

IP CLIENT BRIEFING

UK Supreme Court confirms the Sky is not the limit when it comes to trade mark applications and bad faith

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/ INTRODUCTION

Can a broad trade mark specification, covering long lists of goods and services that the applicant never intends to use its trade mark for, be invalidated on the grounds that it was applied for in bad faith? What about broad categories of goods and services, like ‘computer software’? Are these allowable or can they also be challenged on the grounds of bad faith? These are some of the questions that the UK Supreme Court has recently had to consider in its long-awaited and highly anticipated judgment in *SkyKick v Sky*.

The headline is that the Supreme Court allowed SkyKick’s appeal in part, finding that the High Court was entitled to hold, to the extent that it did, that certain UK and EU trade marks registered by Sky had been applied for in bad faith and that the Court of Appeal was wrong to reverse that finding. In doing so, the Supreme Court made it clear that applying for a trade mark covering a broad list of goods and services can amount to bad faith in certain circumstances - particularly where the applicant had no intention to use the mark for those goods and services, but rather intended to use it purely as a legal weapon against third parties (e.g. through infringement claims or oppositions to third party trade mark applications). SkyKick was, however, ultimately still found to have infringed Sky’s marks in relation to its cloud backup services on the basis of the narrowed specification for those marks.

In this briefing, we take a closer look at the main issues in this long-running dispute, the Supreme Court’s analysis and ultimate findings, and the likely implications of the Supreme Court’s decision on UK trade mark filing and enforcement practices going forwards.

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WHAT WAS THE CASE ABOUT?

As readers will be aware, Sky has for many years been one of the primary providers of television, telephony and broadband services in the UK. SkyKick operate a business which helps customers transition their IT systems from Microsoft Office to Microsoft Office 365, by providing certain cloud-based products and services, including an email migration product and service (**'Cloud Migration'**) and a cloud storage product and service (**'Cloud Backup'**).

Sky issued trade mark infringement proceedings back in May 2016, alleging that SkyKick's use of the SkyKick name in relation to its Cloud Migration and Cloud Backup services infringed five of Sky's registered trade marks (four EU trade marks (**'EUTMs'**) and one UK trade mark). The range of goods and services covered by these trade mark registrations was, in the Supreme Court's words, *'enormous'*, albeit Sky did, ultimately, in the course of the initial trial decide to rely on a subset of the goods and services covered by the marks (the **'Selected Goods and Services'**). Even so, the categories selected remained *'very general'* and broad in nature.

SkyKick denied infringement and issued a counterclaim, seeking a declaration that Sky's marks were invalid - one of the main grounds of invalidity being that Sky had applied for the marks in bad faith because it had no genuine intention of using them in relation to all of the goods and services for which they were registered. Importantly, all of the Sky marks being asserted were within the five year grace period, meaning SkyKick had no ability to challenge validity on the grounds of non-use.

FIRST INSTANCE DECISION

At first instance, the High Court agreed (in a series of four judgments and following a reference to the CJEU) that Sky had indeed sought protection for goods and services for which they never intended to use the marks. In reaching this conclusion, the court noted that the specifications for the five Sky marks included:

- specific goods that Sky had no intention of producing (e.g. 'bleaching preparations' and 'whips');
- categories so broad that Sky simply could not have intended to use the marks across the full breadth of that category (a key example being *'computer software'*); and
- goods and services covering the entirety of certain particular classes.

The court also found that Sky had applied for its marks with the intention of obtaining an exclusive right for purposes other than those falling within the functions of a mark, namely purely as a legal weapon against third parties rather than to indicate origin. This led the court to conclude that Sky had applied for the marks partly in bad faith and that the specifications of the Selected Goods and Services should be *'cut down'* to reflect the extent of that bad faith, leaving Sky with what it deemed to be *'fair protection'* for the marks. Nevertheless, SkyKick's use of the SkyKick brand in relation to both its Cloud Migration and Cloud Backup offerings was still found to have infringed Sky's marks, even in their restricted form.



REVERSAL BY THE COURT OF APPEAL

Both parties appealed aspects of the High Court's decision to the Court of Appeal ('CoA'). Sky (among other things) complained of the findings of bad faith, partial invalidity and the subsequent cutting down of its marks; while SkyKick disputed the finding of infringement and considered that the judge had not gone far enough in reframing the specifications.

The CoA largely sided with Sky, restoring the relevant Sky marks to their full width. The CoA accordingly dismissed SkyKick's appeal against the infringement finding and additionally held that SkyKick had not pleaded bad faith properly. Importantly, however, the CoA noted that had it been required to decide the issue of whether SkyKick infringed on the basis of the narrower trade mark specifications, it would have allowed SkyKick's appeal in relation to its Cloud Migration services, but not in relation to its Cloud Backup services.

APPEAL TO THE SUPREME COURT

SkyKick further appealed to the Supreme Court, where three key issues arose:

- Was the CoA correct to interfere with the first instance finding that Sky had made the relevant applications in bad faith?
- Had the correct decision been reached as regards infringement by SkyKick?
- Did the Supreme Court have jurisdiction to dispose of the case in light of Brexit and the fact that four of the Sky marks being asserted were EUTMs?

In an interesting turn of events, shortly before the Supreme Court was due to hand down its decision, both parties applied for permission to withdraw the appeal and asked the Court not to give judgment, as they had by then reached a global commercial settlement. Thankfully for us, the Court dismissed that application on the basis that the questions before it raised issues of general public importance – a view that the Comptroller-General of the UKIPO supported – and given the potential implications of its decision for other traders.

We summarise the key elements of the judgment below, addressing the issues in turn.

Bad faith

This is the crux of the decision and the piece that will be of most interest to IP practitioners. Ultimately, the Supreme Court sided with the High Court, finding that certain parts of Sky's trade marks had been applied for in bad faith and that the High Court had therefore been right to narrow down the specification for Sky's marks.

In overturning the CoA, the Supreme Court provided a clear restatement of the law on bad faith, listing 15 general principles that it derived from the existing case law. That list includes, in particular, the following key principles:

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| <p>“(i) <i>The date for assessing whether an application to register an EU trade mark was made in bad faith is the date the application for registration was made...</i></p> <p>(vi) <i>The intention of the applicant is a subjective matter, but it must be capable of being established objectively...having regard to the objective circumstances of the case.</i></p> <p>(vii) <i>The burden of proving that an application...was made in bad faith lies on the party making the allegation. But where the circumstances of the case may lead to a rebuttal of the presumption of good faith, it is for the proprietor of the mark to explain and provide a plausible explanation of the objectives and commercial logic pursued by the application...</i></p> <p>(ix) <i>The applicant...is not required to indicate or to know precisely when the application is filed...the use that will be made of it.</i></p> <p>(x) <i>Nevertheless, the registration...of a mark without any intention to use it in relation to the goods and services covered...may constitute bad faith where there is no rationale for the application in the light</i></p> | <p><i>of the aims referred to in [the Trade Marks Directive and the EUTM Regulation].</i></p> <p>(xi) <i>...bad faith may...be established only where there are objective, relevant and consistent indicia tending to show that, when the application was filed, the applicant...had the intention either of undermining, in a manner inconsistent with honest practices, the interests of third parties, or of obtaining, without targeting a specific third party, an exclusive right for purposes other than those falling within the functions of a trade mark.</i></p> <p>(xii) <i>...bad faith...cannot be presumed on the basis...that, at the time of filing the application, the applicant had no economic activity corresponding to the goods and services referred to in the application.</i></p> <p>(xiii) <i>When the absence of an intention to use the mark...concerns only certain goods or services... that constitutes...bad faith only in so far as it relates to those goods or services.”</i></p> <p>Lord Kitchin, at [240].</p> |
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Applying this to the case before it, the Supreme Court concluded that the CoA had adopted an ‘unduly restrictive approach’ on this issue. In the Supreme Court’s opinion, the combined effect of:

- (a) the CoA’s finding that objective circumstances relating to the width or size of the specification will never, of themselves, be enough to rebut the presumption of good faith; and
- (b) the need for objective, relevant and consistent indicia showing a positive intention to undermine third-party interests or to obtain an exclusive right for purposes other than those falling within the functions of a trade mark,

would, in practice, mean that it would be ‘very difficult if not impossible’ to successfully make out a case of bad faith on the grounds that the applicant had no intention to use the mark across the full scope of the specification.

In reaching this conclusion, the Supreme Court placed weight on the functions of a trade mark (particularly the essential function of indicating origin). In its view, applying for a trade mark registration covering goods and services for a purpose not covered by the legislation, where the applicant had no intention to use the mark to indicate origin, would constitute an abuse of the trade mark system. In those circumstances, unless the applicant can provide a reasonable explanation for its actions which is consistent with the functions of a trade mark, it will be open to the court to find that the application was made in bad faith.

As a result, the Supreme Court concluded that the key question to answer when determining whether there is bad faith where an application covers goods and services for which there is no prospect of use is “*whether, absent an explanation and rationale consistent with the functions of a trade mark, it is reasonable to infer from the size and*

nature of the list of goods and services the subject of the application and all the other circumstances, including the size and nature of the applicant’s business, that application constituted, in whole or in part, an abuse of the system and was for that reason made in bad faith”.

In doing so, however, the Supreme Court made it clear that findings of bad faith will not be limited to wide trade mark specifications covering large numbers of goods and services across different classes. It can also apply to the use of general terms or broad categories (e.g. software), where the applicant has an intention to use the relevant trade mark for some, but not all, of the goods and services covered by those general terms or broad categories. Whilst the Supreme Court acknowledged that an applicant doesn’t have to have a commercial strategy to use the relevant mark for every good or service, where a broad description includes distinct categories or subcategories of goods or services, the applicant may be found to have acted in bad faith in relation to one or more of those categories or subcategories. In the Supreme Court’s opinion, an applicant should not be permitted to apply for a registration covering distinct categories or subcategories of goods or services which it *never* has any intention to use the mark for, simply because it chooses to use a broad description (like “computer programs” or “computer services”) that encompasses them, together with goods and services it *does* supply. The CoA was therefore wrong in its reasoning when it said that, given Sky had a substantial business sitting under the rubric of ‘computer software’, it was not a plausible basis for a finding of bad faith that Sky did not intend to use its marks in relation to all computer software.

Applying all of the above to the case before it, the Supreme Court concluded that the CoA had been wrong to overturn the High Court’s decision on bad faith – there was no material error in the judge’s reasoning or his findings of fact. On the contrary, however, the Supreme

Court emphasised that the CoA had failed to take account of the ‘*highly significant*’ fact that Sky had originally relied in these proceedings on the full width of the ‘*very broad*’ specifications for its five marks and was prepared ‘*to deploy the full armoury*’ of those marks ‘*against a trader whose activities were not likely to cause confusion*’. The Court therefore restored the High Court’s order as regards bad faith, including the reduced specification for the Selected Goods and Services comprised in the Sky marks.

Infringement

Despite the reduced specification of Sky’s marks and the finding of bad faith being restored, the Supreme Court agreed with the lower courts that SkyKick had still infringed Sky’s marks in providing its Cloud Backup services under the SkyKick name.

However, the Supreme Court overturned the finding of infringement in relation to SkyKick’s Cloud Migration service. Agreeing with the obiter comments of the CoA, the Supreme Court helpfully clarified that, when construing an imprecise category in a specification, the correct approach is to “*confine the terms used to the substance or core of their possible meanings*”. Likewise, where terms are ambiguous, they should be limited to those goods or services which are clearly covered. On that basis, the Supreme Court found that Sky’s registration for ‘*electronic mail services*’ did not cover a service which involved migrating email accounts.

Brexit

The final question the Supreme Court had to consider was whether it had jurisdiction to decide the validity and infringement aspects of the case relating to Sky’s EUTMs, post Brexit.

In a nutshell – as is perhaps obvious by now – it concluded that it did. According to the Supreme Court, the effect of the Withdrawal Agreement was that certain UK courts would maintain their designation as EU trade mark courts under the EUTM Regulation, but only for proceedings that were pending in the UK on 31 December 2020. This extends to any appeal courts in such cases, including the Supreme Court, which would also retain jurisdiction to hear and decide such appeals.

COMMENT AND PRACTICAL TAKEAWAYS

SkyKick v Sky is a landmark judgment that helpfully clarifies the law around bad faith in the context of trade mark applications. Whilst the decision doesn't prevent businesses from legitimately future-proofing their trade mark applications, it will inevitably lead to an increase in validity challenges on the grounds of bad faith, at least against UK registered trade marks with broad specifications (particularly during the 5 year grace period for non-use). Each case will of course depend on its own facts, but there are a number of significant implications for trade mark filing practices and enforcement strategy we can take away, including the following.

- **Lower threshold for bad faith:** Perhaps most importantly, the Supreme Court's decision appears to lower the threshold for a finding of bad faith. Whilst this was an extreme case, the judgment indicates that the English courts should be more willing to draw an inference of bad faith from the objective circumstances of the case, and to conclude that there was bad faith unless a reasonable/plausible explanation can be provided by the applicant.
- **Impact on filing strategy:** Adopting a 'kitchen sink' approach to trade mark specifications going forwards will likely be frowned upon and be more open to challenge. Applicants may therefore want to think more carefully about which goods and services to include in their specification and give thought to whether appropriate sub-categories can be used in place of generic terms (such as 'computer software') – albeit recognising that legitimate future-proofing is acceptable.

That said, it remains to be seen whether a 'kitchen sink' approach will continue to be adopted by some on the basis that the outcome of a bad faith finding is invariably merely a trimming back of the specification to a more reasonable level of protection that aligns with the offending company's business (and its likely

future development). Even in this case, Sky was still ultimately successful in its infringement claim notwithstanding the bad faith finding.

- **Commercial rationale for seeking registration:** Whatever is ultimately included in the specification, businesses should look to retain a contemporaneous record of the reasoning and rationale behind their application. A general theme of the Supreme Court's decision is that the burden of proof in bad faith cases will more readily shift to applicants to demonstrate that the rationale behind the scope of their application is consistent with the functions of a trade mark. Failure to do so can make it difficult to rebut any inferences of bad faith that may be made. Indeed, in this case, Sky had been unable to provide any contemporaneous documents or first-hand evidence to justify its filing strategy, which played a part in the finding of bad faith.
- **Tailor your enforcement claims appropriately:** When pursuing an infringement claim, claimants should tailor their case appropriately, focussing on those goods and services that are most relevant to the proceedings. Failure to do so may increase the chances of the defendant bringing (and a court upholding) a bad faith counterclaim. Indeed, in finding Sky had acted in bad faith in this case, the Supreme Court placed particular emphasis on the fact that Sky had initially relied upon the full breadth of its specifications in its infringement claim against SkyKick, that it maintained that position in spite of the bad faith counterclaim until five weeks before trial and that it only fully narrowed down its claim in its closing submissions. This, combined with Sky's enforcement activity against other third parties (particularly in relation to goods and services for which Sky had no intention to use its marks) was another significant factor in the Supreme Court's ultimate finding that Sky had acted in bad faith.

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