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3-2-1-92-09 Judgment of the Civil Chamber of the Supreme Court of 23 October 2009 in the action of Joint Stock Company Stol-I against Joint Stock Company LIVIKO for compensation for damage caused by infringement of trademark law

JUDGMENT OF THE CIVIL PANEL OF THE SUPREME COURT
On behalf of the Republic of Estonia

Case number	3-2-1-92-09
Decision date	Tartu, October 23, 2009
Court composition	Chairwoman Lea Laarmaa, members Henn Jõks and Ants Kull
Court case	Action by Stol-I Joint Stock Company against LIVIKO Joint Stock Company for compensation for damage caused by infringement of trademark law
Contested court decision	Tallinn Circuit Court decision of April 13, 2009 in civil case no. 2-04-434
Complainant and type of complaint	Cassation appeal of the joint-stock company Stol-I
The cost of a civil case in the Supreme Court	5,690,029 kroons
Participants in the proceedings and their representatives in the Supreme Court	Plaintiff Joint Stock Company Stol-I (registration code xxxxxxxx), represented by attorney-at-law Priit Lätt, attorney-at-law Paul Varul and attorney-at-law Vadim Filimonov Defendant Joint Stock Company LIVIKO (registration code xxxxxxxx), represented by attorney-at-law Toomas Taube
Date of review of the case	28 September 2009, written procedure

Resolution

1. To annul the decision of the Tallinn Circuit Court of 13 April 2009 in civil case No. 2-04-434 and to send the matter to the same circuit court for re-examination.
2. To satisfy the cassation appeal of Joint Stock Company Stol-I.
3. To return to Aleksander Zubowicz the bail of 40,000 (forty thousand) kroons paid on May 13, 2009, in connection with the cassation appeal of Joint Stock Company Stol-I.

Facts and course of proceedings

1. Joint-stock company Stol-I (plaintiff) filed a lawsuit with the Harju County Court against Joint-stock company LIVIKO (defendant) for 1,760,000 kroons. On June 14, 2005, the plaintiff increased the claim amount to 16,483,942 kroons.

According to the statement of claim, the plaintiff is the exclusive user of the trademark «Столичная водка + кую» (in Latin letters «stolichnaya vodka + kyu»). Between February 2, 1993 and April 26, 1995, the defendant caused the plaintiff damage by infringing the trademark right, which must be compensated on the basis of § 36 (1) (2) of the Trademark Act (KaMS) in force at that time and §§ 222 and 448 of the Civil Code (TsK). The plaintiff's pecuniary damage from the non-receipt of the first license fees for 1993 and 1994 totals 1,760,000 kroons. The plaintiff has suffered damage (loss of income) from the non-receipt of the so-called subsequent license fees in 1993–1995 in total of 3,854,967 kroons. The plaintiff also claims interest from the defendant on the amount that he could not use profitably due to the infringement of rights. The amount of the interest claim as of December 31, 2003 is 12,546,286 kroons, of which 4,452,607 kroons is interest debt from the non-receipt of the so-called first license fees and 8,093,679 kroons is interest debt from the non-receipt of the so-called subsequent license fees.

Section 17(1) of the Trade Marks Act applicable to the case and Section 8(2) of the Trade Marks Act, which entered into force on 1 May 2004, establish the principle of legal protection of a trademark, according to which legal protection shall commence with respect to a registered trademark from the date of filing of the application for registration of the trademark. Third parties, including the defendant, had no right to use the trademark «Stolichnaya» without the consent of the trademark owner from the date of receipt of the application for registration of the trademark at the Patent Office, i.e. from 2 February 1993. If the trademark was registered later and thereby acquired legal protection, the previously concluded license agreement is valid. The trademark owner has not contested the plaintiff's rights arising from license agreement No. 2 concluded on 30 June 1993.

The use of the trademark «Столичная водка», «пеалинна виин», «stolichnaya vodka» was not possible without the plaintiff's consent, because the plaintiff received exclusive rights under the license agreements concluded between the plaintiff and AOOT Rosvestalko and the plaintiff and VAO Sojuzplodoimport. The owner of the trademark «Столичная» waived in favor of the plaintiff his right to use it in any form on the territory of Estonia (including «stolichnaya vodka» in Latin letters). In the event of lawful use of the trademark, the defendant would have had to pay the plaintiff a sub-license fee. The trademark «Столичная» is confusingly similar to the trademark «Stolichnaya» and also to the brand «Пеалинна» vodka produced by the defendant for the Estonian market.

2. The defendant did not acknowledge the claim and contested it. The plaintiff has not proven the occurrence of damage and its amount. The plaintiff was not entitled to receive a sub-license fee from the defendant.

The plaintiff was registered in the Estonian Register of Enterprises on 9 June 1993. The plaintiff cannot claim a sub-license fee for the period when the plaintiff did not exist, i.e. from 2 February 1993 to 9 June 1993. The license agreement concluded between AOOT Rosvestalko and the plaintiff on 30 June 1993 could not have granted the plaintiff the rights of licensor of the trademark «Столичная водка + кую» before the registration of the said trademark on 14 December 1994.

The plaintiff has not proven that the defendant has used a trademark identical or confusingly similar to the trademark «Столичная водка + кую». When determining the amount of lost income, the plaintiff has not deducted from the potential income the expenses that it would have had to incur to obtain such income. The statement of claim and the attached evidence do not prove the occurrence of damage or its amount.

Third parties were only able to obtain information about the trademark after the registration decision was made, when the trademark was published (KaMS § 12 (8)). The disputed trademark was published on 2 May 1994. In the event that a retroactive obligation arises for third parties from § 17 (1)

of the KaMS in force before 1 May 2004, of which the third parties could not have been aware and should not have been, the defendant requests, on the basis of § 152 of the Constitution (*PS*), that the said substantive law norm be disapplied, as it is contrary to the Constitution.

The plaintiff has no right to claim. According to § 36 (1) (2) of the Trade Marks Act, a claim for compensation for damage caused by infringement of a trade mark right may be filed by the trade mark holder (trade mark owner), not the licensee. The licensee may file a claim only if the trade mark holder refuses to file a claim and the license agreement does not prohibit the transfer of the right to file a claim to the licensee (§ 36 (2) of the Trade Marks Act). The plaintiff has not proven that the trade mark holder refused to file a claim.

The claim should also not be satisfied due to a conflict with the principle of good faith. The claim is also time-barred according to § 150(3) of the General Part of the Civil Code Act (*Civil Code Act*), which entered into force on 1 July 2002, according to which a claim arising from the unlawful causing of damage shall in any case be time-barred no later than ten years after the act or event that caused the damage was committed.

3. Harju County Court dismissed the action by a decision of 27 January 2006 and ordered the plaintiff to bear the legal costs.

According to the decision of the County Court, under the license agreement concluded on 30 June 1993, the licensor is AOOT Rosvestalko and the licensee is the plaintiff. According to § 10 p. 2C of the license agreement, upon the expiration of the license agreement, as well as during the validity period of the license agreement, except for the cases provided for in § 14 p. 2 of the license agreement, if a third party infringes any right to patents that have been granted to the licensee under the license agreement, the licensee and the licensor shall jointly file a lawsuit and/or claim against the person who infringed any right to patents that have been granted to the licensee under the license agreement, and shall take all necessary measures prescribed by the legislation of the Republic of Estonia to ensure the unhindered use of the patents as the subject of the agreement by the licensee. According to § 36 p. 2 of the KaMS in force before 1 May 2004, if the trademark owner refuses to file a lawsuit, the right to file such a lawsuit shall be transferred to the licensee, unless the license agreement provides otherwise.

The plaintiff has not proven that the defendant has used a trademark identical or confusingly similar to the trademark «Столичная водка + кую». When determining the amount of lost income, the plaintiff has not deducted from the potential income the expenses that it would have had to incur to obtain such income. The statement of claim and the attached evidence do not prove the occurrence of damage or its amount.

4. The plaintiff filed an appeal, requesting that the county court's decision be annulled and the case be sent back to the court of first instance for a new hearing.

5. The defendant opposed the appeal and requested that the county court's decision be left unchanged and the appeal dismissed.

6. By its decision of 24 November 2006, the Tallinn Circuit Court upheld the decision of the county court and dismissed the appeal. The circuit court also ordered the plaintiff to pay legal costs of 62,463 kroons and 30 cents in favor of the defendant.

According to the reasons for the decision of the district court, the plaintiff has not proven that the trademark owner refused to file the action or that the plaintiff proposed to the trademark owner to file a joint action against the defendant and the trademark owner refused.

7. The plaintiff filed an appeal in cassation, requesting that the decision of the district court and the decision of the county court be annulled and the case be sent to the county court for a new hearing.

8. The defendant opposed the cassation appeal and requested that it be dismissed.

9. By its decision of 30 May 2007 in civil case no. 3-2-1-44-07, the Supreme Court granted the cassation appeal, annulled the decision of the district court and the decision of the county court due to incorrect application of the substantive law norm, and sent the case to the Harju County Court for re-examination.

The Supreme Court found that the courts had misinterpreted Section 36 of the Trademark Act in force before 1 May 2004. The courts' position that the plaintiff had to prove the refusal of the trademark owner to file a lawsuit at the time of the alleged infringement is incorrect. According to Section 36(1) of the Trademark Act in force until 1 May 2004, a trademark holder whose rights have been infringed could file a civil lawsuit to terminate the activity infringing the rights of the trademark owner or licensee and restore the situation prior to the infringement and/or to compensate the trademark owner or licensee for the material and moral damage caused to the trademark owner or licensee, including lost income, and/or to take measures to prevent further infringement of the rights of the trademark owner or licensee by removing from circulation everything that results in the infringement of the right. According to Section 2 of the same section, if the trademark owner refuses to file a lawsuit, the right to file such a lawsuit would be transferred to the licensee, unless the license agreement provides otherwise. The Trademark Act did not specify which trademark owner (either at the time of infringement or at the time of filing the action) had the right to file an action under Section 36 of the Trademark Act. According to Section 22(1) of the Trademark Act, which was in force until 1 May 2004, the trademark owner could assign a registered trademark to a natural or legal person in respect of all or part of the goods or services. According to Section 18(1) and (2) of the current Trademark Act, a trademark may be transferred and the trademark shall be transferred to the legal successor of the trademark owner. According to Section 59(1) and (3) of the Civil Procedure Code, which was in force until 1 July 2002, and Section 6(1) and (2) of the Civil Procedure Code, which has been in force since 1 July 2002, civil rights and obligations shall be transferred to the legal successor upon transfer of a legal object. Based on the above, the panel found that the person who is entered in the register as the owner of the trademark at the time of filing the action has the right to file an action. Therefore, it is necessary to prove his refusal to file a lawsuit, and not the refusal of the trademark owner at the time of the infringement (AOOT Rosvestalko) to file a lawsuit, as the district court found.

The Chamber did not agree with the cassation appeal's claim that the plaintiff, as a licensee, is a trademark holder within the meaning of Section 36(1) of the Trade Marks Act. It can be concluded from Section 2 of the said Section that the purpose of Section 36(1) of the Trade Marks Act was to regulate the right of the trademark holder to file an action for the protection of trademark rights. Thus, the terms "trade mark holder" and "trade mark owner" used in Section 36 of the Trade Marks Act were synonymous. A licensee could file an action under Section 36(2) of the Trade Marks Act if the trademark holder, i.e. the trademark owner, refused to file an action. Section 57(3) of the Trade Marks Act, in force since 1 May 2004, provides for the right of the licensee to file an action for the protection of exclusive rights only with the consent of the trademark owner, and according to the second sentence of the third paragraph of the same Section, the licensee may, after sending a notice to the trademark owner about the infringement of exclusive rights, file an action without the consent of the trademark owner, if the trademark owner has not filed an action himself within a reasonable time.

The Trademark Act did not stipulate any formal requirement for the refusal to file an action. Thus, the refusal of the trademark owner specified in Section 36(2) of the Trade Marks Act was free of form and could be proven by any evidence under Section 229 of the Trade Marks Act. Since the trademark owner could refuse to file an action in any form, the trademark owner's inaction is also considered a refusal if he knew about the infringement of trademark rights. Also, there is no mandatory formal requirement for the consent of the trademark owner under Section 57(3) of the Trade Marks Act, which has been in force since 1 May 2004. According to the second sentence of this provision, after sending a notification to the trademark owner about the infringement of an exclusive right, the licensee may file an action without the consent of the trademark owner, if the

trademark owner has not filed an action within a reasonable time. Thus, it must be proven that the owner was notified and that the owner has not filed an action within a reasonable time.

10. By its decision of 1 February 2008, Harju County Court partially satisfied the claim and ordered the defendant to pay 5,690,029 kroons in damages in favour of the plaintiff and 149,622 kroons and 71 cents in court costs.

According to the reasons for the decision of the County Court, it follows from the letter from the trademark owner, Spirits International B.V., at the time the action was filed, that the latter was aware of the filing of the action, considered that filing the action was the plaintiff's obligation, and refused to file it.

Since only the right to claim can be time-barred, the court assessed whether the plaintiff has the right to claim compensation for the damage caused by the infringement of the rights of the trademark owner for the period from 2 February 1993 to 26 April 1995. The application for registration of the trademark was received by the register on 2 February 1993 and the trademark was entered into the register on 14 December 1994. The plaintiff was entered into the register as a legal entity on 9 June 1993, the plaintiff and the trademark owner entered into a licence agreement on 30 June 1993 and, pursuant to § 2(1) of the agreement, the licensor granted the licensee an exclusive licence to use all rights in the exclusive right zone – the exclusive territory on 31 December 1993, pursuant to § 10(1) of the Licence Agreement, the licensee could file an action together with the licensor. The requirement to file a joint action was abolished by the licence agreement of 10 February 1995. The plaintiff had the right to file a lawsuit because the trademark owner refused to file a lawsuit (within the meaning of Section 36(2) of the Trade Marks Act). Since the plaintiff learned of the infringement of his rights in February 1993, the claim is time-barred in respect of the defendant's actions that occurred before 28 April 1994 (1993 was erroneously stated in the decision).

In order to satisfy the claim under Section 36(1)(2) of the Code of Civil Procedure and Section 448 of the Civil Procedure Code, it is necessary to establish the occurrence of damage, the unlawfulness of the act, the causal connection between the damage and the unlawful act, and the fault of the person causing the damage. The pecuniary damage from the non-receipt of the so-called first license fees in 1993 and 1994 is, according to the plaintiff's calculations, 1,760,000 kroons. The plaintiff's reliance on the sublicense agreement between the plaintiff and the defendant of 26 April 1995 is justified, as it allows the plaintiff to assess the loss of income incurred by the plaintiff in a similar situation. Clause 6.1 of the license agreement proves that the parties concluded a license agreement on 26 April 1995, the amount of the first license fee was 110,000 German marks (880,000 kroons). Since the plaintiff's claim is time-barred with respect to the defendant's actions until April 28, 1994, the plaintiff's justified claim is 880,000 kroons.

The claim for pecuniary damage for the non-receipt of so-called subsequent royalties for the period from 2 February 1993 to 26 April 1995 has expired in its entirety for 1993. According to Rimessi's opinion, in 1994 the defendant distributed 35,663 decalitres of vodka marked with the trademark "Stolichnaya". The royalties per decalitre were 25.6 kroons. When determining the lost income, the court relied on the production reports requested from the archive and did not take into account the quantities distributed. The justified amount of the claim for 1994 is 517,248 kroons. The production reports for 1995 prove that in 1995 the vodka "Stolichnaya vodka" was produced only in the third and fourth quarters. The evidence shows that from January 1995 to April 26, 1995, the defendant did not violate the plaintiff's rights by producing vodka. The County Court did not take into account the clause arising from clause 6.6 of the license agreement of April 26, 1995, because the said clause provided for the possibility of withholding in the event of certain assumptions, the occurrence of which was not certain. The County Court found that the justified amount of the plaintiff's claim is 1,397,248 kroons in total.

The plaintiff's lost income also includes money that the plaintiff could not deposit in the bank due to the violation of rights. The interest calculation and the interest rates of kroon loans by year are provided in Rimess' final assessment. The county court reassessed the above because the plaintiff's claim is partly time-barred and partly smaller. The reasonable amount of interest calculated on the arrears of the first license fees is 2,891,760 kroons, the reasonable amount of interest calculated on the unpaid amounts of subsequent license fees is 1,401,021 kroons. In total, the plaintiff's claim calculated on the interest fees as of 31 December 2003 is 4,292,781 kroons.

According to § 17(1) of the Trade Marks Act, legal protection for a registered trademark begins to operate from the date of filing the application for registration of the trademark. This is the so-called right of priority for legal protection of the trademark, which gives legal protection of the trademark retroactive effect from the date of filing the application for registration. This principle also follows from Article 4(2) of the Paris Convention for the Protection of Industrial Property. Thus, third parties, including the defendant, did not have the right to use the trademark «Stolichnaya vodka + shape» without the consent of the trademark owner from the date of receipt of the trademark registration application at the Patent Office. The defendant's request to disapply § 17(1) of the Trade Marks Act, since third parties were not able to examine the trademark registration applications, is unfounded. The word trademark «Stolichnaya vodka» was well-known in Estonia at the time of the dispute and the defendant, as a person engaged in the production and distribution of alcohol in his economic activities, could not assume that it belonged to him. According to the current KaMS § 33 (3) (1), the exclusive right of the trademark owner is violated if a natural or legal person uses a confusingly similar sign for the marking of goods or services of the same type without the owner's permission or commits other acts that infringe the owner's exclusive right. According to § 5 (3) (1)–(5) of KaMS, the use of a trademark included, among others, marking goods or packaging with a trademark, offering goods marked with a trademark for sale, and marketing and storing them for the purpose of sale. The trademark owner filed an application for the contested combined trademark "Stolichnaya vodka + shape" on 2 February 1993 and the trademark was registered on 14 December 1994. The defendant's annual report for 1994, in particular the Liviko domestic market top five table on page 9 of the annual report and the statistical graphs for spirits on page 11, prove that the defendant used the plaintiff's trademark under the names "Peilinna voin" and "Stolichnaya vodka". The fact that the defendant used the goods designated by "Stolichnaya vodka" during the period from 31 March 1993 to 26 April 1995 is proven by the reply of the Customs Board and the correspondence between the ICC-Counterfeiting Intelligence Bureau and the defendant. It is obvious that the sign "Stolichnaya" is confusingly similar to the trademark registered under registration No. 14385. The defendant violated the plaintiff's right as the trademark owner by labeling, storing and marketing the products with the word combinations "Stolichnaya vodka" and "Pealinna viin" because they are confusingly similar signs, and these words have one, possibly misleading, meaning for the consumer. The plaintiff, as the licensee of the trademark, had not given the defendant permission for the said activity.

Regarding the causal link, the county court found that if the defendant had not unlawfully used the trademark, neither the trademark owner nor the plaintiff as a licensee of the trademark would have suffered any damage.

In order to be released from liability, the defendant must prove that he is not guilty of causing the damage (Civil Code § 448 (2)). Since the court did not establish that the parties agreed to waive the claims, the plaintiff's application to court and filing a claim for damages is not contrary to the principle of good faith. The fact that the defendant was aware of the owner of the registered trademark no later than 30 June 1994, as well as that the defendant himself submitted an application for registration of a trademark with an analogous label on 7 April 1993, has been proven by the decision of the Industrial Property Appeals Committee (Vol. I, p. 86–87). The defendant's application for registration of the trademark "Pealinna viin + kuju" in Class 33 (vodka) was rejected, the decision entered into force on 18 November 2004 (Vol. I, p. 194–202). The defendant must have understood that by bringing vodka with a similar sign onto the market, he would be infringing the rights of the trademark owner.

11. The defendant filed an appeal, requesting that the county court's decision be annulled insofar as it partially satisfied the claim, and that a new decision be made insofar as the annulled decision was made, dismissing the claim and ordering the plaintiff to pay the procedural costs in favor of the defendant.

12. The applicant opposed the appeal and requested that it be dismissed.

13. By its decision of 4 June 2008, the Tallinn Circuit Court annulled the decision of the county court in so far as the county court satisfied the claim in an amount greater than 880,000 kroons, and satisfied the claim in part, also taking into account the reasons given in the decision of the circuit court. The circuit court ordered the defendant to pay the plaintiff 880,000 kroons in damages. The circuit court ordered the parties to bear the procedural costs themselves.

The circuit court found that the county court's decision must be partially annulled in the part concerning the limitation period, based on § 657 (1) (2) of the Code of Civil Procedure, due to incorrect application of substantive law norms and violation of procedural norms, and the appeal must be partially granted.

The plaintiff as a licensee has the right to file a claim against the defendant. In establishing this fact, the county court has correctly relied on the letter from the trademark owner, Spirits International B. V., as the main evidence, from which it follows that the trademark owner at the time of filing the claim was aware of the filing of the claim and considered that filing the claim was the plaintiff's obligation, and refused to file it himself.

The fact that this is a claim for compensation for non-contractual damage means that the license agreement concluded between the parties on 26 April 1995 can only serve as a reference point in resolving the dispute in indirectly determining the amount of compensation for damage. The concluded agreement cannot be used as a basis for calculating any time limits or for linking the claims submitted. The plaintiff's basis for substantiating the existence and amount of damage on the basis of the license fee that the defendant would have had to pay if it had obtained permission to use the trademark is in accordance with the spirit of the law.

The plaintiff has submitted three different claims. In substantiating the existence and amount of the first claim for damages, filed on 28 April 2004, the plaintiff has referred to the agreement contained in the license agreement concluded on 26 April 1995 regarding the first license fee, which amounted to 880,000 kroons per year. Transferring this to the years 1993 and 1994, when the defendant produced vodka bearing a trademark not owned by it without a license, the plaintiff wishes to claim that it has suffered damage in an amount corresponding to the amount of the first two years of the license fee. The plaintiff's two other claims for non-contractual damages filed on 14 June 2005 concern damages, the existence and amount of which the plaintiff justifies with the subsequent royalty agreement in the license agreement concluded on 26 April 1995 and the second with the claim that if the defendant had obtained permission to use the trademark, the plaintiff would have received a royalty for the years 1993 and 1994 and could have earned interest on it in addition. The claims filed on 14 June 2005 are independent claims for damages and the fact that the plaintiff also uses the license agreement of 26 April 1995 as a reference point in determining their existence and amount does not provide grounds for linking the claims filed with the claim for damages filed on 28 April 2004. In view of the foregoing, the District Court did not agree with the County Court's assessment of the limitation period of the claim. The county court is correct in its position that the plaintiff's claim is time-barred insofar as it concerns the defendant's activities before 28 April 1994. The plaintiff considers the conclusion of the license agreement on 26 April 1995 to be the end of the damaging activity. The period from 28 April 1994 to 26 April 1995 corresponds to almost one year and for this reason alone it can be considered probable that the amount of damage suffered by the plaintiff corresponds to the same amount that was agreed upon as the first license fee one year ago when the license agreement was concluded later. Based on the foregoing, the county court, relying on Section 36(1)(2) of the Code of Civil Procedure and Section 448 of the Code of Civil Procedure, which were in force at the time of the dispute, has correctly satisfied the claim submitted by the plaintiff on 28 April 2004 in the amount of 880,000 kroons.

The plaintiff's claims for damages filed on 14 June 2005, the calculation of which is based on the subsequent royalty and interest forgone, must be dismissed in their entirety due to the statute of limitations. Since the plaintiff filed the said claims on 14 June 2005, they are time-barred insofar as the defendant's possible actions occurred before 14 June 1995. Since the plaintiff's claim relates to the defendant's actions concerning the period from 1993 to 26 April 1995, the plaintiff's claims filed on 14 June 2005 are time-barred in their entirety.

There is no reason not to apply Section 17(1) of the Trade Marks Act in the dispute. In justifying its position, the County Court has correctly relied on the right of priority of trademark legal protection, which gives the legal protection of a trademark retroactive effect from the date of filing the registration application. The District Court did not find any unconstitutionality in such an objective of the legislator.

14. The plaintiff filed an appeal in cassation, requesting that the decision of the district court be annulled in the part by which the district court annulled the decision of the county court, and that the decision of the county court be upheld. The plaintiff requested that the court costs of the appeal of 48,970 kroons be awarded to the defendant, and that the court costs of the cassation be borne by the defendant.

15. The defendant filed an appeal in cassation, requesting that the decision of the district court be annulled in so far as it partially satisfied the claim and did not order the defendant to pay the plaintiff's procedural costs, and that the case be remitted to the district court for a new hearing in that regard.

16. The plaintiff opposed the defendant's cassation appeal and requested that it be dismissed and that the district court's decision not be changed in the part contested by the defendant.

17. The defendant opposed the plaintiff's appeal in cassation and requested that it be dismissed.

18. By its decision of 17 December 2008 in civil case No. 3-2-1-109-08, the Supreme Court partially satisfied the cassation appeals of the plaintiff and defendant, annulled the decision of the district court on the basis of § 692 (1) (1) (1) and (2) of the Code of Civil Procedure due to the incorrect application of a substantive law norm and a significant violation of a procedural law norm, and sent the case back to the same district court for a new review.

The Supreme Court found that the plaintiff's subsequent increase in the claim for damages was not time-barred in respect of the additional claim.

The district court has not based its decision on the facts established and undisputed by the county court in granting the claim. The county court established that the defendant did not violate the plaintiff's rights in the first half of 1995. The plaintiff did not contest the county court's decision. The district court did not doubt the provenness of the aforementioned factual fact. However, the district court found that the period from 28 April 1994 to 26 April 1995 corresponds to almost one year and for this reason alone it can be considered probable that the amount of damage suffered by the plaintiff corresponds to the same amount that was agreed upon as the first license fee for one year when the license agreement was later concluded.

If a trademark is registered, then pursuant to the former KaMS § 17 (1) the trademark receives legal protection from the date of filing the application for registration, therefore retroactively. Pursuant to the former KaMS § 36 (1) (2) and (2), the plaintiff can claim the trademark owner's lost income and therefore it is not important when he was entered in the register as a legal entity or when the license agreement entered into force with respect to him. In the current case, the courts have considered the claim to be time-barred insofar as it concerns the time before 28 April 1994. The plaintiff was entered as a legal entity in the Estonian Enterprise Register on 9 June 1993.

It does not follow from the Trademark Act that a person who submitted an application for registration of a trademark to the Patent Office could not conclude a license agreement before the trademark was registered in the register. It also does not follow from the Trademark Act in force before 1 May 2004 that a license agreement becomes effective upon making an entry regarding the agreement. Since the trademark «Stolichnaya» was registered, the plaintiff acquired rights pursuant to § 17(1) of the former KaMS from the date of receipt of the application for registration of the trademark, i.e. retroactively from 2 February 1993.

Since the courts did not establish that the parties had an agreement to waive the claim, the plaintiff's going to court and filing a claim for damages is not contrary to the principle of good faith.

The County Court has incorrectly identified the beginning of the legal protection of a trademark and the priority of a trademark. The priority of a trademark is regulated in the previous KaMS § 10, while the validity of a trademark is regulated in KaMS § 17. The references to Article 4 of the Paris Convention for the Protection of Industrial Property are irrelevant. According to Section 17(1) of the KaMS, the legal protection of a trademark arises upon entry in the register of a trademark retroactively from the date of receipt of the application for registration. The fact that the courts identified the beginning of the legal protection of a trademark and the priority of a trademark and erroneously referred to Article 4 of the Paris Convention for the Protection of Industrial Property would not provide grounds for annulling the decision of the District Court.

The defendant's claim that Section 17(1) of the former KaMS is unconstitutional is not substantiated. The defendant's claim that the said provision is unconstitutional is general, i.e. without reference to a provision of the constitution. The defendant has not substantiated which of his constitutional rights the said provision violates. However, the defendant has already stated in his response to the statement of claim on 7 June 2004 (Volume I, page 80) that, as can be seen from the extract from the trademark register, the disputed trademark was published on 2 May 1994. The plaintiff claims the income lost by the defendant due to the use of the trademark "Stolichnaya" from 28 April 1994.

The plaintiff, claiming as lost income the possible interest that he would have received if the defendant had not infringed the rights arising from the trademark «Stolichnaya» and had paid the sub-license fees, must prove in the case that he would have deposited the money received as possible sub-license fees in a bank and earned interest on the deposit. However, the plaintiff wishes to receive as lost income the interest on the kroon loan of the Bank of Estonia for the alleged possible use of the money. The plaintiff relies on the Supreme Court's decision in civil case No. III-2/1-36/94, but in that case the lost income meant the possible deposit interest (not loan interest) that the plaintiff would have received from the bank if the defendant had fulfilled the obligation.

The decision and reasons of the District Court

19. By its decision of 13 April 2009, the Tallinn Circuit Court annulled the decision of the Harju County Court of 1 February 2008 and made a new decision, dismissing the action and ordering the plaintiff to pay the defendant 415,750 kroons in court costs.

According to the decision of the District Court, it can be considered established that the defendant used the trademark until 6 October 1994. The dispute therefore concerns the infringement of trademark rights during the period from 28 April to 6 October 1994. The plaintiff has not submitted any data from which it could be concluded that the defendant produced "Pealinna voina" also after 6 October 1994. Since the trademark was entered in the register on 14 December 1994, the entire disputed period concerns the time prior to the entry of the trademark in the register.

The county court has justified the unlawfulness of the defendant's conduct, among other things, by the well-known trademark, but since the plaintiff had not relied on the claim of well-known trademark as the basis for his claim, the county court violated, by expanding the circumstances underlying the claim, § 4(2) of the Civil Procedure Code (in the claim proceedings, the parties shall determine the subject matter of the dispute), § 5(1) (the claim shall be processed on the basis of the circumstances and applications submitted by the parties, based on the claim) and § 439 (the court may not exceed the limits of the claim in its decision). Since the plaintiff relied on the infringement of the registered trademark described above as the basis for the claim, it must be established in order to resolve the dispute whether the defendant has caused damage to the plaintiff by infringing the registered trademark in question during the period in question.

The trademark owner (or licensee) cannot be harmed by the unlawful use of a registered trademark before the trademark has been registered, i.e., ownership of the trademark has arisen. Ownership cannot be infringed before ownership has arisen.

According to the provisions of the previous § 17(1) of the Trade Marks Act, the right to a trademark is valid from the date of receipt of the application for registration until ten years have passed from the date of entry in the register. In the same case, the Supreme Court, in its decision of 17 December 2008, interpreting this provision, noted that a trademark receives legal protection pursuant to the referred norm from the date of submission of the application for registration, thus retroactively, if the trademark is registered. Without focusing on the content and scope of the legal protection specified in the referred norm, the Supreme Court has nevertheless noted that the priority of a trademark is determined from the date of receipt of the application for registration of a trademark and that lower courts have mistakenly identified the beginning of the legal protection of a trademark and the priority of a trademark. The Circuit Court interpreted this to mean that the applicant has the right of priority from the date of submission of the application only on the condition that the trademark is registered, but this does not mean that the referred provision gives the trademark owner grounds to submit claims for compensation for damages retroactively based on infringement of a registered trademark for the period when the applied-for sign had not yet been registered as a trademark.

The same follows from the provisions of both § 34(1) and § 36(1) of the former Civil Procedure Code, as well as from the provisions of Chapter 41 of the Civil Procedure Code, which regulated the general grounds for civil liability in the event of damage caused during the disputed period, according to which the right to claim compensation for damage presupposes an infringement of the law, i.e. an unlawful act, by the infringer. However, such an act must be unlawful at the time of the act and cannot become unlawful subsequently. If § 17(1) of the former Civil Procedure Code were interpreted as giving the trademark owner the right to claim compensation for damage retrospectively for the period prior to the registration of the trademark, this would mean that the liability of the alleged infringer would be entailed by an act that was not unlawful at the time of its commission, but became so retrospectively. In addition, it would then be a so-called "floating" illegality, because before registering a sign as a trademark it is not known whether it will be registered as a trademark (KaMS § 12 (4)–(7), § 13 (1), § 35). However, interpreting the provisions of the previous KaMS in conjunction with each other, it appears that the legislator did not pursue such an objective.

The provisions of the previous KaMS do not guarantee the possibility of finding out about the application for registration of a trademark and it follows from this that the legislator has not wished to prohibit the use of the applied-for sign, remaining with the protection of the rights arising from the registered trademark to the trademark owner. Therefore, the legal protection provided for in § 17(1) of the previous KaMS cannot include the right to claim compensation for an alleged infringement committed before the registration of the trademark. Since, as a result of the above, the only issue left in dispute is whether the defendant has caused the plaintiff damage by infringing the rights arising from the registered trademark during the period from 28 April to 6 October 1994, i.e. before the trademark was entered in the register, the action cannot be satisfied on this basis alone and the remaining arguments in the complaint or response are irrelevant.

The plaintiff's loss during the disputed period cannot consist of lost sub-license fees, because the exclusive right to a registered trademark arises from the entry of the trademark in the register and it is not possible to exercise, including for a fee, a right that does not yet exist.

Reasons of the parties to the proceedings

20. The plaintiff filed a cassation appeal against the decision of the district court, requesting that the decision of the district court be annulled and, if possible, a new decision made or the case be sent back to the district court for a new hearing. The plaintiff requests that the costs of the proceedings be borne by the defendant.

The District Court has ignored the instructions previously given by the Supreme Court in the same case, which is a significant violation of procedural rules.

Ignoring the Supreme Court's instructions, the district court has also misinterpreted substantive law, stating that the provisions of § 17(1) of the Trademark Act do not provide legal protection for the trademark in the event of registration of a trademark retroactively from the filing of the application for registration in a manner that would allow the trademark owner to file a claim for damages against the infringer in the event of an infringement of rights occurring between the filing of the application for registration of the trademark and the registration of the trademark. It is possible to clearly understand § 17(1) of the Trademark Act and the position of the Supreme Court as meaning that the right of ownership to the trademark arises in the event of registration of the trademark, retroactively from the filing of the application for registration of the trademark. Consequently, legal protection of ownership also arises from the registration of the trademark retroactively from the filing of the application for registration.

The position of the district court is incorrect, that the county court's decision, based on the minutes of the meeting between the trademark owner and the defendant on 26 October 1994, established that the defendant used the trademark belonging to the plaintiff only until 6 October. The county court has only assessed the verbal nature of the defendant's actions in the minutes. However, the minutes cannot establish that the trademark owner's rights were not violated after the time indicated in the minutes. It is clear that the minutes drawn up on 26 October 1994 do not allow for the violation that occurred after 26 October 1994 to be established. The defendant also violated the trademark owner's rights after 6 October 1994, which is why it is correct to file a claim for compensation for the violation that occurred between 28 April 1994 and 31 December 1994.

If the Supreme Court deems it possible to finally resolve the disputed matter itself, the plaintiff will remain with the written positions submitted to the Tallinn Circuit Court on 23 March 2009 regarding the amount of the claim for damages.

The Circuit Court has significantly violated the procedural norm. The cassation applicant also finds that the Estonian state has not guaranteed him the right to an effective procedure for the protection of his rights. In the current situation and considering the errors of the Tallinn Circuit Court, the plaintiff requests that the case be sent back not to the Tallinn Circuit Court, but to the Tartu Circuit Court, if the cassation appeal is granted, if the Supreme Court does not consider it possible to finally resolve the matter itself.

21. The defendant opposed the plaintiff's appeal in cassation and requests that it be dismissed.

The College's position

22. The Chamber finds that the decision of the district court must be annulled on the basis of § 692 (1) (1) of the Code of Civil Procedure due to the incorrect application of a substantive law norm. The plaintiff's cassation appeal must be granted. The matter must be sent back to the same district court for a new hearing.

23. According to the provisions of § 17(1) of the Commercial Code in force before 1 May 2004, the right to a trademark is valid from the date of receipt of the application for registration until ten years have passed from the date of entry in the register. The Supreme Court noted in the same case (civil case no. 3-2-1-109-08) in its decision of 17 December 2008 that if a trademark is registered, then pursuant to § 17(1) of the Commercial Code in force before 1 May 2004, the trademark receives legal protection from the date of submission of the application for registration, thus retroactively. The Supreme Court has also noted in the same decision that the county court has mistakenly identified the beginning of the legal protection of a trademark and the priority of a trademark.

The Circuit Court interpreted this as meaning that the applicant has the right of priority from the time of filing the application only on the condition that the trademark is registered, but this does not mean that the referred provision gives the trademark owner grounds to file claims for damages retroactively based on infringement of a registered trademark for the period when the applied-for trademark had not yet been registered as a trademark. The aforementioned conclusion of the Circuit Court is erroneous. The Supreme Court merely pointed out that the priority of a trademark (former KaMS § 10) and the emergence of legal protection of a trademark (former KaMS § 17 (1)) are not identical. The Supreme Court explained in its decision that the priority of a trademark is regulated in the former KaMS § 10, while the validity of a trademark is regulated in the former KaMS § 17. According to § 10 (1) of KaMS, the priority of a trademark is determined from the date of receipt of the application for registration of a trademark, i.e. the person who first submitted the application for registration has the priority right to register the trademark in the relevant territory. The priority of a trademark is determined by the date of filing the application for its registration, but the legal protection of the trademark arises retroactively from the date of receipt of the application for registration only if the trademark is entered in the register. Pursuant to § 17(1) of the Trade Marks Act, the legal protection of a trademark arises retroactively from the date of receipt of the application for registration. It cannot be concluded from this position of the Supreme Court that the filing of a claim for compensation for damage in respect of a registered trademark would be excluded for the period when the application for registration of the trademark was filed but the trademark had not yet been entered in the register.

Pursuant to § 36(1)(2) of the former KaMS, a trademark owner whose rights have been infringed may file a civil action, which includes a claim for compensation for the pecuniary and moral damage caused to the trademark owner or licensee, including lost income. The Chamber finds that a claim for compensation for damage can also be filed for the period when the trademark application was filed, but the trademark was not yet entered in the register, if the prerequisites for satisfying the claim for compensation for damage have been met. During the period in question, the general grounds for civil liability for causing damage were provided for in § 448 of the Civil Procedure Code, which must also be applied when filing a claim for compensation for damage in the event of infringement of the rights of a trademark owner on the basis of § 36(1)(2) of the former KaMS. The circuit court must assess, upon re-examination of the case, whether the prerequisites for satisfying the claim for compensation for damage have been met, including assessing the defendant's capacity.

24. The applicant's claim in the cassation appeal that it is not possible to identify a violation that occurred after 26 October 1994 using the minutes drawn up on 26 October 1994 is correct.

25. Pursuant to § 688(5) of the Code of Civil Procedure, the Supreme Court shall not collect or examine evidence, except in the case where the evidence is submitted to prove a significant violation of the procedural law of the district court. The Supreme Court shall also not collect or examine again evidence collected, examined and assessed in lower courts. Since in the present case the assessment of the claim for compensation for damages requires the assessment of evidence, the Supreme Court cannot make a final decision itself, which is why the matter must be remitted to the district court for a new examination. In response to the plaintiff's claims regarding the efficient procedure, the Chamber notes that in the present case there is no basis to remit the matter to the Tartu District Court for consideration. The Chamber further explains that in a situation where the plaintiff filed the claim almost two years after the alleged infringement of trademark rights, it is difficult for the courts to establish the circumstances underlying the claim for damages.

26. When re-examining the case, the District Court must also follow the instructions given by the Supreme Court in resolving civil case no. 3-2-1-109-08 (see paragraph 18 of this decision).

27. In conjunction with § 3 of the Code of Civil Procedure and the Code of Enforcement Procedure Implementation Act, the distribution of the parties' court costs and the amount of possible costs to be awarded shall be determined upon a new review of the case, based on its outcome.

28. Due to the satisfaction of the plaintiff's cassation appeal, the cassation bail paid must be returned to him pursuant to the first sentence of § 149(4) of the Code of Civil Procedure.

According to § 149(8) of the Code of Civil Procedure, which has been in force since 1 January 2009, the bail shall be returned to the participant in the proceedings who paid it or for whom it was paid, or to another person on his or her order, based on a ruling of the court that resolved the application. When submitting such an application or complaint from which bail must be paid, the application or complaint must state to whom and to which bank account the bail must be returned. The plaintiff has notified the Supreme Court that the bail must be returned to the bank account of Aleksander Zubowicz.

Lea LAARMAA

Henn JÕKS

Ants KULL