

THE CANDYMAN CASE

The Supreme Court of Nepal's Decision on Transborder Reputation & Limits of The First-To-File Provision

Well-known marks in Nepal received their most significant judicial treatment when a division bench of the Supreme Court of Nepal, consisting of Hon. Justice Sapana Pradhan Malla and Hon. Justice Sunil Kumar Pokharel, ruled that a foreign trademark never registered or used in Nepal could supersede a trademark already registered in Nepal when the foreign company applied for registration (ITC Judgment). The Court canceled the trademark registration of “CANDYMAN (and LOGO),” granted in 2003 and then owned by Sujal Foods Pvt. Ltd. (Sujal Foods), and restored the registration of “CANDYMAN COCOLAIR (word)” in favor of ITC Limited.

This decision is the Court's most developed treatment of well-known marks and of the relationship between section 21B of the Patent, Design and Trademark Act, 1965 (1965 Act) and Article 6bis of the Paris Convention. What makes the decision important is its approach, not its result. Over recent years, the Supreme Court has qualified the first-to-file principle through a succession of exceptions. But this is the first time the Court organized those exceptions into a structured test for well-known marks, and accepted that cross-border television advertising may generate goodwill within Nepal. This article sets out the case and the judgment, the earlier precedents, and a brief analysis of how the decision differs from them.

The Dispute and the Decision

The Dispute

ITC, a company incorporated in India, registered CANDYMAN COCOLAIR in India in November 2001. From 2002, it advertised CANDYMAN on Indian satellite channels, which were also accessible in Nepal. In Nepal, a mark featuring the words CANDYMAN and a logo was registered in class 30 on April 3, 2003, by a Nepalese company. After two assignments, the mark reached Sujal Foods Pvt.

Ltd. in 2012. That same year, ITC sought to register CANDYMAN COCOLAIR in Nepal. Sujal Foods opposed this, but the Department of Industry (DoI) approved ITC's application. Later, Sujal Foods filed a complaint to cancel ITC's trademark under section 18(3) of the 1965 Act, arguing that a similar mark was already registered. The DoI canceled the mark on June 27, 2013. ITC challenged this decision in the Patan High Court, which upheld the DoI's ruling. In 2017, the Supreme Court granted leave for a rehearing, citing misinterpretation of sections 18(1) and 18(3) and the principle in Sumi Distillery.

The Decisions

The Court decided on the following grounds:

Well-known status

The 1965 Act contains no definition of a well-known mark, and the Trademark Directive, 2015 leaves designation as a well-known mark to the Government. The Court accordingly adopted, as guidance rather than as a binding rule, the six factors set out in Article 2(1)(b) of the 1999 Joint Recommendation Concerning Provisions on the Protection of Well-Known Marks:

- a. the degree of knowledge or recognition of the mark in the relevant sector of the public;
- b. the duration, extent and geographical area of any use of the mark;
- c. the duration, extent and geographical area of any promotion of the mark;
- d. the duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the extent that they reflect use or recognition of the mark;
- e. the record of successful enforcement of rights in the mark, in particular, the extent to which the mark was recognized as well known by competent authorities;
- f. the value associated with the mark.

The Court finally found that each factor set out in Article 2(1)(b) was satisfied and it could hence be concluded that the disputed trademark was a well-known trademark.

Goodwill and territoriality

The Court characterized the traditional territorial rule (linked to *Hanover Star Milling v. Metcalf* and *United Drug v. Rectanus*) as anachronistic in a global advertising era, and embraced the spillover reputation doctrine. The Court noted that, although cases such as *Starbucks (HK) Ltd v. British Sky*

Broadcasting Group plc and *Toyota Jidosha Kabushiki Kaisha v. Prius Auto Industries* support the requirements of section 21B of the 1965 Act, the Court distinguished the present case because:

- a. the product linked to the contested trademark was inexpensive and purchased impulsively,
- b. Nepal and India share an open border, and
- c. Nepali consumers can easily access Indian media.

Section 21B and the Paris Convention

Section 21B of the 1965 Act states that a foreign mark not registered in Nepal does not grant rights within Nepal. The Court read this provision as reflecting territoriality but clarified that it does not protect the bad-faith registration of a well-known foreign mark. Applying the doctrine of harmonious construction and the maxims “*generalia specialibus non derogant*” (the general does not derogate from the specific) and “*ut res magis valeat quam pereat*” (it is better for a thing to have effect than to be destroyed), the Court read section 21B alongside the proviso to section 18(1), section 21C, and Article 6bis. It cited section 9(1) of the Treaty Act, 1990 for the proposition that a treaty overrides conflicting domestic law. The Court concluded that reading section 21B in absolute terms, so that a well-known foreign mark could be copied in bad faith simply because it was not yet registered in Nepal, would defeat the purpose of section 18, section 21C, Article 6bis, and section 9(1) of the Treaty Act, 1990 alike.

Relativity of First to File

The Court concluded that a foreign trademark can supersede an earlier Nepali registration if certain conditions are met. These include the mark's recognition beyond borders, evidence of bad faith by the Nepali registrant, trademark squatting, and the foreign owner's brand recognition among Nepali consumers, whether built directly or through international media and imports.

Application

The Court determined that, given ITC's advertising efforts since 2002 and the open border, Sujal Foods could not credibly claim ignorance of the CANDYMAN brand, and that using an identical name with a similar logo was not done in good faith. The Court found confusion likely because: (a) the word mark was exactly the same, (b) the logo matched ITC's style, and (c) consumers of low-

cost impulse purchases tend to buy quickly and may not recall details. The Court stressed throughout that trademark protection serves both consumers and brand owners.

The Final Decision

The Court canceled the trademark registered in Sujal Foods' name and restored ITC's registration.

The Court's Jurisprudence Before CANDYMAN

The Supreme Court decisions that frame the ITC judgment are set out below in chronological order.

Case Name	Decision No.	What the Court held
<i>Noor Pratap Rana v. Department of Industry</i>	7536	A trademark exists to identify one manufacturer's goods and distinguish them from others. A mark resembling a recognised mark, so that consumers are misled, cannot stand.
<i>Amatya v. Department of Industry</i>	8356	A bottle is not itself a trademark, but a mark embossed on it is, and the owner need not make the bottle. A buyer can take the glass, not the mark, and may not use it to pack a rival product (s. 16(2)).
<i>Sumi Distillery v. Guinness United Distillers & Vintners</i>	8577	The DoI must decide the complaint and the application together, on evidence and with its own reasoning. Section 18(3) lets it cancel a registered mark that injures another mark's reputation. Nepal's treaty obligations are to be read into the Act.
<i>Madan Prasad Lamsal v. Repsona Publications</i>	8686	Only the registered owner holds exclusive rights (ss. 16, 18kha). Use, however long, gives

		none. The Printing and Publication Act does not govern trademark rights.
<i>Sun Fitting v. Sandeep Industries</i>	10304;	An earlier filing date is not enough where examination shows the mark cannot be registered. A mark registered abroad and admissible under the Paris Convention must be registered in Nepal, or refused with reasons.
<i>Tejram Dharampal v. Ganapati Tobacco</i>	10303;	A foreign registration certificate must exist and accompany the application; claiming one is not enough. Production and advertising alone do not found a right to register (s. 21C, Paris Convention art. 6D).
<i>Kansai Nerolac Paints v. Rukmani Chemical Industries</i>	10561;	Once a foreign owner applies, a local registrant's rights in its mark end (Paris Convention, TRIPS, s. 21B and (c)). Registration obtained in bad faith raises no limitation bar.

Analysis

From Exception to Framework

Kansai Nerolac Paints v. Rukmani Chemical Industries established that bad faith defeats the first-to-file provision of the law. ITC supplies the means of proving the underlying reputation (the WIPO factors), an account of what constitutes goodwill (advertising that reaches Nepali consumers), and a method of reconciling statute with treaty. The last point on reconciliation extends beyond trademarks: the two-stage approach to section 9(1) of the Treaty Act, 1990 is a template for any conflict between a domestic provision and a ratified treaty, and another bench has applied the same section to protect the Scotch Whisky geographical indication in the absence of domestic legislation.

Continuation Rather than Rupture

The Court did not abandon territoriality. The Court stated expressly that section 21B adopts it. The relief itself was orthodox: cancellation of the local mark and registration of the foreign one. The ITC judgment does not clearly hold that an unregistered foreign mark carries enforceable rights by virtue of use alone, which is the proposition *Tejram Dharampal v. Ganapati Tobacco* rejected.

Confirmation from a Second Bench

Barely a month after the ITC judgment, a separate division bench of the Supreme Court passed its judgment on the *Perfetti Van Melle S.P.A. v. Perfect Foods Pvt. Ltd. (Case No. 077-CI-0301)* case. Perfetti Van Melle, the Italian confectionery company, had registered CENTER FRUIT for chewing gum in Nepal in 2013 and used the mark since 2005. Perfect Foods, a Nepali company, sought to register PERFECT CENTER FILLZ for the same class of goods. The Department of Industry allowed the registration, and the High Court (Patan) upheld that decision, finding the marks visually and phonetically different. The Supreme Court reversed, holding that the suffix change from “Fruit” to “Fillz” maintained substantial similarity sufficient to deceive consumers. Applying the same section 18(1) proviso and section 18(3) invoked in ITC, the Court stressed that these provisions embody a passing-off principle: even where section 21B requires registration, the proviso prevents registration of a mark that would injure the reputation of an established brand, whether or not that brand was itself registered at the time. The Court also invoked the WIPO standard on distinctiveness and the *Noor Pratap Rana v. Department of Industry* precedent to hold that mere prefix or suffix alterations do not avoid infringement when the dominant element remains recognizable. The fact that a different bench reached the same statutory construction within weeks of the ITC judgment, and in a case involving the same product category, suggests that the framework articulated in ITC is not an outlier but an emerging consensus on how the 1965 Act protects well-known foreign marks in Nepal.

Open Questions

However, several questions remain open.

1. The first concerns the evidence of Nepali awareness. The Court noted the absence of any survey on public recognition in Nepal and inferred awareness from the open border, shared culture, and Indian satellite advertising. That inference is natural for a mass-market

Indian brand, but it may be difficult to draw for a mark without comparable media presence, or for goods purchased with greater deliberation.

2. The second is whether the four circumstances listed in paragraph 37 of the ITC judgment are cumulative or alternative.
3. The third is the identity of the party whose bad faith is in issue. The Nepali mark was registered in 2003 and reached Sujal Foods by assignment in 2012. The Court's finding concerns Sujal Foods' knowledge, but the judgment does not separately analyze the original registrant's intention or the chain of title.
4. The fourth is the temporal reach of the advertising route. The Court relied on advertising broadcast before the Clean Feed Policy, 2076 took effect. Whether later cross-border advertising, including online advertising, carries equal weight has not been tested.

Finally, the Court itself quoted Professor Wadlow on the risk that a bona fide local trader may be sued by an obscure foreign claimant. The balance struck here depended on facts that a future court may find absent.

Overview of the Judgment

Case Name	ITC Limited v. Sujal Foods Pvt. Ltd.
Case Number	074-CI-0252
Court	Supreme Court of Nepal
Date of Decision	8 July 2024
Bench	Hon. Justice Sapana Pradhan Malla, Hon. Justice Sunil Kumar Pokharel
Subject	Trademark cancellation
Key Statutes	Patent, Design and Trademark Act, 1965; Paris Convention; Treaty Act, 1990.
Result	Sujal Foods' registration canceled & ITC's registration restored