



Is Use of a Mark for Services Also Use on Goods Sold?

Nov 29, 2016

Authors: Cynthia Rowden and Scott MacKendrick

Litigation results are never fully predictable. That point is brought home clearly by a recent decision of the Federal Court in *Heather Ruth McDowell v Laverana GmbH KG* (2016 FC 1276, per Fothergill J.) involving an uncontested appeal of a decision of the Registrar of Trade-marks in a non-use cancellation proceeding pursuant to section 45 of the *Trade-marks Act*. If followed, this decision could have far-reaching implications for trademark owners, and especially those involved in retail activities, in terms of the Court's characterization of non-use cancellation proceedings, the type of evidence required to support use in a retail environment, and the issue of "ambiguity" in evidence and its impact on the findings of use.

Laverana, a German cosmetics manufacturer, requested the Registrar to issue a non-use cancellation proceedings notice to McDowell, the owner of registrations for HONEY in word and design format for retail store services, namely "the operation of a clothing, footwear, headwear, fashion accessory and giftware outlet", as well as for a long list of goods ranging from clothing and shoes, to hair accessories, makeup, giftware and household ornaments. Based on evidence filed by McDowell, the Hearing Officer in the Opposition Board, acting for the Registrar, found use of the marks for services, but was not satisfied that the evidence showed sales of each of the registered goods during the relevant period, **ordered that the registrations be amended to delete the goods.**

The language of s. 45 is clear – upon receipt of a notice from the Registrar to show use, a registrant has an obligation to show, for each of the registered goods and services, use in Canada in the three year period prior to the Registrar's notice. The definition of "use" in the *Trade-marks Act* for "goods" requires a commercial transaction in the normal course of trade, where the mark appears on the goods, labels or packages, or is associated with the goods in a way that notice of such association is made to the consumer. The usual evidence of "use" on goods such as clothing, for example, which makes up a large part of the items in the HONEY registrations, would include labels applied to the goods themselves, such as cloth labels sewn into the goods, or manufacturer labels attached to the goods when they are displayed in stores, followed by proof that such goods were sold in Canada by the owner of the goods or some licensed or related party. Generally, advertisements or other promotional materials are not, on their own, considered to be acceptable evidence of use on goods (as opposed to services).

The Registrar had found the evidence of use of the HONEY marks on goods to be insufficient - it covered proof of sales of only two clothing items, there was nothing to show volume of sales, or to support transfers in the normal course of trade in Canada. In addition, the Hearing Officer was not satisfied that this manner of display constituted "use" in association with any goods sold in the HONEY stores. The evidence was characterized as "essentially price tags and therefore did not distinguish the goods but only the retailer's services".

On appeal, as is permitted, McDowell filed additional evidence, described in the affidavit as sales tags and photos of sales tags attached to clothing bearing the HONEY mark, sales receipts listing the products sold, barcode stickers with HONEY placed on small items such as jewelry, postcards with the HONEY mark placed in shopping bags following sales, and HONEY store signs. The affidavit described the evidence as typical of how the mark would be used on "all" of the HONEY goods. Of note, the photos of

clothing to which the HONEY label has been attached also show brand names of other manufacturers, for example, on pocket tags or neck labels. Accordingly, there is no suggestion that the new evidence of use differed in nature from that described by the Hearing Officer as "essentially price tags".

The Judge found that this new evidence was material, and "fully" addressed the gaps identified by the Hearing Officer, and held that the registrations for both HONEY and HONEY Design ought to be maintained.

This finding is surprising for many reasons, as is the Judge's characterization of s. 45 non-use proceedings. First, as noted clearly in s. 45 of the *Act*, use must be shown on each of the goods and services. As summarized in the appeal decision, the supplementary evidence showed photos of articles of "clothing and accessories", but only scant mentions of cosmetics, and nothing to support sales of items such as lamps, trays, and candy dishes. Unless such evidence of use existed, the registrations should not have been maintained for those goods.

Second, the evidence seems to suggest that the registrant is a retailer selling the goods of others, as supported by photos of clothing goods marked with a manufacturer's brand. The Judge noted that hang tags and labels would ordinarily be sufficient to demonstrate use, which is true in the context of labels applied by the maker or source of the goods. However, can a retailer claim that it is "using" a mark on goods it sells by adding a store sales or price tag, packing the goods in a bag at the counter, and giving the customer an invoice with the store name on it? If that indeed meets the definition of "use" for goods, then arguably all retailers can support a use claim, either to get a registration (under the current regime that requires use before registration) or to maintain a registration, for *every single item* sold in a store, including branded merchandise from hundreds of different suppliers. The same would apply to online sellers who list their goods with their brand, invoice under the retail brand, and send goods in packages marked with the retail brand.

In fact, several s. 45 decisions issued by the Registrar have already addressed this exact point, and found that merely attaching a sales or price sticker or tag with the retailer's mark to a third party's good does not amount to use with that good. In *Coastal Trademark Services v. Edward Chapman Ladies' Shop Ltd.* 2014 TMOB 80, the Hearing Officer stated that: "*It is clear from the evidence that, with respect to some of the clothes sold in its stores, the Registrant was merely the retailer of certain clothing brands, such as GERRY WEBER. Placing such clothes on the Registrant's hangers or placing them in a garment bag displaying the Mark at the time of purchase does not amount to use of the Mark in association with the wares themselves [see, for example, London Drugs Ltd. v. Brook\$997], 81 C.P.R. (3d) 540 (T.M. Opp. Bd.); Gowling, Strathy & Henderson v. Karan Holdings Inc. (2001), 14 C.P.R. (4th) 124 (T.M. Opp. Bd)]. Similarly, merely attaching the store's price tags does not constitute use of the Mark pursuant to section 4(1) of the Act*"

Also, in *Moffat & Co. v. Big Erics Inc.*, 2015 TMOB 52, the Hearing Officer stated: *First, I note by analogy that merely attaching a store's price tags to a third party good has been held to not constitute use of a trade-mark pursuant to section 4(1) of the Act A retailer's trade-mark that appears on its price tag affixed to that good does not distinguish the retailer's goods from those of other manufacturers of the good; it perhaps distinguishes the retailer's price and therefore the retailer's services from those of other retailers*

Even more support is found in *Smiths IP v. Saks & Co.*, 2015 TMOB 133, which states: "*In order for display of a trade-mark to constitute "marked on the goods themselves", a trade-mark generally has to be displayed on the goods in a permanent fashion, typically by the manufacturer of the goods [see also Moffat & Co. v. Big Erics Inc., 2015 TMOB 52, 2015 CarswellNat 2807 (T.M. Opp. Bd. (s.45)) at para 29]. A relevant example would be a trade-mark displayed on a shirt's stitched-in label.*"

There is no reference to this well-established line of cases in this decision.

The other comments made in the decision by Justice Fothergill go to the rationale of s. 45 non-use proceedings, which are fairly characterized by the Judge as being designed to rid "deadwood" from the Register, and not to be used to address other issues of validity. The Judge makes the surprising observation that the Hearing Officer's determinations of fact and law were on "contentious matters that were unsuited to resolution under the summary process envisaged by s 45 of the *Trade-marks Act*, particularly given the existence of a separate and ongoing *inter partes* dispute involving a competing trade-mark registered by the requesting party". The "contentious matters" decided by the Register were whether, under s. 45, the HONEY marks were in use. That appears to be the very issue that s. 45 is designed to address. Further, it bears noting that the *inter partes* procedure mentioned was an opposition by McDowell against Laverana's application for HONEY MOMENTS for personal care products (which opposition Laverana had already

successfully defended), and that McDowell has also been involved in more than a dozen oppositions to other marks of many parties including the word HONEY. It seems odd to suggest that the existence of an opposition, particularly one started by the owner of the mark at question in s. 45 proceedings, is a reason to discourage an examination of "use" of a registered mark.

The decision also appears to veer from others in the assessment of alleged "ambiguity" in the evidence filed by the registrant. The Federal Court of Appeal, in the case that defined the nature of evidence to be filed in s. 45 cases, *Plough (Canada) Ltd. v Aerosol Fillers Inc.* [1981] 1 FC 679 (CA), held that "ambiguity must be resolved against the interests of the Owner". There are several good reasons for this, and the Registrar and courts have followed this guideline for decades. While s. 45 proceedings are intended to be summary, at the same time, a registrant is entitled to exclusive statutory rights that prevent others from using and registering a confusingly similar trademark. That right should not be valid if the mark is not being used, and s. 45 provides an expeditious way to get rid of marks that are not being used, or limit them to only goods/services in use. The proceedings require the registrant to file evidence of use in Canada, but do not permit the requesting party to test that evidence by cross-examination or by filing its own evidence. Therefore, the registrant's evidence must be clear, and for that reason, it is fair that ambiguities should be resolved against the trademark owner. The Judge in the McDowell case dismisses the Federal Court of Appeal's holding on ambiguity in *Plough* as "clearly wrong", and states that any ambiguity should have been resolved in favour of the registered owner. In fact, the Judge ends by stating that the Hearing Officer's decision applies "an unreasonably onerous burden of proof".

A couple of decisions are cited in support of this position, and full examination of this issue and the origin of contrary views to that of the Federal Court of Appeal in *Plough* deserves, in itself, a full paper, but it pays to review one of the cases cited in the McDowell decision, *Fraser Sea Food Corp. v Faskin Martin Dumoulin LLP*, 2011 FC 893, per Harrington J. There, Justice Harrington cites the well-known direction that "use" must be shown, and not merely stated, and the notes that: " *The Court will resolve any evidentiary ambiguities in favour of the trade-mark owner, but not if doing so would lower the prima facie standard required to prove use (Messrs. Bereskin & Parr v Fairweather Ltd, 2006 FC 1248 (CanLII), 58 CPR (4th) 50, aff'd 2007 FCA 376 (CanLII), 62 CPR (4th) 266; Diamant Elinor Inc v 88766 Canada Inc, 2010 FC 1184 (CanLII), 90 CPR (4th) 428.*" Of note is that in making this statement about "evidentiary ambiguities", Justice Harrington was considering an absence of evidence of even a single example of use.

It seems that when there is no evidence of use, then there can be no ambiguity. In the McDowell case, there seems to have been no evidence of use on numerous goods. The evidence of use on clothing and fashion accessories goods seems to have been the same type of evidence rejected by the Opposition Board in many other decisions. It is not clear exactly what "ambiguity" existed.

It should be pointed out that no one appeared for the requesting party on the appeal. Thus, these findings resulted from the submissions of the registrant, only.

Lastly, there are important changes coming to the *Trade-marks Act* that will permit registration without use. Many have raised concerns about the impact of registrations for large lists of goods that are not in use. The Canadian Intellectual Property Office has informally stated that it expects s. 45 non-use cancellation proceedings to be a useful way to control overreaching registrations. However, when the findings on "use" on goods from this decision are combined with the findings on ambiguity, it is clear that there are limits on the usefulness of s. 45 as a means of ensuring that the Register reflects business use. It can only be hoped that the specific facts of this decision limit its implications on other decisions.