



Exhaustion Doesn't Apply: Repurposing of Original Branded Parts Leads to Findings of Infringement, Passing Off and Depreciation of Goodwill

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By R. Scott MacKendrick and Bruna D.D. Kalinoski

On June 17, 2021, in *H-D U.S.A., LLC v. Varzari*, [2021 FC 620](#), Justice McHaffie of the Federal Court held that the manufacturing and sale of an electric bicycle assembly incorporating original parts of a Harley-Davidson motorcycle did not amount to lawful resale of trademarked goods, and consequently was not protected by the principle of exhaustion of an intellectual property right.

1. Factual Background

Harley-Davidson Canada LP and H-D U.S.A., LLC ("Harley-Davidson") brought a successful application for an injunction before the Federal Court of Canada to enforce its registered trademarks against the respondent, Eli Varzari, an individual who was selling custom-built electric bicycles under the name "Harley Davidson Willie G Edition".

After receiving Harley-Davidson's written demands, Mr. Varzari remained unresponsive but did change the name under which his electric bicycles were being sold, replacing "Harley Davidson Willie G Edition" with "The 'H' Edition". The electric bicycles, nonetheless, continued to be made by incorporating Harley-Davidson motorcycle parts and to display Harley-Davidson's "Bar and Shield" and "Skull Design" logos on them.

Harley-Davidson owns over 40 registrations in Canada, but the primary registrations grounding the injunction request were: (a) two word trademarks, namely, the "HARLEY-DAVIDSON Mark" in association with motorcycles and a variety of motorcycle parts, tools, and accessories, and the "H-D Mark" covering motorcycles, a variety of motorcycle parts, and a variety of clothing items; and (b) three design trademarks featuring white and black colours of the "Bar and Shield" logo and the "Skull Design" logo, respectively for use in association with a wide variety of goods including "motorcycles and parts and accessories for motorcycles" and for use in association with "motorcycles and structural parts therefor, various motorcycle parts and accessories, and various clothing items and accessories".

Mr. Varzari's electric bicycles were sold for US\$7,000 and advertised as featuring several structural components (e.g., handgrips, pedals, axle bolt covers, and air valve caps) that were "original parts from the factory" or "original parts from Harley Davidson", and built by East Van Chopcycles, a related business that appeared to be owned and operated by Mr. Varzari himself as a sole proprietor.

The electric bicycles also featured an orange frame on which a logo essentially identical to the Bar and Shield Mark was displayed. Other structural components also displayed the H-D Mark and the Skull Design on them. The website on which the electric bicycles were promoted indicated that "[t]hese bikes are all tested and ready to ride", suggesting that multiple units were available for sale.

The application proceeded unopposed, and Justice McHaffie considered whether Harley-Davidson satisfied its burden of establishing on the evidence that the elements of its causes of action of infringement, passing off, and depreciation of goodwill were made out.

Justice McHaffie found that Mr. Varzari's use of the HARLEY-DAVIDSON name and the "Bar and Shield" logo infringed Harley-Davidson's trademark rights, and his actions constituted passing off and depreciation of goodwill. He also concluded



that the use of original Harley-Davidson parts in Mr. Varzari's electric bicycles effectively amounted to applying the trademark to a new good (i.e., the electric bicycle), which is different from lawfully reselling original parts.

2. *Confusion and Violation of Harley-Davidson Trademark Rights*

Justice McHaffie began his analysis by stating that the names used by Mr. Varzari (i.e., Harley Davidson Willie G. Edition, Harley Davidson Edition, and The H Edition) were used to distinguish his electric bicycles from those of others, and were therefore trademarks.

Taking into account the relevant factors for assessing confusion between the trademarks, Justice McHaffie noted that their high degree of resemblance dispensed with an extensive analysis of all the factors. The Harley-Davidson trademarks clearly had inherent and acquired distinctiveness demonstrated, inter alia, by approximately 10,000 yearly sales of motorcycles in Canada and by similar Federal Court findings in other decisions.

Justice McHaffie considered that the nature of the goods and trade were somewhat different, but such difference was insufficient to outweigh the other factors indicative of confusion. He considered electric bicycles "very close in nature to the motorcycle goods registered, particularly when one considers that motorcycles can include electric motorcycles, which Harley-Davidson has also sold for the past several years." ²

Renaming the electric bicycles to "The 'H' Edition" did not make Mr. Varzari's mark any less confusing because: (i) consumers would continue to link the current name to the marks previously used; (ii) promotional materials continued to link the electric bicycles to "original parts from Harley Davidson"; and (iii) Harley-Davidson's trademarks are often represented by its initials which continued to be displayed on Mr. Varzari's electric bicycles.

Justice McHaffie found that a casual consumer somewhat in a hurry presented with Mr. Varzari's electric bicycles would infer that they were manufactured or sold by or under license of Harley-Davidson.

3. *Exhaustion, and the Use of "Original Parts" of Harley-Davidson Motorcycles*

Justice McHaffie considered that if Mr. Varzari were purchasing original Harley-Davidson motorcycle parts and were reselling them, his business practice could potentially engage, and be excused by, the principle of exhaustion of intellectual property rights. In Trademarks Law, this principle essentially means that "[t]he resale of trademarked goods lawfully acquired is not, by itself, prohibited under the *Trademarks Act*". ³

Critically, Justice McHaffie distinguished the lawful resale of trademarked goods from the use that Mr. Varzari was making of original components of trademarked goods to create a new product. He concluded:

"[...] Mr. Varzari is not simply reselling motorcycle parts bearing the H-D Mark and the Skull Design Mark. Rather, he is altering them and incorporating them into a new good in such a way that the new good, the bicycle, bears the trademark and thereby suggests an association with the trademark owner...Mr. Varzari's sale of a bicycle incorporating the handgrips and axle bolt covers bearing these marks does not fall within the [exhaustion] principle stated in cases such as *Consumers Distributing and Coca-Cola*."

A caveat in the decision was that "[n]ot every incorporation of a trademarked good into a new good will result in the sale of the new good being a sale in association with the trademark or another act contrary to section 20 of the *Trademarks Act*". ⁵ The evidence, nonetheless, satisfied Justice McHaffie that the modified use of original parts bearing Harley-Davidson's trademarks, and the subsequent selling and advertising of products that were new goods with the trademarks effectively marked on them, took the situation outside of lawful resale of trademarked goods.

4. *Passing Off and Depreciation of Goodwill*

Harley-Davidson's passing off claim required Justice McHaffie to determine if the evidence showed the existence of goodwill, deception of the public owing to Mr. Varzari's misrepresentation, and actual or potential damages. Justice McHaffie's considerations in respect of infringement applied to the passing off claim analysis. He also considered these additional facts: (i) Mr. Varzari's used a particular shade of orange, (ii) the shape of Mr. Varzari's bicycles, and (iii) Harley-Davidson's recent advertising of electric bicycles.

He held that the colour orange constituted an enforceable unregistered trademark that formed a proper basis for a passing off claim. The evidence established that orange was the primary accent colour found in most of the products and



advertisements made under Harley-Davidson's trademarks, but it did not establish that there was a particular shape of motorcycles that was protected. Justice McHaffie's noted that Harley-Davidson's future line of electric bicycles would not contribute to a finding of passing off in light of his findings on the similarities between the goods, so that point was left unaddressed.

As for damages, they were neither grounded on lost sales nor profits arising from Mr. Varzari's activities. Rather, Justice McHaffie held that loss of control over reputation, image, or goodwill was sufficient to show damages arising from Mr. Varzari's sales of electric bicycles over which Harley-Davidson had no quality control.

For reasons that substantially overlap with Justice McHaffie's infringement and passing off analysis set out above, Harley-Davidson was also successful in establishing its claim of depreciation of goodwill by proving use, goodwill, linkage, and damage.

5. Remedies

Justice McHaffie held that Mr. Varzari's conduct in not responding to Harley-Davidson's communications or to the application was indicative that he had no intention of stopping use of Harley-Davidson's trademarks. He found that a permanent injunction enjoining Mr. Varzari from violating the trademarks, and ordering him to deliver up, destroy, or disassemble the infringing goods and advertisements was warranted (this does not preclude reuse of parts from the bicycles in non-infringing forms).

Harley-Davidson sought monetary compensation of a total of \$50,000 (\$25,000 to each of the corporate applicants, namely, the owner of the trademarks and the licensee). Justice McHaffie pointed to various factors in favour of a greater degree of damage and a higher award, as well as factors suggesting a lesser degree of damage and a lower award, and in the end, concluded that \$13,000 in damages was reasonable. He refused to double the award for the two different corporate applicants as he found no basis to do so where the two entities are corporate members of a family of companies, and the licensee entity did not establish any independent basis for its own claim for damages.

¹ *H-D Michigan Inc v MPH Group Inc*, 2006 FC 538 at paras. 58–59; *H-D USA, LLC v Berrada*, 2014 FC 207 at para. 166.

² *H-D U.S.A., LLC v. Varzari*, 2021 FC 620, at para. 21.

³ *H-D U.S.A., LLC v. Varzari*, 2021 FC 620, at para. 28.

⁴ *H-D U.S.A., LLC v. Varzari*, 2021 FC 620, at para. 30, citing *Consumers Distributing Co v Seiko*, [1984] 1 SCR 583 at p 593; *Coca-Cola Ltd v Pardhan*, 1999 CanLII 7852 (FCA) at paras. 12-21.

⁵ *H-D U.S.A., LLC v. Varzari*, 2021 FC 620, at para. 31.

⁶ *H-D U.S.A., LLC v. Varzari*, 2021 FC 620, at paras. 61-63.

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