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What's the use? Federal Court revisits the requirements for use of a trademark in association with goods

The recent Federal Court decision in *Cosmetic Warriors Limited v Riches, McKenzie & Herbert LLP*¹ revisits the statutory requirements for use of a trademark in association with goods. The Court's conclusion may come as a surprise to many lawyers and business persons, especially those for whom the distribution of promotional items forms part of their branding business model.

In 2005, Cosmetic Warriors Limited ("**Cosmetic Warrior**"), a cosmetics business, registered the trademark LUSH (the "**Mark**") for use in association with T-shirts in Canada. In 2014, Riches, McKenzie & Herbert LLP (the "**Requesting Party**" or the "**Applicant**") requested, and obtained, the issuance of a s.45 Notice to Cosmetic Warrior. Section 45 of the *Trademarks Act*² (the "**Act**") is intended to prune deadwood from the register, and requires the registrant of the trademark to show use of the mark in Canada in association with each of the goods or services specified in the trademark registration at any time within the three-year period immediately preceding the date of the s. 45 Notice. In the context of a mark registered for goods (as opposed to with services), the registrant must provide

¹ 2018 FC 63.

² R.S.C., 1985, c. T-13

evidence of use of the mark “in the normal course of trade” during the relevant period to avoid expungement of its registration.

Cosmetic Warriors presented evidence that their employees had purchased T-shirts and tank tops bearing the Mark at cost in both Canada and US during the relevant period. At issue was whether this evidence was sufficient to establish use of the Mark in Cosmetic Warrior’s normal course of trade.

Registrar’s decision:

The Registrar found that the evidence of use provided by Cosmetic Warrior was sufficient to uphold registration of the Mark, despite the Requesting Party arguing that: (i) the T-shirts were only promotional goods; (ii) sales were low in volume and only made to employees; and (iii) the shirts were sold at cost as opposed to for a profit.

The Registrar concluded as follows: “I do not consider it appropriate to expand the aforementioned jurisprudence to suggest that a registered owner needs to sell its goods strictly for monetary profit for such sales to be considered “in the normal course of trade” within the meaning of s. 4(1) of the Act.”³

Appeal to the Federal Court:

The Requesting Party appealed the Registrar’s decision to the Federal Court. There were three issues on appeal:

1. Did the “normal course of trade requirement” in the definition of use in s. 4(1) require transfer of the marked goods for profit?
2. Did the Registrar err in finding that the marked goods were not merely promotional?
3. Is the test for use in s. 4(3) of the *Act* different than the test in s. 4(1) of the *Act*?

³ 2017 TMOB 36 at para 25.

1. Section 4(1) use requires evidence of profit, unless it can be shown that selling at cost is in the normal course of your trade and is for the purpose of driving future profits.

The Federal Court overturned the Registrar's decision, and held that selling a good bearing the Mark, at cost, for promotional purposes, to employees only, to generate goodwill in a different business, good or service, is not use of the Mark in the normal course of trade and thus does not satisfy the "use" requirement under s.4(1) of the *Act*. However, if such promotional use of the Mark in association with the good was part of an overall course of action for a business, carried out for the purpose of driving future profits and developing goodwill for that good, then such use *could* satisfy the "use" requirement under s.4(1) of the *Act*. The Court held that evidence of some payment or exchange for the goods supplied is insufficient on its own to establish use in the normal course of trade.

In light of the evidence before the Court, and presumably due to the apparent absence of evidence as to what constituted the normal course of trade, the Court found the following combination of facts to be fatal to Cosmetic Warrior's establishment of "use" under s.4(1) of the *Act*:

- the absence of profit from the sale of the goods;
- the promotional nature of the sales of the goods;
- the small number of sales of the goods;
- the fact that goods were sold to employees only (despite the suggestion that they were distributed to third parties);
- the fact that Cosmetic Warrior is not normally in the business of selling the goods in question (T-shirts) as it is primarily a cosmetics business.

2. The Registrar erred in finding that the marked goods were not merely promotional.

The Federal Court found that sales of the T-shirts marked with the Mark were primarily promotional in nature. In reaching this conclusion, the Court agreed with the Applicant that the evidence

provided by Cosmetic Warrior's clothing supplier, Ethical Profiling, was relevant in analyzing the promotional purpose of Cosmetic Warrior's sale of the T-shirts marked with the Mark. The evidence generally demonstrated that: (i) the T-shirts were sold to the employees at cost or less; and (ii) the T-shirts did not promote the sale of additional T-shirts, but rather generated goodwill in a different business. The T-shirt sales were therefore promotional in nature and not "in the normal course of trade".

3. The Test for Use under s.4(3) under the Act overlaps in some regards with the Test under s.4(1) of the Act.

While the Federal Court agreed with Cosmetic Warrior that case law supported a view that the test under s.4(3) of the *Act* was distinct from the test under s.4(1) of the *Act*, the Federal Court also noted that the purpose of s.4(3) of the *Act* was to protect Canadian entities who would otherwise be entitled to protection under the *Act* but for the fact that their sales occurred exclusively outside of Canada. Importantly, the Federal Court remarked that "where a party's activities in Canada do not establish use of a trademark, those same activities do not rise to the level of use simply because an export has taken place". The Federal Court was not prepared to find that Cosmetic Warrior had established use of the Mark in association with T-shirts simply because it exported T-shirts bearing the Mark to the United States.

Take Home Points:

The following take-home points may be extracted from this decision:

- Invoices showing evidence of a sale at or below cost of a good bearing a trademark will often be insufficient to demonstrate "use" of the trademark in the normal course of trade. Arguments would have to be carefully crafted to show that use of your trademark in association with your good(s) is in fact in the normal course of your trade with the purpose of driving future profits.
- Selling a good bearing a trademark at cost, or less than cost, particularly when such selling does not promote the additional

sales of that good but rather generates goodwill for a different good or service of a business, suggests that the sale of the good is promotional in nature. Use of the trademark in connection with such sale would not be considered use of the trademark in the normal course of trade.

- If appropriate, consider specifying in your description of goods that the mark will be used on goods for promotional purposes as well. In fact, “promotional T-shirts” and even “swag” are recognised descriptions in the CIPO Goods and Services Manual.⁴ While the adoption of this terminology would not itself be sufficient to show selling at cost constitutes s.4(1) use, it could be used to reinforce that there was an overall business plan to generate goodwill.
- Where a party’s activities in Canada do not establish “use” of a trademark, those same activities do not rise to the level of “use” of the trademark simply because an export has taken place.

One thing is clear, unless the decision is modified on appeal, parties will have to reconsider their trademark strategies for protecting their trademarks when applied to promotional goods.

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⁴ Of note, in 2009 the service “promotional services” was retired from the Goods and Services Manual. Following the *Ralston Purina Co. v. Effem Foods Ltd.* 81 C.P.R. (3d) 528 decision, the Trademarks Office issued a Practice Notice, providing appropriate illustrations of registrable advertising, marketing, and promotional services: “promoting goods and services by arranging for sponsors to affiliate goods and services with [indicate activity, e.g. a particular sports competition]; promoting goods and services through the distribution of discount cards; promoting the sale of credit card accounts through the administration of incentive award programs; promoting the sale of goods and services by awarding purchase points for credit card use; promoting the sale of goods and services through the distribution of printed material and promotional contests”. Importantly, these Practice Notice suggestions merely facilitate the registration process, but certainly provide no guarantee that the mark will not be expunged pursuant to inadequate s.4 use.

a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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