



2019 Will Go Down in History as “The Year of Change” in Canadian Trademark Law Part III

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Part III – Enforcement of Trademark Rights

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In this last installment of Bereskin & Parr’s summary of trademark developments in 2019, we review brand enforcement. During the year, Federal and provincial courts issued decisions impacting damage calculations, defences, and forum selection. While the Supreme Court of Canada did not weigh in specifically on trademark law, it did, as noted in Part II, address the standard of review on appeal, an issue that has already impacted appeals from the Registrar. Border enforcement of counterfeits seems to have been more active in 2019, with more use of Canada’s Request for Assistance procedure permitting temporary seizure of suspected counterfeit merchandise. It will hopefully become even more effective with amendments to legislation permitting seizure of goods “in transit”, in compliance with the recently signed free trade agreement involving Canada, Mexico and the United States.

Summarized below are some of the most noteworthy decisions from the Canadian courts, with added comments on strategic lessons for brand owners and their advisors. We conclude with a comment about dispute resolution options, since it is important to select the most efficient and cost-effective solutions for resolving trademark and branding disputes in Canada.

I. FEDERAL COURT DECISIONS

Sometimes expungement may be faster and easier than a non-use proceeding: While section 18 of the *Trademarks Act* permits the Federal Court to expunge a registration for abandonment (amongst other grounds), normally the two-part test of showing *both* non-use in Canada *and* an intent to abandon deters parties from using this option. Instead, non-use proceedings under section 45 of the *Act*, which assess only “use” and not “intent”, and are heard before the Trademarks Opposition Board, are much more common. In *Beijing Jingdong 360 Du E-Commerce Ltd. v Yue Zhang*, 2019 FC 1293, Mr. Justice Brown of the Federal Court inferred from the evidence that the registrant intended to abandon its mark, and ordered the trademark to be expunged. Beijing Jingdong—seeking expungement to remove a block to registration of its own mark—filed evidence suggesting there was no public display or advertising of the registered mark or evidence of sales, meeting the first criteria of “no use”. The registrant filed no evidence. The Judge was prepared to infer the registrant’s intent to abandon from (i) the cessation of retail store activities since 2017, (ii) no corporate return filings, (iii) default in mortgage payments, (iv) disrepair and impending foreclosure of another business address, (v) abandonment of internet domain names, and (vi) inactivity on social media since 2016.

- **Takeaway:** The Court inferred intent to abandon from the facts, as opposed to requiring direct evidence of the registrant’s intent to maintain (or not) use of its mark. Despite the apparent simplicity and summary nature of s. 45 non-use proceedings before the Registrar, with the right set of facts, expungement under section 18 may turn out to be more expeditious given the steps and timelines built into s. 45 proceedings. Here, obvious absence of business activity, as well as the normal elements of operating a business, suggested an intent to abandon a registered mark. For more details about this case, see [here](#).

If a registered trademark is infringing, it must be invalid: The Federal Court’s decision in *Wenger SA v Travelway Group*



International Inc., 2019 FC 1104 is the latest in a series involving two parties with registered design marks. The original dispute involved claims by Wenger of infringement and passing off based on its registered marks against Travelway, who had its own registered marks. Wenger also claimed that the Travelway registrations were invalid and ought to be expunged, based on Wenger's prior use. The Federal Court of Appeal (in 2017) held that Travelway's marks infringed Wenger's, passed off its goods as those of Wenger, and enjoined Travelway from using its infringing marks, but, somewhat surprisingly, did not order Travelway's registrations to be expunged. Instead, it referred the issue of expungement and damages *back* to the Federal Court. Before that Court, Travelway conceded that the registrations were invalid, but, possibly to diminish its exposure to damages, questioned the grounds of expungement. For example, it disputed that passing off was a ground of expungement. The Federal Court, per Justice St. Louis, agreed that a finding of invalidity was implied from the Federal Court of Appeal's findings, otherwise, the Travelway registrations would have been a complete defence to the passing off action (and also to the infringement claim, although that was not specifically stated). She also held that since Travelway accepted some of the expungement grounds, the Court would not resolve any disagreement on others, and specifically ordered expungement. Damages were *not* awarded, on the basis that once the Federal Court of Appeal ordered an injunction, Travelway stopped selling, and would have no profits relating to the infringing marks after that date. Prior to that date, Travelway's marks were registered, making damages for past actions inappropriate. However, the Judge left open the possibility of a reference for damages should her position on past damages be incorrect.

- **Takeaway:** Trademark practitioners were left wondering why a separate application was required to specifically expunge the infringing registered marks. This adds time, costs and complexity to a proceeding when an order for expungement was a possible outcome in the original action. While it is unusual for two parties with registered marks to find themselves before the Courts, this decision suggests that if a finding of infringement or passing off is made, it is not only implied that the other party's registration is invalid, but the registration *must also be* expunged.

Federal Court confirms common law rights despite cancellation for non-use, and that use of ® for unregistered mark can be misleading: A number of issues were before the Court in *Alliance Laundry Systems LLC v Whirlpool Canada LP*, 2019 FC 724. For decades, Whirlpool had owned a Canadian registration for SPEED QUEEN for washers and dryers. Alliance, who also manufactures washers and dryers, owned the SPEED QUEEN trademark in the United States. In 2016, as a result of a s.45 non-use proceeding started by Alliance in 2011, the Registrar expunged Whirlpool's registration. Immediately thereafter, Alliance introduced its SPEED QUEEN products in the Canadian market. Both parties released press announcements with claims to the SPEED QUEEN mark. Both parties were before the Federal Court claiming goodwill and ownership of the mark as well as false and misleading statements contrary to s. 7(a) of the *Trademarks Act*, and Whirlpool made a specific claim of passing off. Associate Chief Justice Gagné agreed that Whirlpool retained rights in the mark, and the passing off claim succeeded. He noted that Whirlpool was the first user, and despite the cancellation of Whirlpool's mark, it had not intended to abandon the SPEED QUEEN mark, and that, as of the date of the proceedings, it retained common law rights. It had consistent, if modest, sales to a related company, and that company's sales met the "licensed use" requirements under s. 50 of the *Act*.

Regarding the claim of misleading statements, section 7(a), which prohibits making a false or misleading statement tending to discredit the business of a competitor, is not commonly used. Here, Whirlpool took issue with Alliance's press releases displaying the ® symbol. While Alliance owned a U.S. registration, the Judge accepted that use of the ® symbol in Canada was false, and discredited or devalued Whirlpool's rights, but did not meet the additional s. 7(a) requirement for "damages", so that claim failed.

- **Takeaway:** (i) This case demonstrates that even though a registration is expunged, goodwill may remain. Despite the cancellation of Whirlpool's registration for non-use, by the time of the Federal Court action, Whirlpool could show sufficient use and goodwill to establish common law rights. (ii) The discussion on use of the ® is interesting. There are many occasions where a mark that is registered in other countries, but not in Canada, appears on goods/packages displayed in Canada. This decision suggests that claiming registration status without a registration in Canada can be misleading, but that actual damage resulting from such display is a required element of a successful s. 7(a) claim.

Passing off damages can include "loss of control" over a mark and related reputation: In *3469051 Canada Inc. v Axis Heating and Air Conditioning Inc.*, 2019 FC 1103, the registered owner ("346") of the mark AXXYS for construction and contracting services, used since 1998, sued for infringement and passing off regarding use, since 2004, of AXIS HEATING



as a trademark and tradename. Despite apparent long coexistence, Justice Roy found the marks confusing (citing section 20 of the *Trademarks Act*, despite differences in the marks and names). In looking at damages as part of the passing off claim, the Court was told that 346 greatly valued its reputation for high service, and contrasted that with allegations of the defendant's minimal advertising, poor after-service follow up and safety violations. The Judge accepted that 346 suffered damage, since it feared the consequences of being confused with the defendant, with resulting lost reputation, and had effectively lost control of its mark.

- **Takeaway:** This seems to be a “Goliath vs. David” case – with a small local user sued by a much bigger company after several years of coexistence, admittedly not in the same geographic area. While both infringement and passing off are determined when the alleged infringer starts to use its mark, it is interesting that coexistence in this case was given little weight. Future plaintiffs might want to rely on the analysis of damages, given the Judge's acceptance of “lost control” over reputation and goodwill as proof of damage.

The Federal Court continues to penalize counterfeiters, assessing “per instance” infringement and punitive damages. Louis Vuitton has been a persistent and successful challenger of counterfeit activity and in 2019, added to its list of victories. In *Louis Vuitton Malletier S.A. v Wang*, 2019 FC 1389, Louis Vuitton and other luxury goods manufacturers succeeded (in a summary trial) in proving trademark and copyright infringement and depreciation of goodwill. Since 2006, the defendants—a husband and wife, plus two British Columbia companies doing business in local malls and flea markets, as well as online—imported and sold counterfeit goods bearing the luxury goods manufacturers' trademarks. The plaintiffs provided investigator evidence of ongoing infringement. An earlier “Anton Pillar” seizure proceeding resulted in additional evidence of counterfeiting. The defendants responded with a general denial, and refused to produce any meaningful documentation. Justice Roy described the evidence of infringement as “simply overwhelming”, and then analysed how damages should be assessed. He noted that counterfeiters do not normally have useful sales figures, plus the likely purchasers of the counterfeit goods would not have bought an original, making both “lost sales” and “lost profits” unhelpful measures of trademark damages. Many past decisions have used a “scale” approach that calculates damages based on where sales took place (e.g. flea markets, fixed retail establishments and importers/manufacturers and distributors). While the plaintiffs collectively claimed over \$17 million in damages, the Judge looked at proven “instances” of trademark infringement (calculated at \$7,500 or \$8,500 per instance) as compensatory damages. A request for additional damages for loss of goodwill was unsuccessful. The Judge held that punitive damages (in the amount of \$225,000) were necessary, recognizing the defendant's recidivism, ongoing disregard for the plaintiffs' property and the law, its “liberties” with the evidence, and steps to avoid detection—all amounting to a motivation to profit from misconduct. Copyright damages were assessed at the highest statutory amount.

- **Takeaway:** While the Copyright Act provides for the option of statutory damages for infringement, there are no statutory damages for trademark infringement. Particularly given the evidentiary hurdles of proving sales by counterfeiters, calculation of trademark damages pose significant difficulties. Early and complete investigation, along with detailed records on infringing sales will be necessary to permit the Court to use one of several methods of damage calculation. Attempts to legislate optional statutory damages so far have been unsuccessful, but would provide a method for faster, less costly and more predictable damage calculation.

II. PROVINCIAL COURT DECISIONS

Under the *Trademarks Act*, and pursuant to common law, registered and unregistered trademarks and trade names can be enforced in both the Federal and provincial courts. A few key provincial court decisions were issued in 2019, and are discussed below:

Court recognizes rights in registered marks and goodwill, despite non-use: In *Corus Radio Inc. v Harvard Broadcasting Inc.*, 2019 ABQB 880, the Alberta Court of Queen's Bench granted an interlocutory injunction preventing use by Harvard Broadcasting Inc. of a radio station name—POWER 107—based on claims of passing off, trademark and copyright infringement. The case is interesting both since interlocutory injunctions are rarely granted and since Corus, while having used and registered various POWER marks, including POWER 92, had not used the marks for several years (although it claimed to have plans to revive one of its brands). The judge, Dilts J. quoted the 3-part test for interlocutory injunctions, namely (i) serious issue, (ii) irreparable harm, and (iii) balance of convenience, and found for Corus on all points. Despite apparent non-use of its marks, the Judge was not prepared to accept that Corus had an intention to abandon its marks.



The Judge accepted Corus' claims of enduring value of its POWER brands and related reputation and goodwill. She held that Corus' opportunity to re-enter the market was hampered by Harvard's use, and that its goodwill would continue to fade while Harvard used the competing mark, thus amounting to irreparable harm. While accepting that Harvard's costs to change are "not insignificant", the Judge seemed to balance that with evidence that Harvard clearly knew of Corus' rights, and that its employees were hoping that radio listeners would connect their promotions to past Corus marks.

- **Takeaway:** In an application for an interlocutory injunction, Courts will be focusing on the injunction tests, and not the full merits. Even when a brand seems to have been dropped, as here, a Court may respect trademark registration rights until declared invalid, giving a plaintiff an advantage at the interlocutory stage. As with the *Whirlpool* decision above, this decision recognizes that marks may have residual goodwill that can survive, and be protected, for many years. Also, making an attempt to connect to the past brand can be a serious misstep—and could very well be a factor that tips the balance in any dispute.

Quebec Courts confirm that parody is not a defence to trademark infringement: The Superior Court of Quebec recently affirmed that parody does not excuse trademark infringement or depreciation of goodwill. In *MédiaQMI Inc. v. Murray-Hall*, 2019 QCCS 1922, MédiaQMI Inc. ("QMI"), the owner of the registered trademark *Le Journal de Montréal* took action against Mr. Murray-Hall, the distributor of the electronic publication *Le Journal de Montréal*, claiming infringement and depreciation of goodwill. QMI had received complaints about the defendant's publication, and sued, noting that its name, layout, graphics and logo were similar or virtually identical to *Le Journal de Montréal*, plus that it contained allegedly vulgar and crude content, and fake "funny" news. Madam Justice Perrault, J.C.S., for the Court, agreed that the names were confusing and enjoined further publication. She rejected the defendant's claim of humorous intent, and that the disclaimer ("Warning this content is not intended for ordinary people who are rather in a hurry") negated the likelihood of confusion. Reader complaints to the plaintiff showed actual confusion, and a famous Quebec journalist, who was the subject of a fake news article in the defendant's publication that claimed she was in a relationship with a Government minister, also testified that numerous people had been tricked by the story. The Judge noted that while parody can be a valid defence to copyright infringement, the same does not apply to trademark law. However, Justice Perrault further stated that even if this had been a copyright case, she would not have been prepared to excuse the defendant's conduct. The claim for depreciation of goodwill also succeeded. QMI had argued that not only was the defendant's content crude and damaging to its reputation given actual consumer confusion, but also that in an era where real news and fake news are increasingly difficult to differentiate, the use of a confusingly similar mark by the defendant threatened the journalistic credibility of *Le Journal de Montréal*. The defendant's claim that an injunction was an unjustifiable limit to his freedom of speech also failed, with the Judge noting that such freedom is not an absolute right. The defendant appealed the decision, but the matter has since been settled out of court.

- **Takeaway:** This is one of several Canadian decisions refusing to accept parody as a defence to trademark infringement or depreciation of goodwill. Parties should be careful when appropriating trademark indicia, even if it is intended to be humorous or satirical, particularly if there is any risk of actual consumer confusion. For more about this decision and the parody defence, see [here](#).

Damage calculations – plaintiff must show relationship between profits and infringement: In another decision focused on damage calculations, *Constellation Brands US Operations, Inc. v Société de vin international Ltée.*, 2019 QCCS 3610, the Court refused claims for both compensatory and punitive damages for lack of evidence. This judgment followed a action for copyright and trademark infringement relating to the display of Constellation's products in comparative advertising leaflets printed by Vin International ("SVI") to promote its own products. The parties had already agreed to an injunction, so only the damage issue was at stake. Constellation claimed damages of over \$800,000, as well as punitive damages following the distribution of 2,500 leaflets printed by SVI at a cost of less than \$600. Constellation argued it was entitled to SVI's profits relating to the products advertised in the flyer, up to the date of the agreed injunction, and that once the revenue number was established, it was up to SVI to prove costs and expenses to generate the profit number. Judge Bachand, J.S.C. held that recoverable profits must relate to the infringement, and the plaintiff bears the burden of proof to demonstrate how profits increased as a result of the violation of the plaintiff's intellectual property rights. The obstacle for Constellation was that SVI's products themselves were not infringing – only the advertising leaflets – and the Judge was not prepared to infer, without evidence, that the leaflets increased SVI's revenues. The claim for punitive damages also failed. An appeal has been filed.

- **Takeaway:** Success in establishing infringement does not guarantee an award of damages. This case reinforces



the importance of showing a tangible benefit to the defendant as a result of infringing activity.

Passing off or infringement? An administrative change of name procedure might be the most effective and cost-efficient option. A 2018 decision of the Court of Queen’s Bench of Alberta (published in 2019) is a reminder that provincial company Registrars have the authority to order confusingly similar names to be changed, and that this can be an additional, and possibly speedy option in trademark and trade name disputes. In *Aquatera Utilities Inc. v Aqua Terra Water Management Inc.*, 2018 ABQB 962, the Court upheld the Registrar of Corporations’ decision to order the name Aqua Terra Water Management Inc. (“Water”) to be changed, as confusingly similar to that of Aquatera Utilities Inc. (“Utilities”). Utilities had used Aquatera in its name since 2013, and provides “full-service utility corporation” services, such as recycling and waste management services, including to oilfield customers. Both word and design versions of AQUATERA are registered trademarks. Water started using Aqua Terra in 2014, and focused on oilfield waste management and water disposal. After sending a demand letter in January 2015, and starting Federal Court infringement proceedings, Utilities asked the Registrar to order Water to change its name, as being contrary to the Alberta’s *Business Corporations Act*. That Act states (as do many provincial corporate laws) that a corporation name may not be similar to the name of a corporate “person” without consent. The Act also sets out guidance to determining similarity (including provisions resembling the confusion test in the *Trademarks Act*). The Registrar found Water’s name to be similar, and ordered it to be changed. Water’s appeal to the Court was dismissed. In mid-2019, the Federal Court proceedings were discontinued.

- **Takeaway:** Given the relative simplicity of provincial administrative proceedings and their apparent speed compared to regular court actions, plus the impact of a decision ordering a name to be changed, this option should be considered in disputes where the trademark at issue is part of a corporate name. This could be especially effective in the case of marks used for services.

III. SEIZURE OF SUSPECTED COUNTERFEITS BY THE CANADA BORDER SERVICES AGENCY

Counterfeit surveillance sees increasing activity. Since 2015, when a Customs Request for Assistance (“RFA”) procedure was implemented, (and included in the *Trademarks Act* and *Copyright Act*), owners of registered trademarks and copyright have been able to file a “Request for Assistance” with the Canada Border Services Agency (“CBSA”), with a view to improving border surveillance for counterfeiting activity. There is no government fee for the request, and IP owners can include multiple registered marks and copyrighted works in a single request. If CBSA identifies suspected counterfeit goods that are being imported or exported, they will detain the goods and notify the IP owner, who then has a short time to confirm that the goods are indeed counterfeit, and commence action, or not. If legal proceedings are started, the goods will remain in detention (at the IP owner’s cost).

The number of filed RFAs per year remains fairly modest (less than 50 per year). Certainly in the first few years of the program, there was both skepticism about the effectiveness of the procedure, and concerns about potential costs to IP rights holders. According to the CBSA’s own statistics, the number of seizures was low (for example between 10 and 30 annually in the first few years), and less than a third of the seizures resulted in litigation. However, in 2019, there has been a marked increase in activity. While full details for 2019 are not yet available, CBSA reported more than 60 seizures.

The original system was criticized for excluding several categories of goods, most importantly “goods in transit” through Canada to another destination. The recently signed US-Mexico-Canada trade agreement requires in transit seizures, so stay tuned for amendments to the RFA provisions in trademark and copyright legislation.

IV. MAKE SURE TO CONSIDER ALL OPTIONS FOR RESOLUTION OF TRADEMARK DISPUTES

Because litigation can be expensive, and discovery obligations will involve considerable time, costs and inconvenience, parties need to consider which litigation and administrative procedures will provide the best resolution of their disputes.

In 2019, parties with trademark and brand disputes used a number of different options, ranging from legal proceedings before the Registrar of Trademarks and in the Federal and provincial courts, administrative actions involving company names, confidential advertising complaints before Ads Standards based on violation of *The Canadian Code of Advertising Standards*, and actions commenced following government seizure of suspected counterfeit goods. Strategic decisions on where, and how, to proceed can have a significant impact on the time and costs of dealing with trademark disputes. For



example, while summary non-use cancellation proceedings before the Registrar may at first glance appear to be both simple and more cost-effective, with the right set of facts, Federal Court expungement proceedings may turn out to be a more efficient option to remove marks from the Register. Similarly, if the dispute essentially involves an advertisement, Ads Standards may be a faster, more confidential and as effective venue for dispute resolution. In cases involving a company name, administrative proceedings to force a change of name could be a faster and less expensive option.

Similarly, parties need to select not only the most appropriate venue for court action (the Federal or provincial courts), but also the kind of proceeding most likely to get effective results, especially since interlocutory relief is rarely granted, particularly in the Federal Court. For example, one typical approach is to commence an “action”, with statements of claim and defence, discoveries, the exchange of expert reports, a pre-trial conference, and a trial involving live witnesses and argument. At each step, procedural motions may be taken that can result in added delays and costs. An alternative is to proceed by “notice of application”, with evidence in chief and in response, cross-examinations, and then a hearing based on the paper record. While there may be factual and strategic reasons that favor one approach over the other, proceeding by way of application can result in significantly lower legal fees and faster adjudication on the merits.

Even if proceeding by “action”, if the material facts are not in dispute, parties may bring a motion to determine a point of law, which may have the practical effect of resolving the dispute at a relatively early stage. Also, it may be possible to ask for summary judgement where facts and credibility are not at issue, or if they are at issue, a summary trial. Generally, this would involve evidence primarily by affidavit, although it is possible for some evidence and cross-examinations to be taken in open court and still avoid a full trial and all associated costs. The case law on summary trials in the Federal Court is still developing, but several patent and trademark cases have been determined by way of summary trial.

Finally, if parties agree, it may be possible to resolve the dispute by way of mediation or arbitration, where parties may take a more active role in the procedure and resolution of a dispute, hopefully with faster and more cost-effective results, and also preserve confidentiality of relevant information and documents, including financial records, (as opposed to a trial or hearing in a court proceeding, which is typically open to the public).

Decisions on how and where to proceed with dispute resolution can have a critical impact on timing, costs, confidentiality, recovery of damages and outcomes. Given the choices that parties have, it is key to address litigation and dispute resolution strategy as early as possible.

For any questions or inquiries, please visit Bereskin & Parr's [Trademarks Practice Group](#).

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