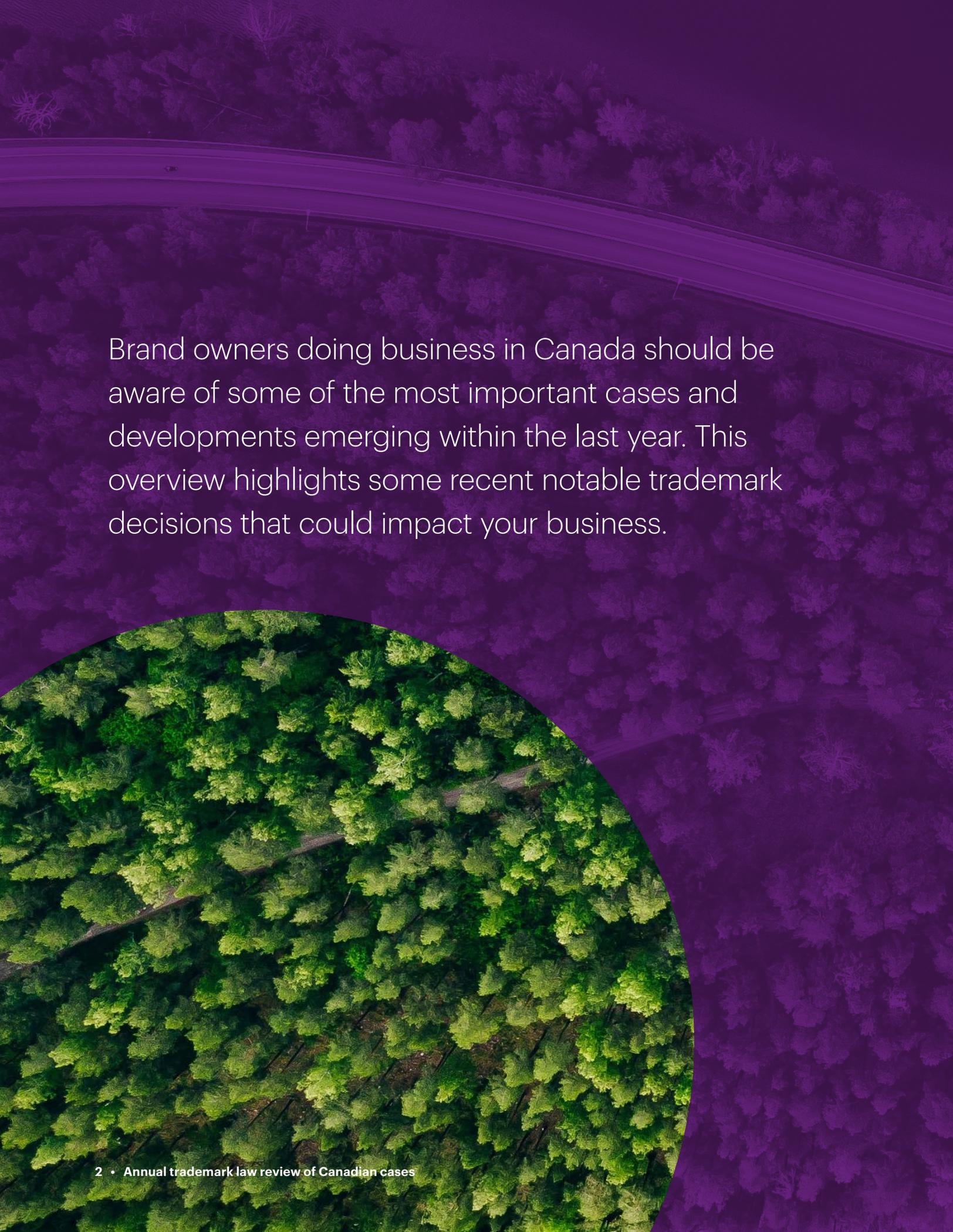




大成 DENTONS

Annual trademark law review of Canadian cases

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The background of the page is a dark purple aerial photograph of a road winding through a dense forest. A circular inset in the lower-left quadrant shows a vibrant, sunlit green forest. The text is centered in the upper half of the page.

Brand owners doing business in Canada should be aware of some of the most important cases and developments emerging within the last year. This overview highlights some recent notable trademark decisions that could impact your business.

Bad faith in Canadian trademark law

Bad faith in Canadian trademark law



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2019 was a year of great change in trademark law in Canada, as significant amendments were made to the *Trademarks Act* (R.S.C., 1985, c. T-13) (the Act). In particular, the amendment to add “bad faith” as an express ground for the invalidation of a trademark registration left practitioners and trademark owners alike anxious to see what the test for bad faith would be and how it would be interpreted¹. In 2022, for the first time, the Federal Court dealt with bad faith as a ground for invalidation of a trademark registration, in two separate cases. The court provided valuable insight into what behaviors may constitute bad faith and important guidance on the evidentiary burden there is on an applicant to successfully have a trademark registration invalidated pursuant to section 18(1)(e) of the *Trademarks Act*.

In *Beijing Judian Restaurant Co. Ltd. v Wei Meng*, 2022 FC 743, the respondent registered, in Canada, a trademark copied from the applicant, a foreign Chinese restaurant chain that operated in both China and Canada, and used the trademark in

both jurisdictions. The respondent subsequently demanded CA\$1,500,000 from the applicant as payment for the trademark registration and then offered the trademark registration for sale online after the applicant refused to pay. The Federal Court granted the application to invalidate the trademark registration on the basis of bad faith, finding that the trademarks were not registered for any “legitimate commercial purpose,” but instead for the sole purpose of extorting money from the applicant or third-parties².

In *Blossman Gas, Inc. v Alliance Autopropane Inc.*, 2022 FC 1794, Blossman, a US-based propane company, was the rightful owner of the trademark and had been licensing dealers to use the mark in Canada since 2012. The respondent, a sub-licensor of a dealer that Blossman licensed to use the mark, registered the mark in Canada without the knowledge or consent of Blossman or the dealer, and continued to do business under the mark after the sub-license agreement expired. The Federal Court granted Blossman’s application to invalidate the trademark registration on the basis of bad faith. Justice McHaffie stated that “the concept of ‘bad faith’ is flexible, and its content will vary from one area of law to another...[t]he concept must be interpreted in light of the context in which it was used, and need not necessarily include an assessment of morality or intentional fault, but may be economic in nature.”³ Justice McHaffie explained

1 *Trademarks Act*, R.S.C. 1985, c. T-13 at s. 18(1)(e).

2 *Beijing Judian Restaurant Co. Ltd. v Wei Meng*, 2022 FC 743 at paras 12, 18, 21, 24, 50, 51.

3 *Blossman Gas, Inc. v Alliance Autopropane Inc.*, 2022 FC 1749 at para 120.



that the registrant's awareness of prior rights and its intention to harm a prior user's business are both relevant to the bad faith analysis, while mere willful blindness and failure to inquire into a competitor's rights are insufficient. In this case, the sub-license agreement gave the respondent actual knowledge of Blossman's trademark and the respondent knew, as a sub-licensee, that it was not the owner of the trademark. Further, the registrant had not used the trademark at the time of filing and knew that its right to use the trademark was contingent on the continuation of the respective license agreements between Blossman, the dealer and itself. Filing the application in spite of this knowledge constituted bad faith⁴.

Earlier this year already, the Federal Court confirmed that a registrant's knowledge of its lack of entitlement to a mark at the time of filing is the deathblow to its registration, with the release of its decision in *Cheung's Bakery Products Ltd. v Easywin Ltd.*, 2023 FC 190. The parties were direct competitors in the bakery goods and related services sector. The Applicant, Cheung's Bakery Products (CBP), owned several registered trademarks that were used in association with their bakery business, a number of which were comprised of Chinese characters. The respondent, Easywin Ltd. (Easywin), a holding company of Saint Honore Holdings Limited (Saint Honore), obtained registrations of trademarks also consisting of Chinese characters. The Federal Court granted CBP's motion to invalidate and expunge Easywin's trademark registrations, partially on the basis that the applications were filed in bad faith.

As in *Blossman*, the nail in the coffin was Easywin's knowledge at the time of filing. The Federal Court found that Easywin was familiar with CBP and the companies' shared target customers and similar goods and services, and knew of previous disputes between CBP and Saint Honore regarding similar trademark issues. Based on this knowledge, Easywin could not have been satisfied that it was entitled to the marks, but "simply ignored the very facts that should have given it pause before filing the trademark applications."⁵

As mentioned, these decisions also shed light on the evidentiary burden an applicant bears in order to successfully invalidate a trademark on the grounds of bad faith. The core question is what the registrant's intention was at the time of filing the trademark application with an emphasis on the registrant's awareness of prior rights and their intention to harm a prior user's business. Accordingly, the applicant bares the onus of establishing a balance of probabilities by way of clear, convincing and cogent evidence that the application was filed in bad faith, though later evidence that sheds light on the applicant's intentions may also be relevant. Circumstantial evidence and inferences from proven facts may be sufficient to establish the registrant's objectives where only the registrant has knowledge of its intentions, though hearsay evidence and vague conjecture will not⁶. We expect to see more case law in the near term addressing bad faith in trademark applications in Canada.

4 *Blossman* at paras 121, 124, 126.

5 *Cheung's Bakery Products Ltd. v Easywin Ltd.*, 2023 FC 190 at paras 3-11, 88-90.

6 *Beijing* at paras 38-39.

To register or not to register?

The importance of trademark registration under *Sassafras v Sassafras*⁷



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Companies invest significant time and resources to have their brands become immediately recognizable to the general public and, more importantly, to their target market. Trademarks play a crucial role in the communication of a brand and the advantages of securing trademark rights through registration for the goods and services with which it is associated in Canada is a key component of a brand strategy.

The Federal Court recently released a decision that underscores the importance of registering trademarks and the protection afforded to those who do. It also highlights the importance of conducting a trademark search prior to commencing use of a mark, as it can identify confusing marks with the potential to create major headaches down the road that could have been avoided by selecting a trademark that is not confusing with any third party businesses already in operation.

The Court found that the Respondent, through its use of marks and names containing “SASSAFRAS,” was distributing goods and services in association with a trademark that was confusing with the Applicant’s registered trademark “SASSAFRAZ,” and that the use of the former had depreciated the goodwill of the latter⁸. This case highlights that small differences between trademarks are not sufficient to protect against infringement. Further, it illustrates the potentially devastating impacts an infringement ruling can have, as the Federal Court granted:

- Declaratory relief that the Respondent infringed the Applicant’s trademark and depreciated its goodwill;
- Injunctive relief requiring the Respondent to stop selling, distributing, or advertising any goods or services in association with the SASSAFRAS trademark or using it in a way likely to depreciate the goodwill attached to the SASSAFRAZ trademark;
- Mandatory relief requiring the Respondent to destroy any goods containing the SASSAFRAS trademark, to cancel its business name registration and cease using any name containing SASSAFRAS (such as in association with its website and social media accounts); and
- Damages in the amount of CA\$15,000⁹.

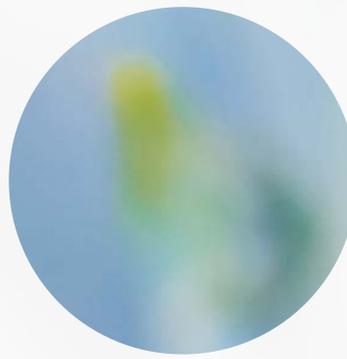
The Applicant operated a well-known fine dining restaurant in Yorkville, opened in 1997, called SASSAFRAZ, that had received significant press coverage, both in Canada and internationally¹⁰.

7 1196278 Ontario Inc (Sassafras) v 815470 Ontario Ltd (Sassafras Coastal Kitchen & Bar), 2022 FC 116.

8 *Ibid* at paras 78, 103.

9 *Ibid* see Judgment attached to decision after paragraph 113.

10 *Ibid* at paras 4-6.



SASSAFRAZ was subsequently registered as a trademark in connection with the restaurant in 2011¹¹. In 2020, the Applicant learned that the Respondent had been operating a restaurant since 2020 in Beamsville under various names, all of which included “SASSAFRAS.”¹² After the Respondent refused to stop using SASSAFRAS, the Applicant initiated a court proceeding alleging that the Respondent had infringed its trademark and depreciated the goodwill associated with it¹³.

The two trademarks were found to have a high degree of resemblance in appearance, sound and ideas evoked; the small difference in sound due to the replacement of the letter “Z” with the letter “S” at the end was not enough to materially reduce the resemblance¹⁴. Further, SASSAFRAZ was found to be distinctive, both inherently and acquired, through significant promotional efforts. The Federal Court also noted that the SASSAFRAZ mark was in use for 20 years longer than SASSAFRAS in connection with

substantially the same types of goods and services and the trades overlapped¹⁵. Each of these factors weighed in favour of a finding that SASSAFRAS was confusing with SASSAFRAZ, and that the Respondent had infringed the Applicant’s registered trademark.¹⁶ The fact that the restaurants were 100 kilometers apart was not relevant to the analysis. The Court held that the “geographical separation in the use of otherwise confusingly similar trademarks does not play a role in [the] hypothetical test” contemplated by section 6 of the *Trademarks Act*, because the test is based on the assumption that the trademarks in dispute are used “in the same area.”¹⁷

Finally, given that the Applicant had established significant goodwill in its SASSAFRAZ trademark, the Federal Court held that the Respondent’s use of the SASSAFRAS trademark likely did, and would continue to, depreciate it¹⁸. This was due to the mental association consumers would make between the two trademarks and the differences in focus, standards and branding between the two and their respective products and services¹⁹. Registration of a trademark provides significant benefits for the trademark owner and a greater ability to enforce its exclusive right to use and seek remedies against infringers.

11 *Ibid* at para 7.

12 *Ibid* at paras 8-9.

13 *Ibid* at paras 2, 13.

14 *Ibid* at paras 50, 76.

15 *Ibid* at paras 51, 52, 56, 59, 76.

16 *Ibid* at paras 75-76.

17 *Ibid* at para 73.

18 *Ibid* at paras 94, 99.

19 *Ibid* at paras 97, 100-101.



Official Marks: No longer cast in stone?



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Canadian trademark law is unique to other jurisdictions in that it allows for the adoption of “Official Marks” under Section 9 of the *Trademarks Act*. Official Marks can only be owned by public authorities in Canada. Examples of public authorities include, but are not limited to federal, provincial and municipal governments, universities and professional regulatory bodies. To evaluate if an entity is a public authority, the Registrar of Trademarks applies a two-part test: (1) that the entity is subject to significant government control, and (2) that the entity’s activities benefit the public.

Official marks are not limited by specific goods and services descriptions, they are not subject to cancellation proceedings, nor do they ever expire. There are options available to overcome a citation of an official mark such as a) presenting arguments against the citation on the basis that the mark under consideration does not so nearly resemble the official mark as to be likely to be mistaken for it, b) obtaining a letter of consent from the owner of the official mark, c) providing sufficient evidence to the Trademarks Office to conclude that the public authority no longer exists or d) challenging the validity of the official mark in the Federal Court of Canada.

Official marks can prevent the registration of a similar or identical trademark and it has historically been quite difficult to challenge an Official Mark on the basis of either factor in the two-part test. However the Trademarks Office has published a draft Practice Notice proposing a new mechanism

allowing the Trademarks Office to declare an official mark no longer valid or enforceable in cases where the owner of the Official Mark is not a public authority in Canada, or no longer exists, without having to apply to the Federal Court.

With the implementation of the proposed Practice Notice, applicants can submit a request to the Trademarks Office, accompanied by evidence and the payment of a prescribed fee, to have the Official Mark reviewed. If the Trademarks Office is satisfied with the request, it will send a notice to the Official Mark owner requesting evidence of its public authority status. If no response from the owner is forthcoming during the prescribed time period, or the evidence submitted does not meet the relevant two-part test, then the Official Mark status on the Register will be amended to read “inactivated.”

This is generally considered a positive and cost-effective development for trademark applicants in Canada as a means to overcome citations of Official Marks during examination. Official Mark holders should be taking steps to verify if they still qualify for public authority status and if not, consider applying to register their Official Marks as regular trademarks.

No bliss for LULU counterfeiters – A summary (trial) to remember



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In *Lululemon Athletica Canada Inc. v. Campbell*, 2022 FC 194, the Federal Court provided guidance on key procedural and substantive issues arising in trademark infringement claims, specifically relating to the importing, selling and advertising of counterfeit products. The case carries notable guidance on the availability of summary trials, “overwhelming” evidence of infringements, injunctions and assessment of damages.

Background

Lululemon sued Ms. Campbell for infringing its well-known trademark by selling counterfeit merchandise through a retailer network established on a social media platform. The platform was used to advertise products available for sale, canvass and finalize orders, and facilitate deliveries. Once Lululemon caught wind of this infringing activity, it investigated the extent of Ms. Campbell’s operations and issued a cease and desist letter. While the expectation was that the infringing acts would come to an end, Ms. Campbell simply created a new presence on social media platforms to continue the infringement.

Lululemon ultimately commenced the action against various parties, including Ms. Campbell, who remained the last defendant standing in a summary trial.

Procedural guidance

The Court agreed with Lululemon that the action was appropriate for a summary trial. The following factors assisted the Court in making this finding: 1) the issues were not overly complex; 2) Lululemon had led sufficient evidence; 3) Ms. Campbell was no longer participating in the proceedings; 4) it was difficult to see what additional evidence would be adduced at a full trial; 5) nothing turned on the issue of credibility; 6) the summary trial pertained to all issues involving Ms. Campbell so that no further proceedings would be required to dispose of the case; and 7) a summary trial would lead to a quicker and less expensive resolution of the matter. The Court quoted with approval the Federal Court of Appeal in *Kwan Lam v. Chanel S de RL*, 2016 FCA 111, at para 16: “Cases like the present, involving ongoing sales of counterfeit goods by a defendant that seeks to put forward a specious defence, are particularly well-suited to being decided by way of summary trial.” Given that potential to reduce the time and costs associated with disputes before the Federal Court, motions for summary judgment and /or summary trial should always be considered.

Infringement

The Court found that Ms. Campbell’s actions ran afoul of ss. 19 and s. 20 of the *Trademarks Act*. The evidence of infringement was clear and convincing. Ms. Campbell, however, did not go down without a fight. She put forth two interesting defences to infringement, which were both denied by the Court and indeed considered in the award for damages. First, Ms. Campbell claimed that there

was no infringement as she was simply facilitating a group purchase. In dispelling this defence, the Court noted that Ms. Campbell's actions went beyond "facilitating a group purchase." In fact, she offered these goods for sale, received payment and charged a markup price over what she was paying the Chinese supplier. Ms. Campbell was key to the purchase of the infringing goods.

Second, Ms. Campbell claimed that there was no infringement as the goods were "high-quality replicas." The Court rejected this defence by simply noting that infringement still exists even if the defendant purports to add distinguishing features or designs to the goods (in an attempt to indicate to consumers that the goods are not what they think they are purchasing).

Remedies

Lululemon sought various remedies, including but not limited to, declarations affirming the ownership and validity of its trademark registrations, injunctions, and compensatory and punitive damages. In assessing each of the remedies, the Court provided the following guidance for trademark holders moving forward.

Declarations

The Court refused to make declarations affirming the ownership and validity of Lululemon's trademarks as it would serve "no practical utility." The Court effectively noted that there was no need for a final word to protect or legitimize Lululemon's registrations, when they were under no threat.

Injunction

The Court did grant an injunction against Ms. Campbell, as it was necessary to do considering the "sufficient risk" of future harm based on Ms. Campbell's history of closing down social media profiles and starting new ones to sell counterfeit merchandise. Interestingly, the Court looked at Ms. Campbell's second defence as a risk factor justifying the injunction.

The Court refused to grant the broadly worded injunction sought by Lululemon enjoining Ms. Campbell from "further infringing the Lululemon Trademarks," as under such an order, any situation of trademark infringement between the parties would amount to contempt of court, whether related to the facts of the case or not. The Court noted that plaintiffs should be mindful and think critically of the relief sought, and as such, granted an injunction preventing Ms. Campbell from using, importing, advertising and selling merchandise bearing identical or confusing trademarks.

Damages

The Court awarded CA\$8000 in compensatory damages based on eight instances of infringement and punitive damages of CA\$30,000 on the basis of Ms. Campbell's deliberate conduct, which demonstrated an egregious disregard for Canada's intellectual property laws.

This case serves as a reminder to counterfeiters that the Court will award damages for such activities including punitive damages for the deliberate and egregious nature of the counterfeiter's conduct.

For more information on IP law, reach out to any member of our Dentons [Canada's Intellectual Property and Technology group](#).

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