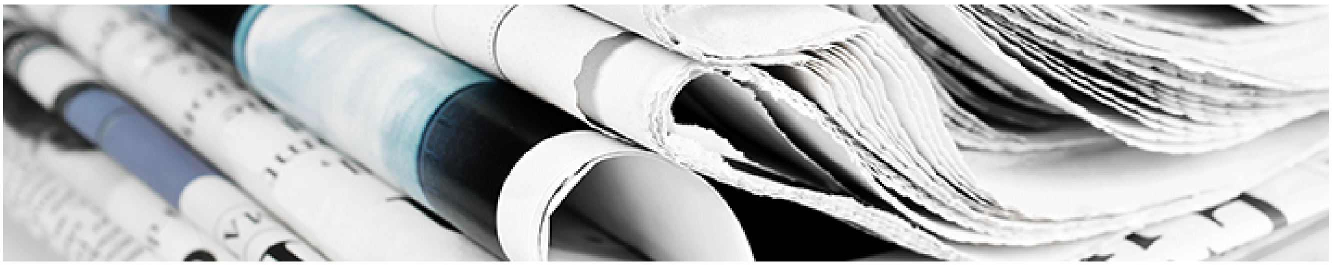

2022 Year in Review: Key Trademark Cases in Canada

February 1, 2023

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Throughout 2022, the Federal Court continued to provide guidance to Canadian trademark practitioners in several noteworthy decisions. The following represents a summary of our “top picks”.

Food For Thought: Federal Court Reinforces Value of Registered Trademark Rights

The February 2022 decision of the Federal Court in *1196278 Ontario Inc. dba SASSAFRAZ v 815470 Ontario Ltd. dba SASSAFRAS COASTAL KITCHEN,* 2022 FC 116 reinforces the value of owning a registered trademark as opposed to relying on unregistered or common law trademark rights.

The Applicant has operated a restaurant under the name SASSAFRAZ in the Yorkville area of Toronto, Ontario since 1997. The evidence established that the restaurant had become a well-known local landmark and a popular “fine dining” destination, serving “contemporary French-inspired Canadian cuisine”. In June 2011, the Applicant acquired a registration for the trademark SASSFRAZ covering catering, restaurant, and bar services, as well as the hosting of private receptions.

In June 2020, the Applicant learned that the Respondent was about to launch a restaurant in the Niagara Peninsula region of Ontario using various names incorporating the term SASSAFRAS. The Applicant contacted the Respondent advising of its rights in the SASSAFRAZ trademark and registration; however, despite the warning letter, the Respondent proceeded with the launch. Thereafter, the Applicant commenced proceedings in the Federal Court seeking a declaration of trademark infringement of its SASSAFRAZ registration, and depreciation of goodwill.

The Federal Court held in favour of the Applicant, finding that both infringement and depreciation of goodwill had been established. On the issue of infringement, the Court held that the Respondent’s operation of its restaurant in association with the SASSAFRAS name and mark was likely to give rise to confusion with the Applicant’s registered trademark SASSAFRAZ. In its confusion analysis, the Court concluded that there was a substantial degree of resemblance between the SASSAFRAS and SASSFRAZ names and marks. The remaining criteria used to assess confusion also all favoured the Applicant. The absence of evidence of actual confusion was not persuasive in these circumstances. The casual consumer, somewhat in a hurry, was likely to associate the source of the Respondent’s SASSFRAS marks with the source of the Applicant’s registered SASSSFRAZ trademark, as a matter of first impression.

The Court also found that the geographic distance between the parties’ respective restaurants did not play a role in the hypothetical confusion test - “*the Applicant is entitled to fully enforce its right to national exclusivity in respect of the use of the SASSAFRAZ or any confusingly similar mark*” in association with its services.

While the menus of the respective parties had some overlapping items, the Respondent’s menu items were generally offered at a lower price point than those of the Applicant. However, the Court noted that differences in the parties’ respective products along the price/quality spectrum was also not important since the Applicant’s registered trademark rights were not restricted to any particular type of cuisine or price point.

In addition, the Court found that the Respondent’s knowledge of the infringement, or “*mens rea*”, was of little relevance in the confusion analysis.

In finding in favour of the Applicant on the depreciation of goodwill claim, the Court held that the Respondent's use of the SASSFRAS name and mark was likely to have the effect of blurring the image of the Applicant's mark and "whittling away" its power to distinguish the Applicant's services; erodes the Applicant's ability to control the manner in which its mark is used; and that the ongoing use of a highly similar mark is "*a form of free-riding on the reputation of the SASSFRAZ mark, which was built up over almost a quarter century of significant effort on the part of the Applicant*"

The Court granted the Applicant the declaratory and injunctive relief sought, together with nominal damages in the amount of $15,000.

This decision reinforces the value of owning a registered trademark in Canada. Unlike unregistered trademark rights, where a protectable reputation must be established in the infringer's geographic area, a registered trademark grants the right to the exclusive use of the mark throughout Canada.

<u>Advertisement as "High Quality Replicas" is No Defense for Counterfeiters</u>

The February 2022 decision of the Federal Court in *Lululemon Athletica Canada Inc. v. Campbell*, 2022 FC 194, addresses several issues relating to claims dealing with the sale of counterfeit goods in Canada.

The Plaintiff, Lululemon Athletica Canada Inc, manufactures and distributes athletic and yoga wear and is the owner of various registered trademarks including the word LULULEMON as well as the well-known "wave" design logos:

The main Defendant in the case, Ms. Campbell, together with three others, advertised and sold counterfeit LULULEMON merchandise through various Facebook pages from October 2019 through March 2021. The items were offered for sale on condition that a sufficient number of orders was received by a specified date. The merchandise was purchased by Ms. Campbell from a Chinese supplier. She was assisted by the three other defendants, who made their own posts on Facebook and handled purchases and deliveries, although purchasers paid Ms. Campbell directly.

In 2019 Lululemon became aware of these activities and delivered a cease and desist letter to Ms. Campbell in March of 2020 and again in February of 2021. Despite assurances to the contrary, Ms. Campbell continued her activities by creating different Facebook pages in which she offered counterfeit LULULEMON merchandise for sale. The Plaintiff commenced an action in March of 2021. In the spring of 2021, the matter was settled with the three other defendants and a consent judgment was issued against them; however, in July 2021, Lululemon brought a motion for summary trial against the remaining defendant, Ms. Campbell.

Although she was served with the motion for summary trial and a motion record, Ms. Campbell did not file a motion record nor did she appear at the summary trial and hearing. However, since she filed a statement of defence, the Court noted that the case was not one of default judgment.

The Court held that a summary trial based on affidavit evidence was appropriate under the circumstances - the issues were not overly complex; Lululemon led sufficient evidence; nothing turned on the issue of credibility that could only be resolved through a full trial; and a summary trial would lead to a quicker and less costly resolution of the matter.

The Court found that Lululemon's trademarks were infringed, and that the activities of Ms. Campbell violated the provisions of Sections 19 and 20 of the *Trademarks Act*. At the time of sale, the goods delivered to the purchasers bore the LULULEMON trademarks. Moreover, Ms. Campbell imported counterfeit goods bearing the LULULEMON trademarks by placing orders with a supplier in China; advertised them on her Facebook pages using both the wave design logos, as well as describing them by words such as "lulu", "L*LU" and Lu*lu", thereby causing confusion with the LULULEMON marks, and sold goods bearing these marks.

In her statement of defence, Ms. Campbell admitted to the advertisement and importation of the goods but disputed that this constituted trademark infringement. Although she did not oppose the motion for summary trial, the Court nevertheless considered two arguments she had raised in her defence, namely: (i) that receiving orders and payments by way of a group purchase through an application on the internet is not infringement; and (ii) that there was no infringement since the goods she sold were advertised as “high quality replicas”.

The Court dismissed both arguments. On the first defence, the Court noted that Ms. Campbell offered the goods for sale and received payment. She marked up the price she charged to customers over and above the price she paid her supplier in China, and this was, in effect, a transaction between her and the purchasers. On the second defence, the Court held that in an action for infringement, it is sufficient to prove that the defendant used the plaintiff’s trademark. Warning customers that the goods were counterfeit was not a defence.

The Plaintiff sought several remedies, including declarations of ownership and validity of the LULULEMON registrations, as well as an injunction, and compensatory and punitive damages. The Court declined to grant the declarations as they were viewed as unnecessary since the validity of the LULULEMON marks was not at issue.

The Court did, however, agree that injunctive relief was necessary. Despite the fact that there was no evidence that Ms. Campbell continued to import, advertise or sell counterfeit LULULEMON merchandise after March of 2021, the Court noted that she had a history of closing down Facebook pages and setting up new ones, and that she had continued to sell merchandise after assuring Lululemon that she would cease. The Court was of the view that the injunction was necessary as there was a sufficient risk of future harm. However, the Court refused to grant a broad order enjoining Ms. Campbell from “further infringing the lululemon Trademarks” as this could conceivably “extend to other situations giving rise to a legitimate debate about infringement”, and “Ms. Campbell would not know the extent of what she is prohibited from doing”. Accordingly, the Court issued an injunction enjoining Ms. Campbell from persisting in the conduct that the Court found to be in breach of Lululemon’s rights

To address the risk of future harm, the court awarded the Plaintiff compensatory damages in the amount of $8000 and, having regard to the deliberate and egregious nature of Ms. Campbell’s conduct, punitive damages in the amount of $30,000 were also awarded.

Federal Court Broadly Interprets Trademarks Descriptive of “place of origin”

In the February 2022 decision in *Nia Wine Group Co., Ltd. v North 42 Degrees Estate Winery Inc.*, 2022 FC 241, the Federal Court broadly interpreted the meaning of “place or origin” in the context of clearly descriptive trademarks under section 12(1)(b) of the *Trademarks Act.*

The decision arose from an appeal from a 2021 decision of the Trademarks Opposition Board (2021 TMOB 106). North 42 Degrees Estate Winery Inc. sought to register the trademark NORTH 42 DEGREES in association with wine and the operation of a winery. The application was opposed by Nia Wine Group on the basis that the mark was clearly descriptive of the place of origin of the goods and services and was not distinctive. The opposition alleged that the winery was located at or near the 42nd line of latitude in the northern hemisphere or in the proximity of “north 42 degrees”, and the wine originates from the same geographic region.

The Opposition Board rejected the opposition and held that the mark would be viewed as a coordinate for a place or locality but that it does not clearly describe a “place of origin”, within the meaning of section 12(1)(b) of the *Trademarks Act*.

Nia Wine Group appealed to the Federal Court and the central issue on appeal was whether the term “place of origin” in section 12(1)(b) can include a specific line of latitude. Justice Aylen determined that what constitutes a “place of origin” within the meaning of section 12(1)(b) was an extricable question of law, and reviewed that issue on the standard of correctness.

Considering the decisions in *MC Imports Inc v AFOD Ltd*, 2016 FCA 60 and *Lum v Dr. Colby Cragg Inc*, 2015 FCA 293, the Court noted that the cases did not determine the issue of whether the trademark in question was a “place of origin”, and that in neither decision did the court fixate on the requirement that the place of origin be a geographical name. *“The parties have not pointed the Court to any decisions in which the question of what constitutes a “place of origin” for the purpose of section 12(1)(b) of the TMA has been expressly considered”.*

Referencing the broad dictionary definitions for the words “place” and “lieu”, Justice Aylen noted that *“I am satisfied that a proper interpretation of the terms “place of origin” and « lieu d’origine » should not be so restrictive as to exclude a designated line of latitude or longitude. Rather, in keeping with the purpose of section 12(1)(b), I find that the term “place of* *origin"/« lieu d'origine » should be interpreted to refer to any geographical designation."*

Having determined that the Opposition Board erred in its determination that lines of latitude or longitude were not "a place of origin", Justice Aylen rendered her decision, concluding that because the mark was "a place of origin", and the evidence showed that the applicant's wines originated from a farm and winery located along the 42nd parallel or North 42 degrees latitude, the mark NORTH 42 DEGREES was clearly descriptive of the place of origin of such goods and services, and therefore, not registrable.

Trademark Death by Slices

In *Milano Pizza Ltd. v 6034799 Canada Inc.* 2022 FC 425 Justice Fuhrer reviewed the law on trademark licensing and considered the kind of control that a trademark owner must exercise over its licensees in order for their use to inure to the owner's benefit (under s. 50 of the *Trademarks Act*). The decision provides guidance by describing circumstances that were held *not* to show sufficient control.

The Plaintiff asserted rights in the registered trademark MILANO PIZZERIA & Design associated with takeout restaurants. The restaurants operated in the Ottawa area under the name MILANO PIZZERIA. The Plaintiff sued entities that it formerly considered licensees for trademark infringement and passing off. The Defendants counterclaimed in part to strike the MILANO PIZZERIA & Design trademark registration for invalidity due to lack of distinctiveness. The Court dismissed the action, allowed the counterclaim for invalidity, and struck the registration. The evidence did not show sufficient control, under the purported licence agreements, of the character or quality of the licensees' restaurant services associated with the MILANO PIZZERIA mark. The registered trademark was found not distinctive and the registration was therefore held invalid under s. 18(1)(b) of the *Trademarks Act*.

The Plaintiff's position was that it had licensed the MILANO PIZZERIA name and mark, but the licences were not always in writing and the agreements that were written generally did not refer to the MILANO PIZZERIA & Design registered trademark. Under the agreements, the licensee was given a geographical territory in which it could provide restaurant services under the MILANO PIZZERIA names and marks. The licensee was required to commit to purchasing ingredients from a specific supplier. But the licensee remained in control of the operation of its restaurants, including aspects such as décor, menu, and food preparation and delivery timing. The Plaintiff did not control the services nor the finished product (*e.g*., the pizza made from the required ingredients). The lengthy use of MILANO PIZZERIA names and marks by such uncontrolled "licensees" rendered the Plaintiff's trademark not distinctive of takeout restaurant services.

Furthermore, the Ottawa MILANO PIZZERIA restaurants co-existed with a restaurant of the same nature operating as PIZZERIA MILANO nearby in Québec for about 40 years, which also made it impossible for the inherently weak MILANO PIZZERIA & Design mark to be distinctive of the Plaintiff's restaurant services.

The Defendants' counterclaim for passing off was dismissed – it was inconsistent with their position that the MILANO PIZZERIA & Design trademark is not distinctive. The consequence of the lengthy co-existence of uncontrolled uses was that the MILANO PIZZERIA marks do not uniquely identify the takeout restaurant services of *any* particular restaurant business. Also, the Plaintiff's Milano Design trademark registration was an absolute defence to passing off up until the time it was ruled invalid. An appeal is pending.

Drink Outside The Box

Justice Manson's decision in *Bean Box, Inc. v Roasted Bean Box Inc.* 2022 FC 499 includes a noteworthy finding regarding harm: search engine results that produced a link to the respondent's website caused a "loss of control" over the applicant's trademark, and thus "damage" for the purposes of establishing the third element of a passing off action.

Bean Box, Inc. is an online seller of coffee, coffee beans, and coffee-related gifts and accessories associated with registered BEAN BOX trademarks (word and design). Roasted Bean Box, Inc. began operating a similar business under ROASTED BEAN BOX design marks that bore a close resemblance to the registered BEAN BOX trademarks. Bean Box commenced a Federal Court proceeding claiming trademark infringement and passing off.

The Court rejected Bean Box's s. 19 infringement claim because ROASTED BEAN BOX was not identical to the registered BEAN BOX trademark – a showing of likely confusion under s. 20 was required. The Court found the ROASTED BEAN BOX marks confusing with Bean Box's registered BEAN BOX trademarks. There is a high degree of resemblance between the marks with the only difference being the descriptive and non-distinctive element ROASTED. The Court found BEAN

BOX merely suggestive (not clearly descriptive) of coffee goods and services and found that the mark had also acquired distinctiveness as a result of extensive sales and advertising across Canada. The state of the register and marketplace evidence was unpersuasive. There was no evidence of third-party use of “BEAN BOX.” The third-party activity did not diminish the likelihood of confusion.

The Court also found passing off under s. 7(b) of the Act. Bean Box demonstrated goodwill associated with the BEAN BOX trademarks. Use of ROASTED BEAN BOX resulted in a likelihood of confusion with BEAN BOX, which was a misrepresentation. Consumers using “bean box” to search online for a coffee subscription service in Montreal would be directed to the Roasted Bean Box website, which caused Bean Box to lose control over the commercial impact of its BEAN BOX mark – such loss constituted damage sufficient to support the passing off claim.

The Court also found ROASTED BEAN BOX sufficiently similar to BEAN BOX to constitute use of BEAN BOX for the purposes of a s. 22 claim. Bean Box had established goodwill in its registered mark, and also proved linkage, and a harmful impact on the distinctiveness of the BEAN BOX mark, which constituted depreciation. The s. 22 depreciation of goodwill claim therefore also succeeded.

The Court granted a permanent injunction, $15,000 in damages, $10,000 in costs, an order for delivery up or destruction of infringing material, and ordered the transfer of the confusing domain names.

Bad Faith Leaves a Bad Taste

In *Beijing Judian Restaurant Co. Ltd. v Meng* 2022 FC 743 Justice Furlanetto began the process of interpreting the words “filed in bad faith” in the context of s. 18(1)(e) of the *Trademarks Act*. That section makes a trademark registration invalid if the application was “filed in bad faith.”

The moving party sought to have the Federal Court strike a registration for the trademark JU DIAN & Design on the basis that it was obtained in bad faith. It also alleged passing off and sought an injunction and damages including exemplary damages. The Court struck the registration on the basis that the subject trademark was registered “without a legitimate commercial purpose” and therefore in bad faith.

The moving party had operated (since 2005) a chain of restaurants in China associated with the JU DIAN & Design trademark. By the time of the proceeding there were about 40 such restaurants in China. In 2018-2019, the moving party opened its first two Canadian restaurants in British Columbia. It used the JU DIAN trademark extensively in advertising its restaurants.

In June 2017, the Respondent applied to register the JU DIAN & Design mark in Canada for “restaurant services; take-out restaurant services” and “beer” based on proposed use. The mark applied for was identical to the mark the moving party used in China. The Respondent also applied to register in Canada other trademarks associated with restaurant chains in China. The Court found it is implausible that the Respondent independently created a design mark identical to that used by the moving party in China and therefore inferred that the Respondent knew of the moving party’s use in China. However, such intentional filing in Canada alone was not enough to invalidate the trademark registration.

The moving party’s mark had some reputation in B.C. at the time the Respondent filed his trademark application in Canada. The Respondent’s communications (*e.g.*, text messages) showed his awareness that the moving party’s JU DIAN trademarks were known, which made them valuable. The evidence also showed the Respondent’s intention to use the reputation in the JU DIAN trademarks to his own economic advantage – he told the moving party that he had the “paperwork” in Canada for the mark and asked for payment of $1,500,000, and he later advertised an offer for franchise rights to the mark for $100,000 a year. There was no evidence from the Respondent to rebut the inference that his purposes were improper, or to show that he intended to use the mark with restaurant services himself.

The Court found that the Respondent registered the mark without a legitimate purpose. The circumstances constituted filing in bad faith and therefore the registration was held invalid and struck. However, the Court rejected the moving party’s passing off claim finding that there could be no misrepresentation because there was no commercial use of the Mark by the Respondent. Accordingly, there was no basis to award either an injunction or damages of any kind.

Bad Faith – Falling Short of the Standards of Acceptable Commercial Behaviour

The end of 2022 brought a further decision on bad faith which more fully explored what might constitute bad faith.

In *Blossman Gas, Inc. v Alliance Autopropane Inc.* 2022 FC 1794, Justice McHaffie of the Federal Court addressed a circumstance where a defendant knew, at the time it filed its application for the licensor's mark, that it was not the owner of the mark and was only a sublicensee, that it had not yet used that mark pursuant to the licence, and that it had agreed that its rights to use the mark were dependent on the continuation of the licence and sublicence agreements. He found that the outcome turned on three principles of Canadian trademark law: "(1) a trademark licensee is not entitled to register the licensor's trademark in the licensee's own name; (2) a person is not entitled to register a trademark that is confusing with a trademark previously used in Canada by another; and (3) absent bad faith, an existing trademark registration constitutes a defence to a claim in passing off for the registrant's use of the registered mark."

Delving specifically into bad faith and whether a registration could be struck, and drawing from Supreme Court of Canada caselaw outside the trademark realm, Justice McHaffie noted 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 is used, and need not necessarily include an assessment of morality or intentional fault, but may be economic in nature."

Justice McHaffie observed that in prior decisions, bad faith has been found where an applicant applied to register well-known marks to coattail on their reputation, where a distributor or licensee, or an entity affiliated with them, had attempted to register the trademarks of the licensor; and that the Federal Court of Appeal had referred to agents who had registered the principal's trademark in their own name without full disclosure to the principal as having "clearly acted in bad faith" by continuing to "assert a trade-mark to which they were not entitled."

Justice McHaffie also observed that these decisions were consistent with the European Union and United Kingdom approach to bad faith, commenting that "the experience of other jurisdictions in considering bad faith in this context is of value." He concluded by referencing six principles governing bad faith as found in the E.U. and U.K., as summarized by Justice Arnold, then of the Chancery Division of the High Court of Justice: "(1) good faith is presumed unless the contrary is proved on a balance of probabilities; (2) bad faith includes not only dishonesty but also 'some dealings which fall short of the standards of acceptable commercial behaviour observed by reasonable and experienced people in the particular area being examined'; (3) the purpose of bad faith as a ground of invalidity is to prevent abuse of the trademark system, either vis-à-vis the trademarks office or third parties; (4) the determination of bad faith is an overall assessment taking into account all factors relevant to the particular case; (5) the court or tribunal must ascertain what the applicant knew and then decide whether, in light of that knowledge, their conduct was dishonest or otherwise falls short of the standards of acceptable commercial behaviour, judged by ordinary standards of honest people and not the applicant's own standards; and (6) consideration must be given to the applicant's intention."

Use is Crucial

In 2788610 Ontario Inc. v Bhagwani 2022 ONSC 6098, the Divisional Court of the Ontario Superior Court of Justice vacated an order for an interlocutory injunction issued by a motion judge that prohibited the defendants from using BOMBAY FRANKIE in connection with a restaurant business. The plaintiff sought the injunction as part of an action for trademark infringement and passing off. At the time of the injunction motion, the plaintiff had filed several Canadian trademark applications for the trademark BOMBAY FRANKIES and had begun negotiations to franchise restaurants under that name. In allowing the appeal, the Divisional Court confirmed that trademark infringement actions must relate to a *registered* trademark; and that goodwill in an alleged mark must be established to support a passing off action. Neither condition had been satisfied on the evidence. Consequently, there was no serious issue to be tried, and the injunction ought not to have been granted.

This was a dispute between two parties in the restaurant business over the trademark and trade name BOMBAY FRANKIE / BOMBAY FRANKIES. The plaintiff incorporated in October 2020 and subsequently filed a Canadian trademark application for BOMBAY FRANKIES the same month. By early 2022, it had retained a marketing firm, chefs, and franchise lawyers to help market and launch the business, but had not yet opened any restaurants. The defendant, meanwhile, registered the domain name www.bombay-frankie.com, and began using the mark on social media accounts in February 2021, and the next month, incorporated a business "Bombay Frankie Inc." and filed a trademark application for BOMBAY FRANKIE. The defendant's first BOMBAY FRANKIE restaurant opened in July 2021. Another opened in October 2021.

The issuance of the earlier injunction as part of an action for trademark infringement and passing off, and the underlying decision, was the subject of much criticism for essentially the reasons the Divisional Court identified in vacating the Order—i.e., that the *Trademarks Act* explicitly limits the availability of infringement proceedings to registered marks and, while owners of unregistered marks can sue for passing off, they must first establish the alleged mark has acquired some reputation, usually via use in commerce.

Moreover, the test for granting an interlocutory injunction is generally considered to have a high bar. To succeed, the moving party must satisfy all three elements of the *RJR-MacDonald Inc. v Canada (Attorney General)*, [1994] 1 SCR 311 test: (1) a serious issue to be tried; (2) irreparable harm; and (3) the balance of convenience favours granting the injunction. Interlocutory injunctions are extraordinary remedies, and historically, courts have been reluctant to grant them, particularly in trademark disputes, where such orders can be functionally dispositive.

The *Bhagwani* decision underscores the importance of coupling trademark applications with actual use in Canada. The mere existence of a trademark application in Canada, without any corresponding use of the mark in commerce here, is unlikely to provide any actionable rights on its own.

If You Fail to Respond, Default Lies With You

In a cautionary tale for those who would ignore cease and desist letters and fail to respond to litigation, the Federal Court in *UBS Group AG v Yones*, 2022 FC 132 granted default judgment against Unified Business Solutions Group Inc. ("Unified"), finding that they had infringed the trademark rights of UBS Group AG ("UBS Group") in its UBS word and design marks.

Despite the low degree of inherent distinctiveness in marks comprised of three-letter acronyms, UBS Group established that Unified had infringed its rights under Section 20 of the *Trademarks Act* in its registered UBS and UBS & Design (depicted below) marks covering various financial, banking, investment and insurances related goods and services through the use of the trademarks UBS GROUP and UBS Design (also depicted below) in association with services including tax services, bookkeeping, accounting, financial reporting, business planning, forecasting, and financial and business advisory and consulting services.

UBS Group's Mark

Unified's Mark

Unified continued to use the UBS Design mark long after receiving, and failing to respond to, a demand letter from UBS Group's counsel, advising Unified of UBS Group's rights in the UBS marks and requesting that they cease use of the infringing mark.

Justice McHaffie enjoined Unified from using the trademarks UBS GROUP and UBS Design and the trade names UBS Group and UBS Group Inc., ordered Unified to deliver up or destroy all infringing material, and to transfer ownership of the <ubsgroup.ca> domain name, and awarded damages in the amount of $12,000, and costs in the amount of $23,000. Justice McHaffie was not prepared to award punitive damages, holding that "engaging in infringement and failing to respond to demands to stop infringing, even when backed by litigation, does not justify in itself a finding of punitive damages."

It's Not Child's Play… Or At Least It Shouldn't Be

Another successful motion for default judgment before the Federal Court, *Mars Canada Inc. v John Doe #1*, 2022 FC 1193, signals a victory for rights holders fighting elusive online cannabis retailers selling infringing THC-infused edibles in look-alike packaging, in violation not only of the rights holders' intellectual property rights, but also of the *Cannabis Act*.

Mars Canada, owner of the well-known SKITTLES trademark for candy, commenced litigation against five online retailers selling SKITTLES branded THC-infused candy in nearly identical packaging (see below).

SKITTLES Product & Packaging

Infringing Product & Packaging

The defendants did not file statements of defence, prompting Mars Canada to bring a motion for default judgment, seeking declarations of infringement, passing-off and depreciation of goodwill, nominal, punitive and exemplary damages, a permanent injunction, and delivery up and destruction of the infringing products and packaging.

Justice Gleeson found that Mars Canada's evidence was sufficient to grant default judgment against three of the five defendants, and that Mars Canada had established its claims against these three defendants for infringement (under Sections 19 and 20 of the *Trademarks Act*), passing off (under Sections 7(b) and 7(c) of the *Act*), and depreciation of goodwill (under Section 22 of the *Act*).

In considering each claim, the Court pointed to evidence showing the effect of the defendants' conduct on the public. In the context of the infringement analysis, the Court noted at least one instance of "actual consumer confusion" that had "resulted in harm within a particularly vulnerable segment of the population, children". On the passing off claims, evidence of media coverage referencing the SKITTLES products while depicting the THC SKITTLES Product established potential damage to the plaintiff's reputation and goodwill. On depreciation of goodwill, Justice Gleeson commented that the "unlawful nature of the Infringing Product and the adverse publicity it has attracted has likely had a negative effect on the goodwill, likely depreciating its value".

In addition to injunctive relief and delivery up and destruction of the infringing products and packaging, Justice Gleeson awarded, per defendant, costs in the amount of $3,200, $15,000 in nominal damages, and $30,000 in punitive damages.

In deciding that punitive damages were warranted in this case, Justice Gleeson put significant weight on the issue of harm to members of the public, and particularly to children, finding that "advertising and offering for sale of a potentially dangerous product using appropriated trademarks that are evidently and obviously attractive to children represents a marked departure from ordinary standards of decent behaviour that deserves to be denounced and deterred." Justice Gleeson also noted that "the Defendants' efforts to remain anonymous support the conclusion that they had knowledge of the unlawful nature of their activity."