

## ■ Better protection for genuine right owners against trade mark squatters: compensation for damages for bad faith

General Assembly of the Civil Chambers of the Court of Appeals decision, 27 March 2013, Merit No 2013/11-209, Decision No 2013/399

**The Turkish Court of Appeals (CoA), upholding a ruling of the Ankara IP court (Ankara 2nd Civil Court of Intellectual and Industrial Property Rights, decision of 24 February 2011; Merit No 2011/15; Decision No 2011/51), recently ruled that if it is determined by an IP court that the defendant filed an application in bad faith to obtain a registration for an industrial right and used that right aggressively, the counterparty is entitled to request compensation for the damage incurred during the period the right has been used, a decision which will, it is hoped, deter bad faith applicants from obtaining registrations for industrial rights as well as any the other IP rights requiring registration, such as trade marks.**

### Legal context

Article 42 of the Decree Law 556 on the Protection of Trade Marks provides for an injured party, the Public Prosecutor or any related official authorities to have the power to request cancellation of a registered trade mark from the competent IP courts. One of these grounds is the bad faith of the applicant. Under Article 44 of the same Decree Law, a final cancellation decision shall have retroactive effect with the result that the legal protection afforded by the Decree Law to a registered trade mark that is subsequently cancelled is deemed not to have arisen from the outset upon cancellation. Article 44 also reserves the plaintiff's right to claim compensation for damage caused by negligence or lack of good faith on the part of the proprietor of the trade mark.

Nevertheless, despite this provision, the established precedents of the Turkish Court of Appeals (CoA) have suggested that it was not possible to claim damages due to the use of a registered right, such as trade marks, designs and trade names, even after the right was cancelled by a court decision based on bad faith. Even though a registered right will be deemed to have been invalid from the outset, the CoA has always accepted that use of a registered right could not be 'unlawful' or create monetary liability even if it subsequently was cancelled for whatever reason.

### Facts and analysis

According to the facts of the case at hand, which relates to a design right, the defendant obtained a registration for a design for PVC clips by taking advantage in bad faith of the current registration system that does not require examination of the application in terms of novelty or individual character until an opposition has been filed by the con-

cerned third parties. After obtaining the registration for the design, the defendant filed an infringement action against the plaintiff, who also produces PVC clips, as well as criminal complaints against the plaintiff in order to obtain a search warrant and seize the plaintiff's products and manufacturing equipment.

The plaintiff was able to obtain decisions in its favour during the court proceedings but, as a result of the defendant's actions, suffered substantial financial loss. The plaintiff therefore filed a cancellation action against the defendant for the disputed design. After securing a court decision ordering cancellation of the design registration, the plaintiff filed a separate action requesting compensation from the defendant who had obtained a registration of an industrial design that did not meet the criteria for protection under Decree Law 554 on the Protection of Industrial Designs. The plaintiff argued that the defendant obtained a registration for a design that had neither novelty nor an individual character and damaged his commercial standing by hiding behind its unlawful registration. As a result of the defendant's actions in bad faith, the plaintiff failed to fulfil his contractual obligations towards third parties because his patterns for the products had been seized. In response to the plaintiff's claims, the defendant argued that he had acted within the scope of his rights arising from his registration before the Turkish Patent Institute, and that cancellation of its registration did not nullify his rights retroactively, thereby creating an obligation to pay compensation.

The court of first instance ruled that, under Article 45 of Decree Law 554, the effects of cancellation of an industrial design are retroactive, and the defendant acted in bad faith when obtaining the registration by taking advantage of the current registration system and when interfering with activities of third parties. The court therefore ordered the payment of compensation to the plaintiff in the amount of TRY 14,452.14 (approximately EUR 5,200). However, the decision of the court of first instance was reversed by the competent chamber of the CoA upon the appeal of the right holder, reasoning that use of a registered design can never be 'unlawful', and that the proprietor of a registered design can use it until it has been cancelled. The court of first instance insisted on its decision and the matter was brought before the Assembly of Civil Chambers and the decision of insistence of the court of first instance was again reversed in line with the chamber's decision.

As a last resort, the plaintiff brought the matter before the CoA in a revision of the decision procedure. The CoA stated that, if it is accepted that it is not possible to order compensation for use of an industrial right from the date of registration until the cancellation decision of the court, the system will turn into a mechanism that continuously creates victims while benefiting applicants who act in bad faith. Thus the decision of the lower court was upheld.

In this decision, the CoA confirmed that the effects of a cancellation decision are retroactive and that, if the defendant acted in bad faith when obtaining and using a registered industrial right, the plaintiff is entitled to request compensation for the damage incurred during the period the right has been used. Even though the decision was rendered regarding a dispute including industrial designs, it can theoretically be applied in disputes about any other industrial rights requiring registration such as trade marks by analogy leading to a remarkable change in the practice of trade mark law in Turkey. However, some practitioners in the field believe that the decision can be applied in cases regarding utility models and patents that do not require examination. However, they also believe that it is better to be cautious in applying or reflecting this decision for trade marks since the decision was rendered regarding a design that requires no examination according to the current registration system, while trade marks are always examined on absolute and relative grounds before registration. Moreover, the decision is not binding for the lower courts since only decisions on the unification of conflicting judgments of the CoA are accepted to be binding for the lower courts. It is thus likely that the courts of first instance may render decisions contrary to the CoA precedent at hand.

Previously, in a decision rendered in 2010 (11th Chamber of the Court of Appeals, decision of 11 July 2011, Nos 2010/785 and 2011/8627), the CoA upheld the decision of a first instance court (Bakirkoy Civil Court of Intellectual and Industrial Property Rights, decision of 12 May 2009, Nos 2007/18 and 2009/61) ordering payment of compensation due to registration and use in bad faith of a trade mark that was subsequently cancelled by a court decision. According to the facts the plaintiff, who had a registration for his trade mark in China, filed the requesting request for compensation from the defendant—his former Turkish distributor—who obtained registration for the plaintiff's trade mark in Turkey and in bad faith caused the goods shipped from China to Turkey to be seized at the customs. The court of first instance ordered cancellation of the registered trade mark and payment of compensation for damage inflicted on the plaintiff due to activities of the defendant in bad faith. The court indicated that the trade marks in question were identical, that the defendant was aware of the plaintiff's trade mark because it advertised on its website since the beginning of 2006 that it was the plaintiff's distributor in Turkey, that the defendant acted in bad faith when obtaining registration for the same trade mark as the plaintiff's trade mark in Turkey without the plaintiff's consent and that the defendant prevented the plaintiff's goods from China to be imported to Turkey and caused the plaintiff to pay for storage and transportation expenses in bad faith.

The CoA upheld the decision of the lower court. This earlier precedent was about bad faith and the indemnity

concept as between the trade mark owner and the genuine right owner, whereas the recent decision of 2013 expands these concepts to relations with third parties, not solely the genuine right owner.

The cases share some common facts that may cause a big portion of such cases to be excluded from the scope of the rule acknowledged by the CoA. For instance, the defendants registered the rights in bad faith and actively interfered with the practice of the genuine right owners and third parties. The genuine right owners and third parties thus suffered direct damage. Nevertheless, the relevant CoA decisions do not examine or debate the concepts of the character, amount, etc of the damage suffered, so it remains unclear whether the applicant acting in bad faith must actively interfere with the commercial activities of the genuine right owners in Turkey and cause direct damage for them to be entitled to claim damages. For this reason, it is possible for the first instance courts to interpret and apply this rule narrowly and to deny compensation to other genuine right owners who suffered indirect damage on account of the activities of the applicant.

### Practical significance

In summary, even though there remain some unanswered questions, these two decisions are of great importance for intellectual property law practice in Turkey. As briefly mentioned above, according to the previous precedents of the CoA, use of a 'registered right' did not create infringement or unfair competition even if it was registered in bad faith. Before these precedents, applicants acting in bad faith could obtain registrations and use the registered rights on their products or services until they were cancelled by a court decision without any threat of monetary liability. Even when they were cancelled by a court decision due to bad faith of the applicant or any other grounds provided by the Decree Law, it was not possible to obtain compensation.

This interpretation of the courts led bad faith applicants to obtain registrations knowing that they would be protected until the registered right was cancelled. Even when the genuine right owners filed actions of cancellation, bad faith applicants could file new applications for the same trade mark, knowing that they would not be held liable for acting in bad faith and causing damage to the genuine right owners. This practice could thus easily lead to a vicious circle, with bad faith applicants filing applications and not being held liable for acting in bad faith.

With these two notable decisions, the CoA has provided a deterrent for applicants acting in bad faith, providing stronger protection for genuine right owners, especially the right owners located abroad who do not always have the opportunity to prevent registration of their trade marks by third parties in Turkey and become aware of such registrations too late. However, even when the courts order payment of compensation to the genuine right

owners for their damages arising from registrations in bad faith, it may not always be possible to collect the compensation. Therefore, this precedent may create a new practice regarding preliminary injunctions. In order to ensure enforcement of the final decision, the courts may soon be inclined to issue preliminary injunctions suspending existing applications to preclude new applications for registration in bad faith.

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## General

### ■ Ericsson faces FRANDly fire in India

*Micromax Informatics Limited v Telefonaktiebolaget LM Ericsson*, Case No 50/2013, Competition Commission of India (CCI) and *Intex Technologies (India) v Telefonaktiebolaget LM Ericsson*, Case No 76/2013, CCI

**Based on complaints made by Micromax and Intex that Ericsson was demanding an unfair, discriminatory and exorbitant royalty for its standard essential patents (SEPs) regarding GSM technology, the CCI, in its first two cases involving SEPs, examined Ericsson's conduct and reached a prima facie conclusion that Ericsson was indulging in anti-competitive practices and ordered the Director General to institute a proper fully-fledged investigation into Ericsson's practices.**

#### Legal context

In March 2013, Ericsson sued Micromax for patent infringement of its standard essential patents (SEPs) in the High Court of Delhi and claimed damages of one hundred crore (one billion) Indian rupees. The court, in an interim order, asked Micromax to deposit by way of security to protect Ericsson's monetary interests during royalty rate negotiations between Micromax and Ericsson. The deposit prescribed consists of category-specific royalties, such as 1.25 per cent of the sale price for phones/devices incorporating only global system for mobile communications (GSM), 1.75 per cent of sale price for phones/devices incorporating general packet radio service (GPRS) in addition to GSM, 2 per cent of sale price for phones/devices incorporating enhanced data rates for GSM evolution (EDGE) in addition to GPRS and GSM and so on. Micromax had reportedly deposited 29.5 crore rupees in compliance with the interim order. The High Court of Delhi has yet to pronounce its final decision.

#### Facts

In response to Ericsson's actions, Micromax filed a complaint with the Competition Commission of India (CCI)

under s 19(1)(a) of the Competition Act 2002, alleging that Ericsson was demanding an unfair, discriminatory and exorbitant royalty for its SEPs. Micromax alleged that Ericsson had demanded that Micromax license the SEPs under fair, reasonable and non-discriminatory (FRAND) terms. However, when Micromax initiated the discussions on a licensing agreement based on FRAND terms, Ericsson sent an agreement imposing royalty rates as follows:

- GSM phones/tablets—1.25 per cent of sale price of product
- GPRS phones/tablets—1.75 per cent of sale price of product
- EDGE phones/tablets—2 per cent of sale price of product
- WCDMA/HSPA phones/tablets—2 per cent of sale price of product
- Dongles phones/tablets—US\$2.50 per dongle

Micromax argued that royalty rates imposed by Ericsson were not based on the price of the component (such as a chipset or an integrated circuit (IC)) incorporating the patented technology but were instead based on the final selling price of the product in which the component was to be used. Micromax argued that Ericsson had arbitrarily imposed a royalty on basis of selling price of the product, while the royalty should be charged on the basis of value of technology (or the component). Micromax also alleged that Ericsson had forced its licensees to enter into non-disclosure agreements regarding royalty rates. According to Micromax, this amounted to a discriminatory practice. Ericsson did not dispute any of the contentions regarding royalty rates.

#### Analysis

The CCI noted that Ericsson arguably had the largest patent portfolio of SEPs in GSM, with more than 30 000 patents all over the world and around 400 granted patents related for GSM in India. The CCI observed that Ericsson enjoyed complete dominance over its present and prospective licensees in the relevant product market, since no alternative technology was available to the other players in the market. The CCI agreed with Micromax and noted that charging of two different licence fees per unit phone for use of the same technology is prima facie discriminatory, and also reflects excessive pricing vis-à-vis high cost phones. The CCI also found the confidentiality of the royalty rates to be discriminatory, adding that it was illogical that, for the use of GSM chip in a phone costing 100 rupees, the royalty would be 1.25 rupees, whereas, if the same GSM chip was used in a phone costing 1000 rupees, the royalty would be 12.5 rupees: such an increase in the royalty for the patent owner did not reflect the contribution of the patented technology to the licensee's product. The CCI,