

Federal Court



Cour fédérale

Date: 20180123

Docket: T-825-17

Citation: 2018 FC 63

Ottawa, Ontario, January 23, 2018

PRESENT: The Honourable Mr. Justice Manson

BETWEEN:

RICHERS, McKENZIE & HERBERT LLP

Applicant

and

COSMETIC WARRIORS LIMITED

Respondent

JUDGMENT AND REASONS

I. Introduction

[1] This is an appeal pursuant to section 56 of the *Trade-marks Act*, RSC 1985, c T-13 (the “Act”), from a decision of the Registrar of Trademarks (the “Registrar”), dated April 24, 2017 (the “Decision”), which found that the Respondent, in response to a section 45 Notice, demonstrated use of the trademark LUSH and registration TMA649,810 therefore, in association with t-shirts (the “Mark”).

II. Background

A. *The LUSH Mark*

[2] Cosmetic Warriors Limited (the “Respondent”) owns the Registration for the trademark LUSH, which is registered for use in association with the following goods: “Clothing, namely, t-shirts.” At the request of Riches, McKenzie & Herbert LLP (the “Applicant”), the Registrar issued a Notice pursuant to section 45 of the Act on September 10, 2014, with respect to the Mark. The relevant period for demonstrating use of the Mark is September 10, 2011, to September 10, 2014 (the “Relevant Period”).

[3] In response to the Notice, the Respondent provided the Affidavit of Brandi Halls, sworn April 9, 2015 (the “Halls Affidavit”). In the Halls Affidavit, Ms. Halls identifies herself as Director of Brand Communications for Lush Handmade Cosmetics, Ltd. (“Lush Canada”), the Canadian licensee of the Mark. Ms. Halls attests that Lush Canada operates over 200 stores in North America, including 46 in Canada, and is responsible for manufacture and quality control of all Lush-branded products in Canada and the United States.

[4] According to Ms. Halls, employees of Lush Canada wear t-shirts bearing the Mark as part of their uniform. In addition, clothing bearing the Mark is available to employees for purchase, both for themselves and as gifts for family and friends. The Halls Affidavit provided evidence demonstrated sales for t-shirts bearing the Mark to Lush Canada employees in excess of \$1200 CDN in Canada and \$2900 USD in the United States between February 2013 and August 2014. The Halls Affidavit also provided evidence showing sales of tank tops bearing the Mark in

excess of \$700 CDN in Canada and \$1700 USD in the United States during the same time period. In addition to sales to employees, the Halls Affidavit attests that t-shirts bearing the Mark were sold in support of environmentalist campaigns throughout the Relevant Period.

B. *The Registrar's Decision*

[5] The Registrar accepted that the versions of the Lush logo displayed on the t-shirts constituted display of the Mark as registered, noting that section 4(1) of the Act is clear that display of a trademark on a good at the time of transfer is deemed use of that trademark, and that an inquiry into whether the trademark actually distinguished these goods from the goods of others is beyond the scope of a proceeding under section 45. Further, the Registrar found that the addition of the words "FRESH HOMEMADE COSMETICS" below the Mark was a minor deviation.

[6] The Registrar considered the Applicant's contention that t-shirts bearing the Mark were not sold in the normal course of trade, based on the fact that the Halls Affidavit tended to describe the t-shirts as "promotional" goods and showed that they were sold at cost, rather than for profit, in small quantities to employees. The Registrar acknowledged that free distribution of a good to promote one's brand does not constitute a transfer in the normal course of trade; to meet this standard, the evidence must establish that the good was delivered as an object of trade in itself, leading to some type of payment or exchange. The Registrar noted that the jurisprudence establishes that a single sale in the normal course of trade can suffice to show use of a trademark, and that good faith sales of goods to employees can satisfy the requirements of

section 45(1) of the Act. In this case, the Registrar found that the t-shirts were not merely uniforms; the evidence suggested that employees had purchased t-shirts to give to third parties.

[7] The Registrar found that invoices from Ethical Profiling, Ltd. (“Ethical Profiling”), the manufacturer of the t-shirts, tended to show that the t-shirts were sold to employees at cost when read in conjunction with other evidence. However, because the Respondent was not required to furnish evidence of its purchase of the clothing from Ethical Profiling, the Registrar was not prepared to draw a negative inference against the Respondent. In addition, the Registrar found that the t-shirts were not merely promotional, and found that it was not 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 section 4(1) of the Act.”

[8] The Registrar considered the Applicant’s contention that the term “assorted swag” on the Ethical Profiling invoices to Lush Canada showed that the clothing was promotional in nature. The Registrar was “not prepared to draw any negative inferences from such vague terminology, in particular when it originates from [Lush Canada]’s supplier, rather than [Lush Canada] itself.” Accordingly, the Registrar found that the Respondent had established use of the Mark within the Relevant Period.

[9] Because the Registrar was satisfied that the Respondent had established use within the meaning of section 4(1) of the Act, he did not find that it was necessary to conclude whether evidence of clothing sales to the United States constituted use within the meaning of section 4(3)

of the Act, but noted that while section 4(3) did not include the “normal course of trade” requirement found in section 4(1), the jurisprudence established that the language of “export” in section 4(3) required some form of commercial transaction. However, in view of his conclusion with respect to sales in Canada, the Registrar found that sales to United States employee purchasers by Lush Canada must constitute the export of registered goods in the nature of a commercial transaction.

III. Issues

[10] The issues are:

- A. Does the “normal course of trade” requirement in the definition of use in section 4(1) require transfer of the marked goods for profit?
- B. Did the Registrar err in finding that the marked goods were not merely promotional?
- C. Is the test for use in section 4(3) of the Act different from the test in section 4(1)?

IV. Standard of Review

[11] The Applicant argues that the standard of review should be correctness, as the Court must decide what “use in the normal course of trade” means, which is a pure question of law, citing *Rogers Communications Inc v Society of Composers, Authors and Music Publishers of Canada*, 2012 SCC 35.

[12] However, in my opinion the question of what constitutes “use in the normal course of trade” under section 4(1) of the Act involves a mixed or intertwined question of fact and law, that

cannot be readily separated, such that the legal question is not neatly extricable from its factual context (*Mattel, Inc v 3894207 Canada Inc*, 2006 SCC 22 at paras 36, 39).

[13] Therefore, I find that the standard of review is reasonableness and the Registrar's decision is entitled to some deference. This is also supported by the fact that the Registrar is applying his or her home statute (*Gouverneur Inc v One Group LLC*, 2016 FCA 109 at para 14; *Molson Breweries v John Labatt Ltd*, [2000] 3 FC 145 (FCA) at para 51).

V. Analysis

A. *Does the "normal course of trade" requirement in the definition of use in section 4(1) require transfer of the marked goods for profit?*

[14] The Applicant argues that the Registrar erred in law in holding that the expression "in the normal course of trade" in section 4(1) of the Act does not require profit. The Applicant contends that the expression requires transfer for the purpose of both goodwill and profits, citing a number of authorities. The Applicant notes that the Respondent's evidence establishes that each t-shirt would have been sold at a net loss. Moreover, the Respondent's evidence shows an average of approximately two t-shirt sales per store in Canada over an 18-month period, and therefore further evidence is necessary to show that these sales occurred in the ordinary course of business, particularly given that the Respondent is a cosmetics business.

[15] As well, the Applicant states that even if profitability is but one factor to consider in deciding what constitutes use in the normal course of trade, that fact combined with admissions that the t-shirts sold to employees of Lush Canada were for promotional purposes and for

generating goodwill in the Respondent's cosmetics business, not for goodwill in t-shirts, defeats any argument that such use can be considered contextually as use in the "normal course of trade".

[16] The Respondent states that it is inappropriate for the Registrar to be required to measure revenues against expenses to determine whether a profit has been made in a section 45 proceeding, stating that a "microscopic accounting exercise is not consistent with a summary proceeding designed to remove "deadwood" from the trade-marks register." Further, the Respondent argues that such an approach would mean that companies which intentionally sell "loss-leader" goods below their cost would put their trademarks at risk. The Respondent argues that the proper test is whether there has been some payment or exchange for the goods supplied, or whether the transfer has been part of a deal (*Royal Bank of Canada v Register of Trade Marks* (1995), 63 CPR (3d) 322 at 327 (FCTD)).

[17] As well, the Respondent argues that the cases cited by the Applicant are distinguishable: namely, the handing out of free samples (*Distrimed Inc v Dispill Inc*, 2013 FC 1043), free distribution (*Renaud Cointreau & Cie v Cordon Bleu International Ltd*, 52 CPR (3d) 284, aff'd in [2000] FCJ No 1414), free gifts (*Canada Goose Inc v James*, 2016 TMOB 145), no commercial transaction (*Oyen Wiggs Green & Mutala LLP v Flora Manufacturing and Distributing*, 125 CPR (4th) 152), and a lack of evidence requiring an inference that sales were made in the normal course of trade (*Cast Iron Soil Pipe Institute v Concourse International Trading Inc*, 19 CPR (3d) 393 TMOB [*Cast Iron Soil Pipe*]).

[18] It is clear that promotional goods distributed free of charge per se do not meet the requirements of section 4(1) of the Act. Transfers of property merely for the acquisition of goodwill are insufficient to constitute a transfer or use in the normal course of trade. However, while free distribution of goods typically is not considered use in the ordinary course of trade under section 4(1), if such use is part of 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.

[19] In this case, there is evidence of employees paying money to purchase the t-shirts, and there has therefore been “some payment or exchange for the goods supplied” or they were traded “as part of a deal;” however, such an exchange does not on its own establish use in the normal course of trade. Some cases have stated that section 4(1) requires a “transfer... for the purpose of acquiring goodwill and profits from the marked goods” (*Cast Iron Soil Pipe* at para 6 [emphasis added]; see also Gill, *Fox on Canadian Law of Trade-marks and Unfair Competition*, 4th Edition (Toronto: Thomson Reuters, 2017) at 3-45).

[20] Where items (here, t-shirts) are sold at cost for promotional purposes to employees only, to generate goodwill in a different business (here, cosmetics), it is difficult to find how that type of sale can be said to be in the normal course of trade to satisfy use under section 4(1) of the Act. I find that in the circumstances of this case, given the absence of profit, the promotional and *de minimis* nature of the sales to employees, and the fact that the Respondent is not normally in the

business of selling clothing, the Registrar's determination that these sales were "in the normal course of trade" is unreasonable.

B. *Did the Registrar err in finding that the marked goods were not merely promotional?*

[21] The Applicant argues that the Registrar erred in refusing to draw a negative inference against the Respondent for providing evidence of its purchases from Ethical Profiling, since it was not required to furnish this evidence. The Applicant states that this is an error in law, citing a number of cases in which a party has been allowed to use an opposing party's evidence against it. This is particularly significant in section 45 cases, in which only the registering party adduces evidence and affidavits are not subject to cross-examination. As a result, in refusing to draw a negative inference from the Respondent's evidence, the Applicant contends that the Registrant ignored relevant evidence and committed an error of law.

[22] The Applicant further argues that the Registrar's finding that the t-shirts were not strictly promotional was unreasonable. In the Applicant's view, the purpose of the marked clothing was to enhance the Respondent's image and promote its charitable campaigns. The Applicant states that such uses of marked property are not "in the normal course of trade," again citing a number of authorities.

[23] I agree that the evidence from Ethical Profiling is relevant and should be considered in analyzing the promotional purposes for the sale of the t-shirts.

[24] The Respondent argues that the marked t-shirts are objects of trade in themselves, rather than being merely promotional, and argues that there is no strict dichotomy between the two categories, as illustrated by the practice in the entertainment industry of selling clothing marked by trademarks of a television program or musical group. Moreover, the fact that the shirts were purchased by employees as gifts for family and friends illustrates that they were sales in the normal course of trade, not merely promotional sales in support of the Lush Canada cosmetics business. However, in the absence of evidence of profit, it is difficult to see what purpose these sales could serve other than promotion of Lush Canada's primary business and charitable campaigns, except perhaps as a favour to employees and their families. However, this could hardly be considered use in the normal course of trade.

[25] The Respondent points to *Canada Post Corp v H & K Horizons Inc* (1997), 84 CPR (3d) 232 at 239 (TMOB) [*Canada Post*], in which the Registrar found that goods offered for sale by Canada Post to its employees were "in the normal course of trade" given that they were sold regularly, albeit in low quantities, and were purchased for money rather than given away. However, that case is distinguishable from the case at bar where there is evidence to the effect that the goods were sold at cost or less than cost for promotional purposes.

[26] Again, in view of the primarily, if not exclusively, promotional nature of these sales, I find the Registrar's decision unreasonable.

C. *Is the test for use in section 4(3) of the Act different from the test in section 4(1)?*

[27] The Applicant argues that the requirements for use in sections 4(1) and 4(3) are the same. The latter provision was enacted to protect entities whose trading activities were *bona fide* commercial, but who could not meet the use requirements in section 4(1) as their activities were exclusively outside Canada. The Applicant argues that if an entity can meet the requirements of section 4(3) but not section 4(1) for virtually the same activities, companies who operate in Canada would receive a lower degree of protection for their trademarks than those who export their products. Accordingly, if the Respondent's activities do not meet the use requirements in section 4(1), they should not meet the requirements of section 4(3).

[28] I agree with the Respondent that the case law supports the view that the test for section 4(3) is distinct from the test for section 4(1). In *Molson Co v Moosehead Breweries Ltd*, [1990] FCJ No 602 at paragraphs 20-22, on which both parties rely, Justice MacKay described the distinction between the two tests as follows:

In my view, subsection 4(3) requires that the wares to which a trade mark is affixed in Canada, or to their containing packages on which it is affixed, be sent out of Canada to another country in a commercial transaction, if use of the trade mark on exported wares is to be deemed use in Canada.

I do not interpret the subsection as incorporating the condition of subsection 4(1), that the transaction be "in the normal course of trade".

I do not see this as necessarily a lower standard than that provided for use of a trade mark by subsection 4(1), though it be a different standard.

[29] Despite the distinction between the two tests, it is important not to lose sight of the purpose of section 4(3), which is to protect Canadian entities who would be entitled to protection under the Act but for the fact that their sales take place exclusively outside of Canada. In reaching this conclusion, I am guided by the reasoning of Strayer J.A. in *Coca-Cola Ltd v Pardhan*, [1999] FCJ No 484 at paragraph 22:

With respect to subsection 4(3), the appellants argue that this creates some kind of automatic right of action based simply on the fact of export. It appears to me that the gravamen of subsection 4(3) is, not to deem that any exportation of goods bearing a trade-mark is a "use" of that trade-mark, but rather to provide that where there is actual use such use shall be deemed to have occurred "in Canada". I respectfully adopt the analysis of MacKay J. in *Molson Companies Ltd. v. Moosehead Breweries Ltd. et al* that the purpose of subsection 4(3) was to enable Canadian producers who do not make local sales, but simply ship their goods abroad, to show use in Canada for the purposes of obtaining registration of their trade-mark in Canada. This was thought to be important for them in obtaining registration abroad. Also, as the motions judge observed, subsection 4(3) could have importance in allowing actions for infringement against someone exporting counterfeit goods from Canada where no sales were made locally. But I do not believe that it had the effect of creating a "use" within the meaning of the Act where genuine goods of the trade-mark owner are being shipped from Canada.

[30] In other words, 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. A party cannot be allowed to make an end run around the normal requirements of the Act by shipping a product across the border. Accordingly, having found that the Respondent's t-shirt sales do not constitute use for the purposes of section 4(1), I am not prepared to find that use is established for the purposes of section 4(3) based simply on the fact of export.

[31] The appeal is therefore allowed, with costs to the Applicant.

[32] If the parties cannot agree on a costs disposition, concise written cost submissions, not exceeding 5 pages in length, shall be submitted to the Court no later than 10 days of the date of this Judgment.

JUDGMENT in T-825-17

THIS COURT'S JUDGMENT is that:

1. The appeal is allowed and the registration TMA649,810 is struck from the register;
2. Cost to the Applicant.

"Michael D. Manson"

Judge

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-825-17

STYLE OF CAUSE: RICHES, McKENZIE & HERBERT LLP v. COSMETIC WARRIORS LIMITED

PLACE OF HEARING: TORONTO, ONTARIO

DATE OF HEARING: JANUARY 15, 2018

JUDGMENT AND REASONS: MANSON J.

DATED: JANUARY 23, 2018

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