



Trademarks On Promotional Products – Profit Is Not A Requirement For Use

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Canada's trademark system recognizes both unregistered and registered rights, but there are many well-recognized benefits to registration, such as statutory exclusivity in the mark for the registered goods/services across the country, a defence to allegations from others of infringement and passing off, and deemed proof of ownership. There are also more subjective advantages, such as easier enforcement, searchable rights on the public Register, and the added vigilance of the Trademarks Branch, which conducts confusion searches during examination. All of these should combine to make registration a priority for all brand owners.

It is now possible to register a mark without any use. However, all registrations become vulnerable to cancellation for non-use three years after registration. Specifically, section 45 of the *Trademarks Act* permits any person to request the Registrar issue a notice commencing a non-use cancellation proceeding. Upon issuance of such notice, the owner is required to provide evidence of use in Canada of a registered mark, failing which the mark will be cancelled, unless there are special reasons to excuse non-use. This section was designed to be an expeditious way to clear "deadwood" from the Register.

In practice, section 45 non-use cancellation proceedings are lengthy, often taking more than three years. This is problematic if they are commenced to deal with risk analysis before adoption of a new brand, or to address confusion citations in examination. As a result, many non-use proceedings are started merely as a tactic, for example to encourage a registrant to voluntarily remove overlapping goods or services, agree to assign the mark, and/or provide a consent in exchange for avoiding the time, costs and uncertainty of seeing a non-use proceeding through to its conclusion. They are also widely used in litigation. Any brand owner hoping to rely on a registration in infringement proceedings needs to prepare, in advance, to defend such registration against a non-use cancellation proceeding and/or a counterclaim that the trademark has been abandoned.

The volume of disputes before the Registrar and the Courts in which trademark "use" is at issue suggests that it can be both uncertain and contentious. Cases have analysed a variety of issues ranging from differences between the mark as used as compared to registered, use by entities other than the registrant, the necessary volume of use, and whether the use was "in the ordinary course of trade".

That last issue was before the Registrar, the Federal Court and the Federal Court of Appeal in *Cosmetic Warriors Limited v. Riches, McKenzie & Herbert LLP*, where the parties argued whether the sale of promotional t-shirts to employees, at or barely above cost, amounted to use in Canada. In particular, does a party need to make a profit for there to be use in the ordinary course of trade?

The Federal Court of Appeal (2019 FCA 48) decision held that trademark use does *not* require proof of profits from the sale of the registered goods, and suggested that in some cases, even "free" distribution of goods might meet the use test (at para. 29). For use to be in the normal course of trade, the transfer of the marked goods must relate to an overall "profit-making purpose". A request for leave to appeal the decision to the Supreme Court of Canada was recently denied.

What is valid trademark use? All non-use determinations start with sections 4 and 45 of the Canadian *Trademarks Act*. Section 4 contains a definition of use for both goods and services. For a mark registered for goods (section 4(1)), use occurs when the following are met:



- a transfer of property or possession of the goods
- that such transfer occur in the normal course of trade
- that the registered mark appear on the goods or packages in which they are distributed, or is in some other way associated with the goods so that notice of the association (between the mark and the goods) is given to the person acquiring them.

Section 4(3) confirms that goods exported from Canada are deemed to be in use in Canada. In section 45 non-use cancellation proceedings, the following must also be shown:

- use in Canada
- use by the registrant (which may include a validly licensed user), and
- that the use occurred within the last 3 years.

To avoid cancellation or limitation of the registration during section 45 proceedings, use must be shown for all goods/services, unless special factors excuse non-use. Evidence is filed by affidavit or statutory declaration, and is not subject to cross-examination.

In *Cosmetic Warriors*, the section 45 target was a registration for the mark LUSH covering t-shirts. The registrant filed evidence from a Canadian licensee, whose use was controlled by the registrant. During the relevant period, t-shirts bearing the words LUSH FRESH HANDMADE COSMETICS were sold to employees in stores across Canada and the United States, who also purchased the t-shirts as gifts for family and friends. T-shirts were also sold to support the registrant's environmental campaigns. Evidence included photos of employees wearing the shirts, along with a spreadsheet of employee transactions in Canada and the United States, as well as representative invoices within the key timeframe – which showed sales of hundreds of t-shirts. There was no evidence suggesting that the sales were not authentic, and sales tax was charged and paid by the employee purchasers.

In the initial decision, the Registrar accepted that display of LUSH FRESH HANDMADE COSMETICS was use of the registered LUSH mark – it was the dominant feature of the phrase shown on t-shirts, and the additional words were descriptive. The requesting party noted that the registrant's evidence described the t-shirts as "promotional", pointing to documents that showed that the sales were made at cost and not for a profit, and that one of the supplier's documents actually called the t-shirts "assorted swag". The requesting party pointed to a series of decisions that found free distribution of goods will not qualify as use. The Registrar found, however, that while the t-shirts were sold at cost, they were nevertheless "objects of trade in themselves" and not merely promotional. Monetary profits were unnecessary. The supplier's description of the goods on invoices as "assorted swag" did not detract from a finding of use. Since use in Canada was found, there was no need to look at the issue of use by export under section 4(3).

The Federal Court (per Justice Manson), overturned that decision. The issues before the court were: (1) does normal course of trade require a profit; (2) did the Registrar err in finding that the goods were not merely promotional; and (3) is there a different test for exported goods compared to goods sold in Canada? While initially stating that promotional goods distributed free of charge do not meet the requirement of use, Justice Manson held that if there is an *"overall course of action for a business, carried out for the purpose of deriving profits and developing goodwill for the goods, it may constitute use in the normal course of that business, particularly if the goods freely distributed are the goods in which the business normally deals"* [para. 18]. Since *Cosmetic Warriors'* business was cosmetics and not t-shirts, Justice Manson found that the sale of t-shirts was not part of the registrant's normal course of trade. Similarly, at-cost sales to employees even as possible gifts for family and friends did not meet the requirement of "use", since he found (contrary to the Registrar) that the t-shirts were for promotional purposes only. And while admitting that the test for use on exported goods could differ, Justice Manson found that the purpose of section 4(3) was to deal with goods that were exclusively sold outside Canada and section 4(3) should not result in a different conclusion on the question of "use" where the sales circumstances did not differ.

Cosmetic Warriors appealed to the Federal Court of Appeal, which allowed the appeal and reinstated the Registrar's finding of use (per Webb, Rennie and Laskin JA). Writing for the Court, Justice Laskin confirmed that the Federal Court had not found specifically that "use" requires a profit, and went on to observe that actual profit is not required for the transfer to be "in the normal course of trade", as noted by the Registrar – and that proof of profits would both change the summary nature of section 45 proceedings, and make use a very inflexible concept [paras. 22-23].

The decision also comments on the appropriate standard of review on appeal. When no new evidence is filed, the review



test is the “reasonableness” of the Registrar’s decision. The Federal Court of Appeal noted that the judge should not reassess the evidence and substitute his or her view. Instead, the test should have been “was the Registrar’s decision unreasonable?” Justice Laskin quoted the leading case on the standard of review, *Dunsmuir v. New Brunswick*, noting that the reasonableness standard is a genuinely deferential standard – and that even where there are multiple possible answers to the issues on appeal, courts on review should not interfere with a rationally supported finding. The Registrar’s findings on use were rationally open on the evidence, and thus the Federal Court erred both in finding the Registrar’s decision on use to be unreasonable, and in reassessing and reappraising the evidence.

Why is this finding on “use” important?

Applicants frequently include a laundry list of goods in new applications. In addition to goods of key commercial interest, it is very common to include promotional items, such as hats, t-shirts, mugs, keychains and other types of “merch”. For decades, Canadian trademark counsel have cautioned that if such goods are given away, and not sold, the test of valid trademark use might not be met, and any registration for those goods might not be maintained, if challenged.

Crucial to the result in *Cosmetic Warriors* were the findings that: (1) the t-shirts were not merely promotional (i.e. they had a function other than merely delivering an advertising message about another business) – the shirts were objects of trade in themselves; and (2) the sales were authentic –there were genuine sales of t-shirts to employees for use as store uniforms and as gifts for family and friends. In this context, the decision confirms that proof of profits from such sales is not a use prerequisite. To have set this as a standard of use would have meant that many new companies could not establish use for some years after sales of their related goods or services started – a troubling result.

However, in obiter, the Federal Court of Appeal went further, positively quoting earlier law that “even the free distribution of goods can, depending on the circumstances, meet the requirement of ‘normal course of trade’”, referring specifically to a decision involving products given away in preliminary market testing. But what about other kinds of giveaways – the t-shirts, caps and mugs that are so commonly given away as part of normal business promotion? Can free distribution of such promotional goods marked with a trademark qualify as “use” in the normal course of trade, if the transfer is part of the “pursuit of an ultimate profit-making purpose”? Why else do businesses give away branded mugs except to promote their business? It is accepted that mere advertising is not “use” for goods – there has to be a transfer of property in the normal course of trade. It is, however, arguable that giving away a mug as part of a sales promotion is more than “mere advertising”, and is a transfer of goods, in the normal course of trade, since it is clearly designed to further profit-making.

The *Cosmetic Warriors* decision offers language to suggest that, in the appropriate circumstances, free distribution of goods should qualify as trademark use when part of a clear economic purpose. As in *Cosmetic Warriors*, it should not matter if the goods in question are not the “main” products of the company, but they should be distributed to further a genuine business activity.

FULL DISCLOSURE

Cosmetic Warriors was represented by partner Mark Robbins and associate Tamara Winegust of Bereskin & Parr. The firm’s litigation team includes leading practitioners with expertise in all areas of intellectual property.

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