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2021 Year in Review: Key Trademark Cases in Canada

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Throughout 2021, the world remained overwhelmingly preoccupied with ending the COVID-19 pandemic. That said, the Federal Court continued to provide guidance to Canadian trademark practitioners in a number of noteworthy decisions. The following represents a summary of our "top picks".

Use of a Parody Trademark May Not be a Budding Success

The Federal Court decision in *Subway IP LLC v. Budway, Cannabis & Wellness Store*, 2021 FC 583 confirms the emerging trend in Canadian courts in finding that the adoption of a parody trademark by a third party serves to depreciate the value of the goodwill attached to a well-known mark.

Subway IP LLC operates sandwich restaurants throughout Canada and is the registered owner in Canada of various trademarks including the SUBWAY logo in green, white and yellow:

Budway, Cannabis & Wellness Store (Budway) operates a retail store selling cannabis and related goods, and adopted the trademark BUDWAY in design form using various shades of the color green:

In an advertisement of its dispensary services, Budway also adopted a "mascot" in the form of a submarine sandwich filled with cannabis leaves and bulging eyes, as shown below:

Subway IP brought an application against Budway alleging trademark infringement, passing off, and depreciation of goodwill, contrary to sections 7(b), 20 and 22 of the *Trademarks Act*. Although Budway did not respond to the application, Subway was still required to establish its entitlement to the order sought on a balance of probabilities.

On the issue of trademark infringement, Justice McHaffie ruled that the respondents' BUDWAY mark was confusing with the SUBWAY registered trademarks, noting the similarities in letters and pronunciation between SUBWAY and BUDWAY, the use of colour differentiation between the first three and last three letters, the presence of arrow design motifs, the use of green colouring, and the oval background. He further noted that confusion between the marks was enhanced by the fact that "budway" is not a dictionary word and would therefore tend to be read in a manner to connote the common word "subway" which, in context, would allude to the SUBWAY trademarks.

Justice McHaffie also found that the SUBWAY marks enjoyed a fairly high degree of inherent and acquired distinctiveness. He noted that while the BUDWAY mark possesses some distinctiveness, the distinctiveness of its graphic elements was primarily derived from copying the various distinctive elements of the SUBWAY trademarks.

With regard to the nature of the respective goods, services and business associated with the respective marks, Justice McHaffie found an overlap in that they both covered "cookies", and noted that the SUBWAY registration covering "cookies" was not limited to any type of cookie, and could conceivably cover cookies containing cannabis.

Justice McHaffie also found that Subway had demonstrated each of the necessary elements with respect to passing off under section 7(b) of the *Trademarks Act*, namely, the existence of goodwill, deception of the public due to a misrepresentation, and actual or potential damage. Subway's depreciation of goodwill claim under Section 22 was also successful, with Justice McHaffie finding that the BUDWAY mark was sufficiently similar to the SUBWAY registered trademarks to evoke in the minds of consumers a mental association between the respective marks.

In light of these findings, Budway was permanently enjoined from using the trademark or trade name BUDWAY, and Subway was awarded damages in the amount of $15,000, with an additional $25,000 for costs.

A Half-Baked Plan

In *Boulangerie Vachon Inc. v. Racioppo*, 2021 FC 308, the Federal Court held that the defendants' use of the trademark HOSTESS and the trade name Hostess Bread Company Inc. on bread products infringed the rights of the plaintiff trademark owner in its HOSTESS registration covering cakes and pies under Subsection 20 of the *Trademarks Act*; constituted passing off contrary to Section 7(b); and depreciated the value of the goodwill associated with the plaintiff's mark contrary to Section 22 of the Act.

Not surprisingly, given the overlap in the goods and trade channels associated with the parties' respective HOSTESS marks (both fell within the category of baked goods, and were often sold side by side or in close proximity to each other), the judge concluded that the defendants' use of the HOSTESS name and mark with bread products was confusing with the plaintiff's HOSTESS word mark covering cakes and pies, and the case for infringement and passing off was quite strong. More noteworthy, however, was the court's finding that the defendants' use of the HOSTESS name and mark on bread products had the likely effect of "blurring" the HOSTESS brand and image and, as such, constituted depreciation of goodwill in the plaintiff's mark.

Although the defendants counterclaimed to invalidate the plaintiffs' registrations and filed evidence showing some co-existence on the Register of different HOSTESS related marks for various food products, the judge held that the presence of a few other traders with HOSTESS-formative marks on the Register for a variety of food products was not sufficient to establish that the HOSTESS trademarks of the plaintiff were not distinctive or that the registrations were invalid. This was consistent with the principle that, absent evidence showing actual use of third-party marks, marketplace use cannot be assumed. Indeed, the judge noted that the only evidence of use in the marketplace was that of the plaintiffs and the defendants. The judge also commented that the other third-party HOSTESS registrations covered foods that were considerably less similar to cakes than the defendants' bread.

Given the relatively limited nature of the infringing activities in this case, the plaintiffs were awarded only nominal damages in the amount of $10,000. The judge also held that the case did not justify a finding that the defendant's principal, Silvano Racioppo, should be held personally liable for the actions of the defendant. Merely being the directing mind of a company, or the person who made the decision that the company would undertake acts that may infringe, is not sufficient to establish personal liability and to show willful infringement or indifference.

Survey Says ...

The Supreme Court of Canada's 2011 decision in *Masterpiece v. Alavida Lifestyles* ignited a lively debate over survey evidence in trademark cases. Justice Rothstein noted in *Masterpiece* that surveys have the potential to provide empirical evidence demonstrating consumer reactions in the marketplace—exactly the question to be addressed in a confusion case, and something that generally would not be known to a trial judge. But Justice Rothstein also instructed judges to question the necessity and relevance of expert evidence before admitting it, and his comments have widely been interpreted as encouraging judicial hostility towards the use of surveys. In *Tokai of Canada Ltd v. Kingsford Products Company, LLC*, 2021 FC 782, Justice Fuhrer applied the principles from *Masterpiece* in assessing survey evidence and ultimately concluded that various deficiencies cumulatively rendered it unreliable and invalid, and hence, inadmissible.

Tokai was an appeal of a Trademarks Opposition Board decision. Tokai sought to register the trademark KING for barbeque and fireplace lighters, and for cigarette lighters. Kingsford successfully opposed—the Board found a likelihood of confusion between the applied-for mark KING and several KINGSFORD registered trademarks covering barbeque-related goods.

On appeal to the Federal Court, to show that the trademark KING was not confusing with Kingsford's registered marks, Tokai filed evidence of an online survey of over 700 Canadian adults who had purchased, or planned to purchase, a butane lighter. The Court accepted that survey results could have affected the Registrar's consideration in a material way. But Justice Fuhrer was not persuaded that the online survey appropriately simulated the imperfect recollection of a hurried consumer when they encounter the products and trademark in issue in the marketplace. Justice Fuhrer quoted Justice Rothstein's comment that simulating an "imperfect recollection" through a series of lead-up questions in a survey will rarely be seen as reliable and valid. Justice Fuhrer also found the survey deficient due to the manner of use of the term "butane lighters" (a term that was not explained and which did not appear on the relevant packaging), and because of timing issues (surveys completed too quickly were excluded; surveys completed very slowly were not excluded). Also, Justice Fuhrer found that the manner in which the survey participant was shown the KING trademark online did not reflect the manner in which the mark would be encountered in the marketplace.

The decision in Tokai is a reminder that parties should expect vigorous scrutiny of survey evidence from Federal Court judges, especially with respect to its contextual realism.

If at First You Don't Succeed ...

The decision of the Federal Court in *Brandstorm, Inc. v. Naturally Splendid Enterprises Ltd.*, 2021 FC 73, shows that persistence is sometimes rewarded—a party that is unsuccessful before the Trademarks Opposition Board may succeed on appeal by fixing evidential problems identified in the first-instance decision.

Brandstorm opposed an application by Naturally Splendid to register the proposed trademark NATERA covering a range of food, beverage and nutritional products. Brandstorm alleged that it distributed organic and fair trade food and beverage products in Canada under the trademark NATIERRA, and based its opposition on non-entitlement and lack of distinctiveness—it alleged that the trademark NATERA was confusing with its previously used trademark NATIERRA at the filing date of the opposed trademark application (and at the date of opposition).

However, Brandstorm's evidence before the Opposition Board included only one invoice (dated three years before the application filing date), which the Board considered insufficient to show "use" of the NATIERRA mark in Canada because: (a) there was no evidence clearly connecting the invoice to images of the goods displaying the opponent's mark; (b) it was unclear whether the invoiced goods were transferred and sold in Canada; (c) there was no clear evidence of Brandstorm's normal course of trade for NATIERRA products in Canada (and specifically no evidence of sales volumes). Also, the single invoice did not establish continuous use and non-abandonment of the NATIERRA mark on the relevant material dates.

On appeal to the Federal Court, Brandstorm filed new evidence aimed at addressing the problems noted in the first-instance decision. The Court found that the new evidence regarding sales of NATIERRA products in Canada was "substantial and significant such that it could have materially affected" the Opposition Board decision. Therefore, the Court applied the "correctness" standard of review and considered all the evidence and issues afresh with no deference to the Opposition Board's findings. The new evidence included Brandstorm's annual revenues from sales of NATIERRA products to Canadian retailers from 2010 to 2017, representative specimens of packaging of some NATIERRA products sold to Canadian retailers beginning in 2010, and email exchanges discussing product placement at HomeSense and Winners stores in Canada with purchase orders from 2013 for NATIERRA products.

The respondent argued that the evidence still did not clearly show NATIERRA-branded products on the shelves of Canadian retailers. However, the Court found that the evidence established Brandstorm's sale of NATIERRA products in Canada in the normal course of trade beginning in 2010. It was not necessary to provide direct evidence of the sale of those products to consumers. The sales to Canadian retailers were not token or otherwise outside the normal course of trade, and the volume and repeat nature of the sales strongly suggested that the retailers actually sold NATIERRA goods on a regular basis to their Canadian shoppers.

The Court went on to find the NATERA and NATIERRA trademarks confusing—the marks were said to bear a striking resemblance, and there was an overlap in the goods and channels of trade. Accordingly, the non-entitlement, and not distinctive, grounds of opposition succeeded, and the appeal was allowed.

Acronyms and Trademarks

Two decisions of the Federal Court this year reinforced the narrow scope of protection afforded to acronym marks in Canada.

One decision of the Federal Court of Appeal in *Loblaws Inc. v. Columbia Insurance Company*, 2021 FCA 29, involved two companies using the "PC" acronym with kitchenware. The plaintiff, Loblaws Inc., sold food and grocery items as well as kitchenware in association with its "PRESIDENT'S CHOICE" and "PC" trademarks since the 1980s. The defendant, The Pampered Chef, manufactured and sold kitchenware products. In 2015, it updated its branding to include its corporate name "PAMPERED CHEF", as well as the letters "PC" in a design configuration, as shown below:

Despite finding the parties' respective "PC" marks bore some resemblance and were used with similar products destined to the same group of consumers, the trial judge found confusion was unlikely. Noting some differences in the trade channels associated with the products (direct sales versus retail store) and that the letters "PC" appeared in combination with the defendant's long form mark "PAMPERED CHEF", the trial judge held that consumers would not confuse it for the plaintiff's PC/PRESIDENT'S CHOICE trademarks.

Reviewing for errors of law, the Federal Court of Appeal dismissed the appeal, noting that it was open to the trial judge to find that the spoon design diminished the degree of resemblance between the competing marks, even though the marks, when sounded, were identical.

A second decision of the Federal Court, in *Chartered Professional Accountants of Ontario v. American Institute of Certified Public Accountants*, 2021 FC 35, was an appeal from a decision of the Trademarks Opposition Board rejecting an opposition to the trademark THIS WAY TO CPA. The application was filed by the American Institute of Certified Public Accountants (AICPA) and opposed by the Chartered Professional Accountants of Ontario (CPA Ontario) based, in part, on its advertised official mark, "CPA".

CPA Ontario argued that the Opposition Board applied the wrong test of resemblance with its CPA official mark, looking only at a straight comparison of the marks' appearance, and failed to consider the same ideas suggested by them. The Federal Court found no palpable and overriding error in the Opposition Board's decision, and dismissed the appeal. The Court noted that the official mark "CPA" consists of letters and does not inherently suggest any specific idea, and that CPA Ontario failed to present evidence on its meaning. The Court also found that the words "THIS WAY TO" in AICPA's mark rendered it not so nearly resembling the CPA official mark as to be likely mistaken for it. The decision reinforces the position that for both ordinary trademarks as well as official marks, acronym marks are entitled to a narrower scope of protection.

Smart, But Not Strong: Low Inherent Distinctiveness and Dictionary Words

In *Smart Cloud Inc. v. International Business Machines Corporation*, 2021 FC 236, Justice Walker dismissed Smart Cloud's appeal of an opposition decision in respect of IBM's application for the trademark IBM SMARTCLOUD in association with a broad range of computer hardware and software, as well as business management, development, network and consulting services.

The opposition grounds included Smart Cloud's allegation that it was the prior user of the SMARTCLOUD trademark and trade name and, thereby, that IBM was not the person entitled to registration. The Trademarks Opposition Board found certain of the confusion factors favored Smart Cloud, while others either favored IBM or neither party. On balance, the TMOB found that the factors weighed "slightly in favour" of IBM, leading to the rejection of the opposition grounds.

On appeal, Smart Cloud filed new evidence on the meaning of the word "cloud". Part of the new evidence was found not to be admissible as the affiant had not been qualified as an expert, yet part of his evidence ventured into opinion evidence. The remainder of the new evidence was, however, seen to be material to the issue of the meaning of the word "cloud" as of the relevant dates for assessment of the opposition grounds, warranting review of the TMOB decision on a *de novo* basis in respect of that issue, with the remainder of the decision being reviewed on a palpable and overriding error basis. Justice Walker's approach to review followed the Federal Court and Federal Court of Appeal jurisprudence that has issued since the Supreme Court of Canada's late 2019 decision on administrative review in *Vavilov*.

Justice Walker found on the basis of the new evidence that the TMOB erred in relying on a post-relevant dates definition, but notwithstanding that error, she found, based primarily on IBM's additional evidence, that the TMOB's conclusions that the mark SMARTCLOUD is highly suggestive and possesses a low degree of inherent distinctiveness were correct. In making this finding, and in confirming the resulting finding that SMARTCLOUD was a weak mark, she observed that: "A finding of low inherent distinctiveness in a trademark does not require the word or words that comprise the trademark to be ordinary dictionary words. A trademark that consists of a word or words that are in general usage and are sufficiently defined in the casual consumer's mind may have a low degree of inherent distinctiveness."

To Turn a Blind Eye—Trademark Bad Faith?

In *Norsteel Building Systems Ltd. v. Toti Holdings Inc.* 2021 FC 927, Justice Zinn of the Federal Court declined to invalidate a trademark registration on a "bad faith" basis (a report on this decision can be found at *https://bereskinparr.com/doc/trademark-bad-faith-considered-by-the-federal-court*).

When Toti filed its Canadian trademark application, it failed to make "obvious" trademark inquiries about Norsteel, who it knew existed at that time. Norsteel alleged bad faith in respect of the Toti registration. Justice Zinn asked, and answered, the question of whether such conduct amounted to "bad faith" within the context of section 18(1)(e) of the *Trademarks Act*, a new provision of the *Act*. The new provision specifically provides that a trademark registration is invalid if "the application for registration was filed in bad faith." Before the addition of the new provision, a form of bad faith invalidity had been found to be implicit in an earlier application requirement provision that provided that an application needed to contain "a statement that the applicant is satisfied that he is entitled to use the trademark in Canada in association with the goods or services described in the application."

Justice Zinn's consideration of the new provision is the first time a Federal Court justice had done so. Toti's conduct, which Justice Zinn admitted could amount to "willful blindness", was found not to be in "bad faith". In so holding, Justice Zinn appears to have set a high bar for what will be a "bad faith" trademark application. This high bar appears to be higher than the bar set under earlier bad faith jurisprudence.

A decision later in 2021 of Justice Walker in *Yiwu Thousand Shores E-Commerce Co. Ltd. v. Lin* 2021 FC 1040 addressed the new provision, but did not address the *Norsteel* decision. It similarly suggests a high bar. Justice Walker discarded a section 18(1)(e) invalidity allegation on a lack of evidence "in the record that the [Registrant] purposely filed his trademark registration in 2017 to usurp the … trademark … or that [the Registrant] intended to harm [the moving party's] business."

Damages, Damages

Two noteworthy decisions of the Federal Court in 2021 resulted in awards of compensatory *and* punitive damages.

In *Canadian Standards Association v. Pharma Plastic Industries Inc*., 2021 FC 136, Justice Walker issued an injunction in respect of trademark infringement and depreciation of goodwill arising from Pharma Plastic's unauthorized use of the CSA certification marks, ordered Pharma Plastic to effect a recall, awarded damages in the amount of $50,000, and awarded punitive damages in the amount of $25,000.

Pharma Plastic manufactures and sells plastic vials, jars and blister packs to pharmacies for use in distributing prescription medicines. It applied to CSA in respect of its new child resistant vials for certification. Prior to successful certification, Pharma Plastic sold vials bearing the CSA marks to a limited number of pharmacies. Once CSA learned of these sales, it wrote to Pharma Plastic advising that the trademark use violated its rights and that the certification process had been placed on hold.

Whether Pharma Plastic immediately complied with the demands made in CSA's letter was contested, but in the proceeding, Pharma Plastic did not dispute its unauthorized sales or CSA's request for interlocutory relief; the nature and quantum of damages was the issue before Justice Walker.

With respect to the relief sought, Justice Walker found that Pharma Plastic's unauthorized use of the CSA marks constituted infringement and was likely to have the effect of depreciating the value of the goodwill attaching to the marks, such value being "inextricably linked to the public's confidence in [CSA's] safety and quality standards and the rigour of its testing protocols".

In calculating damages, Justice Walker considered the unpaid services and license fees payable under the testing and certification contract between CSA and Pharma Plastic; the unpaid amount was about one-half of the amount CSA sought in damages. CSA sought $50,000, and Justice Walker agreed. With respect to punitive damages, Justice Walker considered a range of factors, including that Pharma Plastic's conduct was "planned and deliberate" and that it continued its "wrongful conduct" after receiving the demand letter.

The second decision was in *TFI Foods Ltd. v. Every Green International Inc.,* 2021 FC 241.

In 2020, in *TFI Foods Ltd I-MEI Foods Co, Ltd. v Every Green International Inc.*, 2020 FC 808, Justice McHaffie of the Federal Court issued an interlocutory injunction against Every Green enjoining it from offering for sale, selling, and/or labeling products bearing the trademark I-MEI Design with labels identifying Every Green as the "exclusive distributor" of I-MEI, and ordered Every Green to recall its falsely labeled products (a report of that decision can be found at *https://bereskinparr.com/doc/interlocutory-injunctions-rare-but-not-extinct*). Every Green did not comply with the injunction order and took no further steps to defend the action.

In 2021, TFI and I-MEI sought default judgment, and Justice McHaffie granted it in part. He found that I-MEI had established its case in statutory passing off, but that TFI had not. He continued the injunction, awarded damages to I-MEI in the amount of $55,000, and awarded punitive damages in the amount of $35,000.

At the default judgment hearing, TFI and I-MEI focused their arguments on statutory passing off, and not on infringement. Justice McHaffie observed that there was no evidence before him that the goods being sold by Every Green in association with the I-MEI Design were not in fact sourced from I-MEI. He said: "If they were able to show that they were not genuine I-MEI goods, there is no question they would have presented such evidence to the Court. In such circumstances, I have insufficient evidence to establish on a balance of probabilities that the goods being sold by Every Green are counterfeit. Rather, I conclude the goods are likely genuine goods manufactured by I-MEI that have entered the Canadian market elsewhere and have been imported into Canada without the approval of I-MEI or its Canadian distributor TFI. Such goods are commonly known as "parallel imports" or "grey market goods". He went on to observe that "the sale in Canada of grey market goods does not itself infringe a trademark", rejecting TFI and I-MEI's argument that "affixing a label falsely stating that Every Green is the exclusive distributor, and having inaccurate ingredient information, makes the goods "akin" to fake or counterfeit goods and makes Every Green's actions effectively infringement".

With respect to the statutory passing off relief, Justice McHaffie found that the three elements—goodwill, misrepresentation and damage—were established. This finding on misrepresentation is of particular note: "The label that Every Green has affixed to products bearing the I-MEI Design trademark falsely states that Every Green is the exclusive Canadian distributor of such I-MEI branded products. This statement amounts to a false statement of association … and constitutes a misrepresentation within the scope of a claim for passing off … and is likely to cause confusion between the business of Every Green and that of TFI and/or I-MEI.

The Supreme Court of Canada Closes the Case

The Supreme Court of Canada has finally packed up the luggage and closed the case on the Swiss Cross design saga, dismissing an application for leave to appeal in *Travelway Group International Inc. v. Group III International Ltd., et al* (docket No. 39576).

The saga arose following an application by Wenger alleging that Travelway's use of a Swiss Cross Design in association with luggage constituted trademark infringement and passing off. The Federal Court originally dismissed the application (2016 FC 347), but the Federal Court of Appeal overturned (2017 FCA 215), finding that Travelway's registered trademarks infringed and passed off on Wenger's registered trademarks. However, the FCA did not order the expungement of Travelway's registrations, referring the issue of expungement back to the lower court. This created a rather perplexing outcome: registrations for trademarks found to be confusing were nevertheless allowed to co-exist on the Trademarks Register.

In 2019, the Federal Court ordered Travelway's trademark registrations expunged for invalidity (2019 FC 1104). The decision assuaged some of the uncertainty created by the decision of the FCA to leave two registered but confusing trademarks on the Register. Wenger's appeal on the issue of its entitlement to monetary compensation for Travelway's pre-expungement use of its registered yet infringing trademarks was, however, dismissed (2020 FCA 210). The Court found that in the absence of fraud, willful misrepresentation or bad faith, a registered trademark is presumed to be valid, and the registered owner cannot be liable for use that falls within the scope of such rights.

On September 29, 2021, the SCC dismissed Travelway's application for leave to appeal, without reasons. Trademark owners can now take some comfort in knowing that the existence of a valid registered trademark should be considered a complete defense against claims for damages in infringement and passing off.