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Invalidity counterclaims: a useful tool in litigation and prosecution

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With decision C-425/16 of October 19, 2017, the European Union Court of Justice (“CJEU”) pronounced on whether or not EU national courts can dismiss an infringement action without first ruling on a counterclaim for invalidity, and if the courts must wait until the decision on the counterclaim is final.

The issue arose from a request of preliminary ruling made by the Austrian Supreme Court concerning the interpretation of article 99.1 of Reg. 207/2009 – which holds that in infringement actions, EU marks are to be treated as valid unless their validity is challenged by way of a counterclaim – in an infringement action of the EUTM “Baucherlwärmer” (*i.e.* “tummy heater”) used for a herbal mixture to be mixed with alcohol for preparing home-made liquors.*

The EUTM owner filed an infringement action before the Commercial Court Vienna. The Defendant filed a counterclaim for invalidity, arguing the Plaintiff had filed the EUTM in bad faith. The Commercial Court Vienna dismissed the infringement action finding bad faith by the Plaintiff, but stayed the counterclaim for a declaration of invalidity until the final ruling on the infringement action. The Court of Appeal confirmed the decision. The Plaintiff thus appealed the Austrian Supreme Court, arguing the lower courts had to rule on the infringement proceedings, when there was no *final* decision in the invalidity action.

The Austrian Supreme Court thus asked the CJEU whether, based on article 99(1):

1. a EU national Court may dismiss an action for infringement on the grounds that the trademark application was filed in bad faith without first having ruled on the counterclaim for invalidity brought by the defendant;
2. if not, whether it would be sufficient for the Court to simultaneously uphold the infringement action and the counterclaim of invalidity, or whether the Court must delay the decision on the infringement action until the ruling on the counterclaim is final.

The CJEU held that the declaration for invalidity of an EU mark has effect throughout the Union (*erga omnes*) and not only vis-à-vis the parties to the infringement action. This means that a national Court cannot simply disregard “*incidenter tantum*” the validity of EUTM but must rule on the counterclaim for a declaration of invalidity (which has effect *erga omnes*) before ruling on the action for infringement (which has effect *inter partes*). With regard to the second question, the

CJEU held that the national Court can dismiss the action for infringement without having to wait until the decision on invalidity has become final, since nothing in Reg. 207/2009 requires so.

Thus, not surprisingly the CJEU has now clarified that invalidity of a EUTM must be assessed *before* infringement and its holding should be now applied by national Courts handling EUTM cases. What about EUIPO? Indeed, we do not see why EUIPO may deal with such cases any differently. Still, we cannot but wonder whether the Sky/Skylite case (T-736/15) could have had a different outcome if the EUTM applicant had been aware of the CJEU decision.

In the Sky/Skylite case, the opponent Sky had filed an opposition against the EUTM SKYLITE. But, according to the EUTM applicant, the opponent Sky, re-filed identical marks with the purpose of artificially extending the 5-year “grace period” for lack of use, and thus replying on earlier EUIPO Board of Appeal’s case law, the applicant asked the opponent to prove genuine use of its earlier mark (even though the 5 years had not passed). It argued that such a request had to be “exceptionally” admitted because of the opponent’s bad faith.

The General Court found that EUIPO shall presume the validity of the earlier mark in the context of an opposition procedure. The General Court went on to state that there is no procedural mechanism, in Reg. 207/2009, that allows to contest the validity of an earlier mark because of the bad faith of the opponent. Thus, in this case EUIPO could directly rule on the opposition and did not need to examine the alleged bad faith. But it would have been interesting to see what would have happened if the EUTM applicant has filed an invalidity action, and won, whether or not EUIPO would have then proceeded to reject the opposition even though the decision was not final....

We guess we’ll have to wait for another case.

*Apparently, cold tummies are a common plague in Austria, and warming products are quite popular as confirmed by co-blogger Katharina Schmid <http://trademarkblog.kluweriplaw.com/author/katharina-schmid/>).

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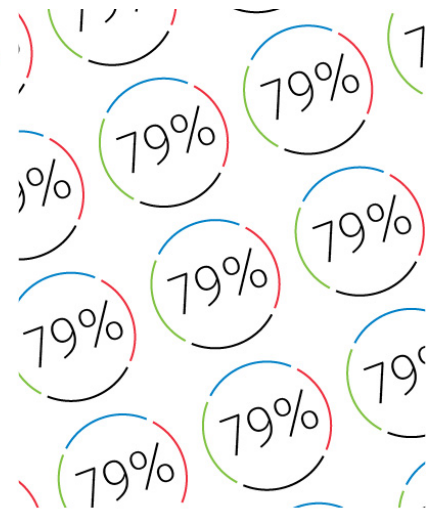
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