

# colouring the truth

## ☼ *Bad Faith Trademark Filings*

**Claus Eckhartt** of Bardehle Pagenberg asks if the judgement of the Supreme Court in the decision “The Colour of Elégance” answers all the questions

**P**icture the following nightmare scenario: Following extensive worldwide clearance searches in relation to a product already prominently on the market in the US and doing very well, a launch is imminent in Europe with marketing promotions there already at full speed. You have just received a warning letter from the owner of a registered trademark whose unpublished application was not detected when the searches were performed. The intention of that owner is clearly to extort as large a sum as possible from your company to benefit from your plight. It is also very odd that this person is clearly not in any way active in your area of business, but has, rather, filed for and registered large numbers of other marks with up-and-coming US consumer brands which may be marketed in Europe. What can be done?

## Background

While care should be taken to avoid jumping to conclusions, the immediate diagnosis of most trademark practitioners will be that of a “bad faith” trademark application or registration. To date, there is only scant case law available as to when a trademark applicant/owner is acting in “bad faith”, at least as regards decisions by the Boards of Appeal and the Cancellation Divisions at OHIM. While a number of decisions have been issued by the Cancellation Divisions at OHIM on the grounds of bad faith, there are, surprisingly, only two Board of Appeal cases “ROCCO BAROCCO” (R0723/2001) and “EAST SIDE MARIO’S” (R0582/2003), the latter having been decided by the Fourth Board and now being heard before The Court of First Instance (T-0152/05). Frequently, the bad faith argument has also been raised in opposition proceedings, where it is, of course, not relevant. This lack of case law guidance can likely also be attributed to the fact that evidence has to be presented to support the bad faith contention rather than to just argue as to similarity of goods and marks at issue. In contrast, the case law of the German Federal Supreme Court pertaining to bad faith trademarks is fairly developed not least due to the fact that, prior to harmonization, cases concerning misuse of trademark rights were decided on the basis of unfair competition case law. This article undertakes a review of the recently published judgement in matters “The Colour of Elegance” (I ZR 29/02 - decision of January 20, 2005) of the German Federal Supreme Court (“The Supreme Court”) before the backdrop of previous case law highlighting the difficulties of establishing bad faith intentions by the applicant.

The Düsseldorf District Court dismissed the court action of Elégance and granted the counter-claim of ESCADA, essentially arguing that ESCADA had used the combination “The Colour of Elegance” in a purely descriptive manner and not as a trademark

## Definition of bad faith?

The Harmonization Directive 89/104/EEC (“The Directive”) sets forth in Art. 3 sec. 2, lit. d an option for the Member States that a trademark shall be liable to be declared invalid where and to the extent that the application for registration of the trademark was made in bad faith by the applicant; no definition is provided as to when the applicant is acting in bad faith. Art.

4 sec. 4 lit. g of the Directive furthermore permits the provision of invalidation proceedings in the trademark law of the Member States in those cases where the trademark 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 application the applicant was acting in bad faith. In practice, this will be the most frequent constellation, namely when it is the applicant’s intention to unfairly block the use of a mark by a previous user who has failed to acquire formal trademark rights by way of registration, with the intention of blackmailing same. The Cancellation Divisions at OHIM have defined bad faith in previous decisions

(C000479899/1 - BE NATURAL; C000616979/1 - SENSO DI DONNA) either as unfair practices involving the lack of good faith on the part of the applicant towards the Office at the time of filing, or unfair practices based on acts infringing a third party’s rights. According to OHIM, bad faith is not only given in cases where the applicant intentionally submits wrong or misleading insufficient information to the Office, but also in circumstances where he intends, by way of a registration, to lay his hands on the trademark of a third party with whom he had contractual or pre-contractual relations.

## In summary

- ❁ To date, there is only scant case law available as to when a trademark applicant/owner is acting in “bad faith”, at least as regards decisions by the Boards of Appeal and the Cancellation Divisions at OHIM.
- ❁ This lack of case law guidance can likely also be attributed to the fact that evidence has to be presented to support the bad faith contention rather than to just argue as to similarity of goods and marks at issue.
- ❁ In contrast, the case law of the German Federal Supreme Court pertaining to bad faith trademarks is fairly developed not least due to the fact that, prior to harmonization, cases concerning misuse of trademark rights were decided on the basis of unfair competition case law.
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- ❁ The Cancellation Divisions at OHIM have defined bad faith in previous decisions (C000479899/1 - BE NATURAL; C000616979/1 - SENSO DI DONNA) either as unfair practices involving the lack of good faith on the part of the applicant towards the Office at the time of filing, or unfair practices based on acts infringing a third party’s rights.

In contrast, the German Supreme Court defines bad faith in far broader terms which are to be construed on the basis of the particular circumstances at hand. In its case law, the Supreme Court has consistently emphasized that the trademark applicant does not act unfairly simply because he knows that another party is using the same designation in Germany for the same goods without having acquired formal trademark protection. According to the Supreme Court, matters may be different if the applicant, in full knowledge of the previous user's goodwill accumulated in relation to the mark at issue, registers the same or a similar designation for the same or similar goods without sufficient objective reasons, with the aim of negating the previous user's entitlement or with the intention of blocking the use of the designation for such a previous user. The intention to misuse a trademark as a means of competition, however, need not be the only motive; on the contrary, it is sufficient if this intention is the main motive. This definition allows for a rather broad interpretation by the courts, which, arguably, may cross the boundaries of arbitrariness, as the case "The Colour of Elegance" reported here will show. Furthermore, there is a certain element of unclarity pertaining in particular to the Supreme Court's

requirement that the prior user must have required a certain entitlement or goodwill in the mark at stake, in the light of the fact that the concept of acquisition of trademark rights by mere use in commerce is, in general, alien to German law, the exception to this principle being if a secondary meaning has been acquired by extensive use which, however, would have the consequence that the previous user has earlier rights.

The Supreme Court emphasized that such circumstances were, for example, given if, without due cause, an identical or similar trademark was filed for identical or similar goods in full knowledge that the previous user had already accumulated a certain goodwill in the mark worthy of protection

**The Facts**

The facts of the case decided by the Supreme Court and previously heard before the Düsseldorf District and Appeal Courts are summarised as follows: The plaintiff, the Elégance, Rolf Offergelt GmbH ("Elégance") belonging to the Quelle group of companies, operates a mail order business and a franchise system for ladies' wear using the company name "Elégance Rolf Offergelt GmbH" since 1971. It is furthermore the proprietor of a German registration for the word and device mark "AE Elégance" containing in its specification of goods and services "clothing, footwear, headgear".

The defendant, the ESCADA AG ("ESCADA"), markets ladies' wear in the luxury segment under its mark "ESCADA" on a worldwide basis. In a specialised textile magazine named

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"Textilwirtschaft" published in Germany in February of 2000, ESCADA announced a promotional campaign under the heading "ESCADA The great colours of Elegance" presenting its collection of clothing under the marks "Great Elegance", "Casual Elegance", "Young Elegance" and "New Elegance" with a marketing budget of over 40 million Euros.

Having taken note of this article, Elégance filed for registration as a Community trademark ("CTM") the marks "Elégance", "The Colour of Elégance", "Casual Elégance" and "New Elégance" as well as the word and device mark "The Colour of Elégance" with OHIM in March of 2000. Shortly thereafter, ESCADA launched its marketing campaign for its fall/winter collection 2000 under the heading of "THE COLOUR OF ELEGANCE".

In subsequence, Elégance sued ESCADA for infringement of its company name and its German word and device mark "AE Elégance" before the Düsseldorf District Court. Responding, ESCADA filed a counter-claim for withdrawal of the CTM applications of Elégance arguing that these were filed in bad faith.

The Düsseldorf District Court dismissed the court action of Elégance and granted the counter-claim of ESCADA, essentially arguing that ESCADA had used the combination "The Colour of Elegance" in a purely descriptive manner and not as a trademark. Furthermore, according to the Düsseldorf Court, Elégance had acted in bad faith since its intention to misuse the Community trademarks was established alone on the fact that it had assumed that the marks at issue were confusingly similar. The application for registration of the marks "The Colour of Elégance", "Casual Elégance" and "New Elégance" shortly after the announcement of the promotional campaign of ESCADA clearly showed that Elégance was out to disrupt the business of ESCADA. Other reasons for the Community trademark filings were not discernable.

This decision was confirmed by the Düsseldorf Appeal Court on appeal, following which the plaintiff filed an appeal on the point of law to the Supreme Court. While the Supreme Court refused to grant leave to this appeal in relation to the infringement action of

Elégance, these proceedings thereby becoming final, it, surprisingly, set aside the decisions of the first two instances and dismissed the counter-claim of ESCADA requesting a withdrawal of the Community trademark applications of Elégance on the grounds of bad faith. The Supreme Court reiterated the stance previously taken by holding that the trademark applicant was not already acting unfairly if he was aware that a third party was using the mark at issue for the same goods, without having acquired formal trademark protection by way of a trademark registration. Whether or not the applicant was acting in bad faith depends on the specific circumstances at hand. The Supreme Court emphasized that such circumstances were, for example, given if, without due cause, an identical or similar trademark was filed for identical or similar goods in full knowledge that the previous user had already accumulated a certain goodwill in the mark worthy of protection and the applicant's intention of blocking the future use of this mark for the previous user could be established. The objectionable conduct was to be seen in the registration of a mark and its subsequent blocking effect which was as such in compliance with honest business practices but constituted misuse if employed unfairly in competition. The Federal Supreme Court then referred to the specific facts of the case at hand, holding that the Community trademark applications of Elegance were not tantamount to a misuse as a means of competition. Besides requiring an objective suitability of a mark to have a blocking effect and to be employed as a means of competition, an intention of the applicant to block had to be given. In that context, the Supreme Court took the position that these requirements were not met in the instant case, since ESCADA had used the terms "THE COLOUR OF ELEGANCE" only in a descriptive manner and not as a trademark, as was ascertained by the Düsseldorf Appeal Court. Hence, even if the CTM applications of Elégance proceeded to registration, an objection on the basis of these marks was likely to be without prospects of success. In the light of the difficult delimitation between a descriptive use and a trademark use of a designation, this point alone, however, did not mean that the marks

could not be misused unfairly in competition.

Rather, the Supreme Court primarily based its decision on the assessment that by applying for the CTM applications at issue, Elégance had continued its "family of trademarks", all combining the term "Elegance" with further descriptive terms. The Supreme Court held that by doing so, the objective of Elégance to enhance its own competitiveness by expanding its trademarks portfolio was clearly discernible, whereas, in the view of the Supreme Court, an intention to disrupt the commercial activities of ESCADA was not given. The fostering of one's own trademark protection by preventing the intrusion of designations of third parties in one's family of trademarks is, as a matter of principle, always a legitimate objective. Contrary to the opinion of the Düsseldorf District Court and Appeal Court, the Supreme Court held that the conduct of Elégance was not aimed at disruption, but at the enhancement of Elégance's own competitiveness on the market.

#### Comment

The judgement in matters "The Colour of Elégance" exemplifies the difficulties arising in cases of bad faith trademark filings where there have been no contractual or pre-contractual relationships or negotiations between parties. Whereas the Düsseldorf District Court and the Düsseldorf Appeal Court had no doubts that the conduct of Elégance is tantamount to bad faith, the Federal Supreme Court has taken the opposite position on the basis of the same facts. Once the trodden path is left, there is, hence, a thin line as to when trademarks are legitimately acquired and invoked and when, conversely, misuse occurs. The clear-cut cases where the bad faith intention is evident do not require further guidance, such as when trademarks which are well-known abroad are filed domestically by applicants who clearly have no intention of taking up commercial activities under this mark or where the applicant seeks money payments or the granting of a licence. The judgement of the Supreme Court in the decision "The Colour of Elégance" has provided further clarification, however, a number of open questions remain. ☹

#### About the authors

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