

LEXOLOGY

Forthcoming amendments to Swedish trademark law in relation to the concept of “bad faith”

The discussion on whether the European Union (EU) trademark legislation pertaining to bad faith has been correctly implemented has remained topical in Sweden for some time. In general, the Swedish Trademarks Act corresponds to the EU Trademark Directive, but this has not been the case with the concept of “bad faith”. Under Swedish law, bad faith is currently categorized as a relative ground for refusal of registration and invalidity based on earlier third-party rights:

“A trademark may not be registered if the trademark can be confused with a sign which was used in Sweden or abroad by any party at the time of the application and which is still in use, if the applicant was acting in bad faith at the time of the application.”¹

On 29 June 2020, the Patent and Market Court of Appeal (PMCA) handed down a decision² in which the Swedish implementation of the EU Directive’s provisions on bad faith was questioned. The decision can be viewed as a clear signal to the legislator for amending the relevant provisions. The legislator has listened and, according to new proposed legislation planned to enter into force on 1 July 2021³, the Swedish Trademarks Act and the Swedish Company Names Act will be changed. The purpose of the amendment is to clarify the rules regarding bad faith in relation to, e.g. new case law from the Court of Justice of the European Union (“CJEU”) and in particular the Stylo & Koton case.⁴

Background

¹ Swedish Trademarks Act, Chapter 2, Section 8, paragraph 4, see also Chapter 3, Section 1 regarding revocation of a trademark.

² Patent and Market Court of Appeal’s judgment dated 29 June 2020 in case number PMÖÄ 595-20 (Shotluckan).

³ Ministry of Justice’s Memorandum dated 24 June 2020 (Ds 2020:13) *Increased protection for certain geographical indications and changes in the trademark law regulation of bad faith*.

⁴ CJEU case number 104/18 P dated 12 September 2019 (Stylo & Koton).

The provisions of the Trademarks Act are based on the EU Trademark Directive of 2015 (Directive (EU) 2015/2436⁵ and earlier versions), according to which the Member States must provide for regulations whereby a trademark shall be declared invalid where the application for registration of the trademark has been made in bad faith. A Member State may provide that such a trademark is not to be registered (see article 4.2). A Member State may also provide that a trademark is not to be registered or, if registered, is liable to be declared invalid where, and to the extent, that the trademark is liable to be confused with an earlier trademark protected abroad, provided that the applicant was acting in bad faith at the date of the application (see article 5.4 c)).

In the Swedish Trademarks Act, only the latter of these provisions (i.e., the relative ground for refusal) was implemented by the legislator. Therefore, and particularly in light of new EU case law, it was questioned whether the Swedish implementation of the EU Trademark Directive was sufficient, as the provision on bad faith included a requirement of likelihood of confusion. The issue was raised for discussion by the PMCA in its recent judgment.

The judgment from the PMCA

According to the judgment adopted by the PMCA⁶, the Swedish implementation of the bad faith criteria was questioned. The case concerned the validity of the Swedish word trademark “SHOTFABRIKEN” filed by the applicant Shotluckan Holding AB (Shotluckan) in class 43 (covering e.g. bars, hotel and restaurant services, serving of food and drinks, etc.). The appellant, Sportsbaren Larmtorget 4 AB’s (Sportsbaren), filed a claim for the registration to be declared invalid on the ground that the trademark SHOTFABRIKEN was confusingly similar to the earlier sign used by Sportsbaren and that the applicant was acting in bad faith.

Despite the obligation to interpret Chapter 2, Section 8, paragraph 4 of the Trademarks Act in line with the EU legislation, the PMCA deemed it impossible to do so as such interpretation would be directly contrary to the clear wording of said provision. Hence, for the registration of the trademark SHOTFABRIKEN to be revoked on the ground of bad faith, it was required that the trademark could be confused with a trademark used at the time of the application and which was still used.

Sportsbaren managed to prove that they used the sign SHOTFABRIKEN in the course of trade,

⁵ Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trademarks.

⁶ Patent and Market Court of Appeal judgment in case no PMÖÅ 595-20 dated 29 June 2020 (Shotluckan).

within the meaning of the Trademarks Act, through offering their services at the time of Shotluckan's application. Hence, in the Shotluckan case, the incorrect implementation of bad faith did not have decisive impact on the assessment and outcome, as the court concluded that the trademarks were in fact confusingly similar; the marks were even identical as the mark used by Sportsbaren was also SHOTFABRIKEN, and it was used for identical or similar services. However, it was not proven that the applicant had any knowledge, or should have known, that Sportsbaren was using the sign SHOTFABRIKEN at the time of the application. Therefore, Sportsbaren's appeal was dismissed.

What conclusions can be drawn from the judgment? *Firstly*, the fact that an application was filed at the time when the earlier and confusingly similar mark was used is not *per se* sufficient to prove bad faith and *secondly*, and more importantly, the decision was a clear signal to the legislator that the Trademarks Act is not in line with EU law, also taking into account the recent case law, and therefore needed to be amended.

EU case law regarding bad faith

According to earlier EU case law, and, in particular, the Lindt & Sprüngli case of 2009, the CJEU established that the national courts should take into consideration all the relevant factors specific to the case at hand, but in particular: (i) the applicant's knowledge of third party's use of a sign capable of being confused with the sign for which registration was sought; (ii) the applicant's intention to prevent the third party from continuing to use such a sign; and (iii) the degree of legal protection enjoyed by the third party's sign and the sign for which registration was sought.⁷ However, these factors are not exhaustive.

Bad faith as regards trademarks constitutes an autonomous concept of European Union law which must be given a uniform interpretation in the EU.⁸ It is a concept characterized by malice and commercial misconduct, i.e., it shall not be interpreted as the traditional bad faith within Swedish law, which is mainly based on knowledge (e.g. knowledge of an earlier trademark). The earlier case law has been misunderstood as the concept of bad faith would be limited to situations where the applicant has knowledge of an earlier mark. Since then, the concept of bad faith has been further developed by the CJEU.

⁷ CJEU case number C-529/07 dated 11 June 2009 (Chocoladefabriken Lindt & Sprüngli AG), paragraph 53.

⁸ CJEU case number C-320/12 dated 27 June 2013 (Malaysia Dairy Industries).

The CJEU has recently clarified in the *Stylo & Koton* case that the likelihood of confusion is not a requirement under the mandatory provision on bad faith as an absolute ground for refusal. There might be situations, unrelated to the situation in the *Lindt & Sprüngli* case, where an application can be regarded as filed in bad faith, notwithstanding the fact that there was no use by a third party of an identical or similar sign for identical or similar goods.⁹ However, if use by a third party of an identical or similar sign for identical or similar goods or services is established and capable of causing confusion, it is necessary to examine whether the applicant for the contested mark has had knowledge of this. In such a case this factor would be one relevant factor among others to be taken into consideration.¹⁰

Further, the CJEU has concluded that the provision regarding bad faith must be interpreted as meaning that a trademark application filed without any intention to use the trademark in relation to the goods and services covered by it can constitute bad faith. In such a case the applicant has the intention either of undermining the interests of third parties, or obtaining, without even targeting a specific third party, an exclusive right for purposes other than those falling within the functions of the trademark.¹¹

In conclusion, the concept of bad faith has been broadened to include more general situations, e.g. when the applicant applies for registration in contravention of the purpose of the trademark system and without intention to use the trademark. The national courts must make their assessments of bad faith taking into account all the relevant factors of the case at hand and not only the three factors mentioned as particularly important in the *Lindt & Sprüngli* case. The application of this concept is not necessarily limited to the situations where the applicant is aware that the mark for which registration is sought can be confused with an earlier mark.

The proposed amendment to the Trademarks Act

Subject to acceptance of the proposal by the legislator, a more general wording will be added to the section regarding public policy limitations on trademark registration, i.e., the absolute ground for refusal:

⁹ CJEU case number 104/18 P dated 12 September 2019 (*Stylo & Koton*), paragraph 51 and 52.

¹⁰ CJEU case number 104/18 P dated 12 September 2019 (*Stylo & Koton*), paragraph 55.

¹¹ CJEU case number 104/18 P dated 12 September 2019 (*Stylo & Koton*), paragraph 45 and 46 and CJEU case number C-371/18 dated 28 January 2020 (*Sky and others*), paragraph 74 and 75.

“A trademark may not be registered if the application for trademark registration was made in bad faith.”¹²

According to the proposal, from 1 July 2021, this provision will replace the current provision where bad faith is a relative ground for refusal of registration.¹³ The relative ground for refusal will be removed since the absolute ground will cover all the situations that is currently covered by the relative ground. The proposal has been submitted for consideration to interested parties.

Concluding remarks

When the proposed changes to the Trademarks Act enter into force, bad faith will constitute an absolute ground for refusal and invalidity thereby aligning Swedish trademark legislation with EU law. This means that when assessing the criteria of “bad faith”, the provision on bad faith will not only cover situations where there is a risk of confusion with an earlier mark, but also will have a broader meaning taking into account public interest as elaborated in recent EU case law. For example, this may be the case when someone applies for registration of a trademark without the purpose of loyally engaging in competition between traders (e.g., if registration is sought for reasons other than those falling within the functions of a trademark, in particular to distinguish the goods and services).

The new provisions in the Trademarks Act will also apply to the trademarks that have been registered before the entry into force.¹⁴ Hence, a trademark registration that contradicts the new provision can, if applicable, be cancelled after the entry into force. The new provisions will also apply to applications for registration that have been made before the entry into force. This means that already submitted applications for trademark registration that have not been registered as of the date of entry into force of the legislative amendments must be processed in accordance with the new provision.

For more information please contact:

¹² Proposed wording to be added to Chapter 2, Section 7 of the Trademarks Act, see Ds 2020:13 page 6.

¹³ See Ds 2020:13, page 33. Bad faith as a relative ground of refusal can be removed as it is optional for the Member States to implement such provisions in the national trademark acts according to article 5.4 c) of Directive (EU) 2015/2436.

¹⁴ Ds 2020:13, page 35.

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