before the Danish Supreme Court. They referred the following three questions to the CJEU:

1. Is bad faith a concept of European Union law that must be given uniform interpretation throughout that territory?
2. Is the knowledge, actual or presumed, of a prior mark in a foreign state that is likely to be confused with the mark applied for, sufficient to establish bad faith?
3. Does Article 4(4)(g) of the Trade Mark Directive allow Member States to introduce specific protection for foreign marks based on the fact that the applicant knew or should have known of a foreign mark?

The CJEU answered the first question by observing that Trade Mark Directive does not require full approximation of trade mark laws throughout the EU. Nevertheless, where a substantive rule is of central importance to the functioning of the internal market, it must be given uniform interpretation by Member States as an autonomous concept of European Union law. This is the case of bad faith.

[3] 'Any Member State may, in addition, provide that a trade mark shall not be registered or, if registered, shall be liable to be declared invalid where, and to the extent that …(g) the trade mark is liable to be confused with a mark which was in use abroad on the filing date of the application and which is still in use there, provided that at the date of the application the applicant was acting in bad faith'.

As to the second question, the CJEU held that to determine the existence of bad faith, it is necessary to carry out an overall assessment, taking into account all the relevant factors of the case at the time of filing the application. The fact that the applicant for the contested trade mark knew or should have known that a third party was using a confusingly sign is not sufficient, in itself, to come to the conclusion that the mark was applied for in bad faith.

Finally, regarding the third question, the CJEU responded that Member States are prohibited from introducing grounds of refusal or invalidity other than those set out in the Trade Mark Directive. As a result, the CJEU held that Member States are not permitted to introduce a system specifically protecting foreign marks.

Being a preliminary ruling, the judgment does not give a pronouncement on the facts of the case but rather focuses on guiding principles for the referring court. While it would be hard to argue with the guidance that the notion of bad faith should be interpreted in the same way throughout the EU, it does seem that the message from the Court is not upbeat for the owners of third country rights. If a party registers a mark which is identical to one registered in a third country and for the same goods and services, then even if the registrant knew that the mark was registered in a third county, this will not give rise to an automatic presumption of bad faith. Member States cannot bring in specific legislation to protect third country registrants against such an eventuality.

The approach in the Malaysia Dairy case echoes that in Pollo Tropical. In that case not only was the identical nature of the signs not enough to find bad faith but also the additional factors of seeking substantial financial compensation was not able to serve as a contributory factor for finding bad faith.

POLLO TROPICAL CHICKEN ON THE GRILL

The registration as a CTM of a highly figurative mark for POLLO TROPICAL CHICKEN ON THE GRILL which was virtually identical (see below) to an earlier US trade mark (filed in respect of restaurant services), with an alleged reputation was not sufficient to presume bad faith on the part of the CTM proprietor. Even the demand of $5 million for transfer of the CTM did not raise such a presumption, where neither the reputation of the earlier mark nor the applicant's knowledge of its existence had been proved.

By an apparently incredible stroke of fate, Mr Giulio Gambettola, a restaranteur operating in Tenerife, first filed a Spanish mark for Class 42 services, which he followed up with a CTM for Classes 25, 41 and 43 and which were both almost the spitting image of the invalidity applicant's US mark.

The General Court accepted very weak evidence from Mr Gambettola that there was a commercial intention to licence the mark and that there were therefore legitimate reasons registering the CTM. Relevant to this was the fact that the CTM proprietor had first applied for the Spanish mark and then progressed to a CTM for the same sign.

The earlier Spanish trade mark was considered to demonstrate commercial continuity, even though that mark had been applied for two months after the earlier US trade mark (and also allegedly in bad faith). However, the Board of Appeal had held that any bad faith at the time of application of the earlier Spanish trade mark could not be taken into account, since it could only be assessed by the Spanish authorities.

Moreover, the CTM proprietor had signed a licence agreement for its mark and, even though this had not yet been put into effect, the General Court found that it showed an intention on the part of the CTM proprietor to develop its commercial activities.

The Court was also unconvinced by the evidence of 'repute' of the earlier US trade mark and found that the two-month period between the US registration and the Spanish application was short. Awareness of that earlier registration could not be proved.

Significantly, two earlier UK national marks had also been relied on, but the invalidity applicant was unable to prove use. The General Court therefore found that the US company was the one who had failed to prove an intention to use its marks, not the CTM proprietor.

This judgment of the General Court was appealed to the Court of Justice but was confirmed.

Conclusion

While it is possible that swifter action by the invalidity applicant (the CTM had been published in 2003 but the invalidity claim was only filed in 2007) and better evidence of reputation might have given a different result in the Pollo Tropical case, the Malaysia Dairy and Pollo Tropical cases tend to suggest that third country trade mark proprietors will have a tough time relying on a claim of bad faith for an earlier third country right that is not registered or not used in the EU. The greater clarity that cases like Simca and Gruppo Salini have brought to the issue of bad faith for litigants of EU rights is not there when a third country dimension is involved. The safer course for those latter litigants is to protect and use their signs in the EU. Trade mark law is still territorial and unscrupulous people can take advantage of that fact.

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Alicante, 19 March 2015

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The views expressed in this paper are those of the author personally and do not necessarily reflect those of OHIM.