

# Supermarkets trademark battle to consider bad faith allegations

## Background

The recent decision of Lidl v Tesco Stores [2022] EWCA Civ 1433 considers an appeal from a decision of Joanna Smith J to strike out parts of a pleading alleging that Lidl had applied for certain trade marks in bad faith. Tesco had made those allegations in response to a claim by Lidl that Tesco was infringing the marks. The relevant marks and signs are shown below. In particular Lidl alleged that Tesco was infringing both “the Wordless Mark” and the “Mark with Text” by using a similar sign “the Sign” overlaid with text.

Tesco denied the claim and, amongst other things, sought a declaration of invalidity of the Wordless Mark on the basis that Lidl had applied for that mark in bad faith, or revocation on ground of five years’ non-use. The key factual background to that allegation is that Lidl have made a number of applications for the Wordless Mark over a number of years (for overlapping classes) but have never used the Wordless Mark in the UK in its registered form, so called ‘evergreening’.

There was dispute as to whether use of the Wordless Mark in conjunction with the mark with text amounted to use of the mark. It was agreed that this was an issue for trial and so the judge had approached the strike out application on the basis that the Wordless Mark had not been used. Having done so, the judge found that “the mere existence of an overlapping mark” was not “enough, without more, to undermine the presumption of good faith” and therefore that the pleading did not raise “sufficient objective circumstances to overcome the presumption of good faith, such that there was a case to answer”. The relevant parts of Tesco’s pleadings were therefore ordered to be struck out.

Tesco appealed against that decision on two grounds. The first was that the judge had failed to apply the correct test for strike out. The second ground was that the judge had failed properly to consider the pleaded facts and inferences as a whole in the context of Lidl's infringement case and to take into account that there had not yet been disclosure relating to Lidl's intentions when registering the Wordless Mark.

### **Strike out**

CPR rule 3.4(2)(a) provides that a statement of case may be struck out if it discloses no reasonable grounds for bringing or defending the claim. In applying that rule, the pleadings should be assessed on the assumption that the pleaded facts are true. The pleadings will be struck out if, when assessed on that basis, the arguments disclose no real prospects of success. The threshold for strike out is therefore a high one.

### **Bad faith**

A trade mark "shall not be registered if and to the extent that the application is made in bad faith" (s.3(6) TMA 1994) and a registration may be declared invalid on the ground that it was made in breach of s.3 (s.47(1) TMA 1994). There is a rebuttable presumption that applications are made in good faith (Pelikan as summarised in *Sky Ltd v SkyKick UK Ltd* [2021] EWCA Civ 1121) ("Sky case").

There is clearly concern that trademarks are being registered in bad faith and Arnold LJ commented at paragraph 21 of the judgment that "[a]s the European trade mark system has evolved over the past three decades, abuses of the system have become more prevalent. The bad faith objection provides one of the few ways of combatting such abuses, and therefore it is important that it is not too restrictively interpreted."

### **The Appeal**

The appeal court was satisfied that the correct test had been applied and the first ground of appeal was quickly rejected. Although, the court did comment in passing that the judge "failed to take into account the fact that bad faith is a developing area of law" noting that the Supreme Court has subsequently granted permission to appeal in the Sky case.

In relation to the second ground of appeal, Arnold LJ set out the law on good faith. The decision includes a useful summary of the main factors are set out by Court of Appeal in the Sky case. Lord Justice Arnold then referred to the decisions of *Ferrero SpA's Trade Marks* [2004] RPC 29(a decision which he noted had not been cited to the first instance judge) and *Target Ventures* [EU:T:2020:510], which he then applied in allowing the appeal.

In *Ferrero*, 68 trade marks including the word "kinder" had been registered by Ferrero.

Only six of those marks had in fact been used, with the remainder having been applied for with the intention of obtaining broader protection for the word “kinder” without registering a mark for that word on its own (a registration that presumably would have faced significant difficulties). Arnold LJ noted that in that case the marks in question were found to have been registered in bad faith, as the proprietor not only lacked intention to use the trade marks as registered but also intended to obtain a broad scope of protection for the word kinder – when there had been no registration for that word on its own.

In Target Ventures, a mark in that name had been registered by a company called Target Partners. That mark had only been used in domain names which redirected to the site targetpartners.de. In that case the use of the contested mark was intended to strengthen another mark (namely TARGET PARTNERS) and it was held that the application had been filed “not with the aim of engaging fairly in competition but with the intention of obtaining, potentially without targeting a specific third party, an exclusive right for purposes other than those falling within the functions of a trade mark, in particular the essential function of indicating origin”. The court in that case found that it was “apparent from objective, relevant and consistent indicia that the [applicant’s] intention at the time when the application for registration of the contested mark was filed was not to put it to a use falling within the functions of a trade mark.”

Arnold LJ concluded that the reasoning of these cases indicated that “an intention of the kind alleged and evidenced by the applicant in Ferrero is capable in law of amounting to an objective, relevant and consistent indicium which, coupled with a lack of intention to use the trade mark in question, amounts to bad faith.” [46]

### **Application to the present case**

Tesco’s statement of case alleged that Lidl had applied to register the Wordless Mark solely for use as a ‘legal weapon’. For the purpose of rule 3.4(2)(a) that allegation had to be assumed to be true.

In considering whether the pleadings had reached the necessary threshold to avoid strike out, Arnold LJ found that the first instance judge had failed to recognise that Tesco’s case relied not just on the overlapping marks but also on the facts that the mark had never been used in the form registered and that it was registered to obtain a wider scope of protection than that conferred by the mark with text.

Arnold LJ held that following Target, an unjustifiably broad protection may amount to an abuse of the trade mark system which constitutes bad faith and that Tesco’s pleading did enough to give rise to a real prospect of the presumption of good faith being overcome. The appeal was therefore allowed on the second ground and the allegation of

bad faith will proceed to trial.