

## General Court confirms high evidentiary threshold for proving bad faith European Union - NJORD

## Cancellation International procedures

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In *Pangyrus Ltd v Office for Harmonisation in the Internal Market* (OHIM) (Case T-257/11, February 26 2015), the General Court has upheld a decision of the Fourth Board of Appeal of OHIM finding that the application for COLOURBLIND had not been filed in bad faith and that Pangyrus had not proved that it had used an earlier sign in the course of trade prior to the date of application for registration of the mark.

Like many bad-faith cases, this case is factually complicated. It concerns the dispute over the trademark COLOURBLIND used in relation to a product consisting of an experimental learning toolbox. It was invented in 1991 by Mr Cx, owner and director of Pangyrus Ltd, and the trademark COLOURBLIND was used by a related company, Future Factory Ltd. Pangyrus Ltd became Cordyn Group Ltd, and Mr P became a shareholder together with Mr Cx. In 1998 Cordyn Group acquired the shares in Pangyrus through an agreement stating that "[a]ll intellectual property [rights were] vested in [Pangyrus] and beneficially owned by [that company]" and that "[Pangyrus was] the sole beneficial owner of the intellectual property".

In 2003 Mr Cx resigned from his post in Cordyn Group, and Pangyrus was removed from the Register of Companies. Later that same year, Mr Cx set up RSVP Design Ltd, signed a document transferring his rights in the sign COLOURBLIND to it, and then applied for the registration of a Community trademark (CTM) for that sign. This was registered in 2003.

In 2004 Mr P reintroduced the company Pangyrus Ltd in the register and became its sole director. In 2007 he filed an application for a declaration of invalidity of the registered CTM COLOURBLIND, on the grounds of bad faith (Article 52(1)(b) of the [Community Trademark Regulation](#) (207/2009)) and use of an earlier unregistered mark (Article 53(1)(c), read in conjunction with Article 8(4)).

The Cancellation Division of OHIM upheld the action and declared the CTM to be invalid. It found that there was a common understanding between Mr Cx and Mr P that the sign COLOURBLIND was the property of Pangyrus when the contested CTM was filed, and deduced this from the correspondence between the parties. It further stated that Mr Cx had acted in bad faith, since he had applied for registration of the contested trademark despite his knowledge of Mr P's rights, and this fell short of the standards of "acceptable commercial behaviour".

However, on appeal, the Fourth Board of Appeal of OHIM dismissed the application for a declaration of invalidity in its entirety, holding as follows:

- Pangyrus had not proved that it had used an earlier sign in the course of trade in the relevant time, namely prior to the date of application for registration of the contested trademark;
- With regard to bad faith, the burden of proof lies on the party that invokes bad faith, and there is no precise legal definition of bad faith, but it has to be demonstrated without subjective interpretation.
- This means that bad faith cannot be based on vague considerations and abstract concepts, such as those invoked by Pangyrus (a "common understanding" or a belief stemming from a "behaviour during an entire commercial relationship"); and
- In the absence of concrete documents proving that Mr Cx had explicitly transferred to Mr P his exclusive rights in COLOURBLIND, or objectively inferred such transfer, the board found that the application had not been filed in bad faith.

On further appeal to the General Court, the court affirmed the board's decision. Pangyrus raised two pleas in law, the first one relating to the board's findings that the application had not been filed in bad faith by Mr Cx, and the second one relating to the finding that Pangyrus had failed to prove its use of an earlier sign in the course of trade before the date of application. Both pleas contested the board's assessment of the evidence produced by Pangyrus.

As regards Pangyrus' alleged prior rights, the General Court held that, according to Article 53(1)(c) of the regulation, read in conjunction with Article 8(4), the proprietor of an unregistered sign may oppose a CTM if the following four cumulative conditions are met:

1. the sign must be used in the course of trade in a sufficiently significant manner;
2. it must be of more than mere local significance;
3. the right to that sign must have been acquired in accordance with the law of the member state in which the sign was used prior to the date of application for registration of the CTM; and
4. the sign must confer on its proprietor the right to prohibit the use of a subsequent trademark.

Pangyrus had relied on the UK law of 'passing off' in order to prove that it should be regarded as the proprietor of an earlier right able to prevent a third party's use of a trademark, and the General Court examined this ground in accordance with the interpretation of that provision by national courts. Ultimately, the court found that an essential requirement of the law of passing off was missing: the substantially significant use of the sign - which is also a condition for the application of Article 8(4). Accordingly, Pangyrus had produced only two invoices in its name; the rest of the evidence emanated from the other company, Future Factory. Pangyrus could not prove that it had granted a licence to Future Company, so this plea was rejected.

As regards Mr Cx's alleged bad faith, the General Court, after recalling that the mere fact that an unregistered mark is used by a third party does not preclude an identical or similar mark from being registered as a CTM, held as follows:

- There is no definition or delimitation of bad faith in the legislation. However, the judgment of the Court of Justice of the European Union in *Chocoladefabriken Lindt & Sprüngli* (Case C-529/07, Paragraph 53) gives some clarifications. Namely, it sets forth a number of factors that can be taken into account, such as the knowledge by the applicant for registration of a third party's use of an identical sign, its intention and the degree of legal protection enjoyed by the third party's sign.
- Those factors are mere examples and depend on the circumstances of the case. Overall, account may also be taken of the origin of the contested sign and its use since its creation, the commercial logic underlying the filing of the application for registration, and the chronology of events.
- The burden of proof lies on the party that invokes bad faith.
- Mr Cx was aware and well informed of the use of the sign by Pangyrus and Future Factory, but this was not sufficient to establish his bad faith, since consideration must also be given to his intention when applying for a CTM.
- Intention is a subjective factor which must be determined by reference to the objective circumstances of the particular case.
- In that regard, the documents produced could not imply the transfer of the IP rights at stake to Pangyrus. The General Court examined each piece of evidence brought by Pangyrus (including the transfer agreement, Future Factory's multiple communications, a letter from Mr Cx and an offer of purchase addressed by Mr Cx to Mr P) and found that they were either too vague in relation to the IP rights or did not mention Pangyrus in any way.

In light of the above, the General Court concluded that it was not objectively demonstrated that the underlying aim of the application for registration was to "lay hands" on the trademark of a third party.

This case is interesting for several reasons. The Cancellation Division had found that there was bad faith, but this was overturned by the Board of Appeal and affirmed by the General Court. The General Court delved deeply into the evidence in the file and even asked questions and requested further documentation. It can be concluded that, in order to hold that a CTM proprietor has filed an application in bad faith, there is a very high evidentiary standard, which is consistent with prior case law. The case can also be used by lawyers trying to convince clients of the importance of having proper documentation for the ownership of intellectual property, in particular in connection with transactions, as this conflict could have been avoided with better documentation back in 1998.

*Peter Gustav Olson, NJORD Law Firm, Copenhagen*

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