

## Promotional use is not use of a trademark

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In a recent decision of the Federal Court in *Riches, McKenzie & Herbert LLP v. Cosmetic Warriors Limited* (2018 FC 63) [available here](#), Justice Manson allowed the appeal of the decision of the Registrar of Trademarks, thus overturning the finding that the Respondent had demonstrated use of the trademark LUSH in association with t-shirts.

Cosmetic Warriors (the “Respondent”) owns the Registration for the Trademark LUSH (the “Mark”) in association with “Clothing, namely t-shirts”. The Respondent was required to furnish evidence of use in response to a s.45 non-use cancellation notice issued by the Registrar of Trademarks at the request of the Applicant, *Riches, McKenzie & Herbert LLP*.

The Respondent filed an affidavit from the director of Brand Communications for Lush Handmade Cosmetics, Ltd., (“Lush Canada”) the purported Canadian Licensee of the Mark.

According to the Respondent’s evidence, Lush Canada operates over 200 stores in North America, including 46 in Canada. Employees of Lush Canada wear t-shirts bearing the Mark as part of their uniforms. In addition, clothing bearing the Mark is available to employees for purchase, both for themselves and as gifts for family and friends. Sales of t-shirts bearing the Mark during the relevant period were in excess of \$1200 in Canada and \$2900 in the US. T-shirts bearing the Mark were also sold in support of environmentalist campaigns.

### Registrar’s Decision

The Applicant argued that the t-shirts bearing the mark were not sold in the normal course of trade, as the Respondent’s evidence 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.

The Registrar found that the invoices from the supplier of the t-shirts, showed that the t-shirts were sold to employees at cost when read in conjunction with the other evidence. However, because the Respondent was not required to furnish evidence from the supplier, the Registrar was not prepared to draw a negative inference against the Respondent. The Registrar also did not think it appropriate to expand the jurisprudence to suggest a registered owner needed 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 of the *Trademarks Act* (the “Act”).

The Registrar also considered the Applicant’s contention that the term “assorted swag” on the supplier’s invoices showed that the clothing was promotional in nature. However, the Registrar considered the term vague, and again refused to draw a negative inference.

The Registrar concluded that the Respondent had established use of the Mark.

The Respondent also exported the same t-shirts to the US for the same purpose – for sales to employees. The Registrar found it unnecessary to conclude whether the evidence satisfied the use requirement in s.4(3) of the Act, but noted that while s.4(3) did not include the “normal course of trade” requirement found in s.4(1), the jurisprudence established that the term “export” in s.4(3) required some form of commercial transaction, which in his view, was satisfied by the sales to US employees.

### **Decision of the Federal Court**

Justice Manson defined the issues before him as:

- A. Does the "normal course of trade" requirement in the definition of use in section 4(1) of the Act 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)?

Justice Manson employed a standard of review of reasonableness, finding that the questions before him were of mixed fact and law.

### **Normal Course of Trade**

On the issue of whether the "normal course of trade" requirement in the definition of use in section 4(1) of the Act requires a transfer of the marked goods for profit, Justice Manson discussed various scenarios which would qualify as being in the normal course of trade. It is clear that promotional good distributed free of charge *per se* do not meet the requirements of s.4(1), as transfers of property merely for the acquisition of goodwill are insufficient to constitute a transfer or use in the normal course of trade. However, if the free distribution of goods 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 trade, particularly if the goods freely distributed are the goods in which the business normally deals.

In this case, there was evidence the employees paid money for the t-shirts. However, Justice Manson found that this on its own did not establish use in the normal course of trade, stating that some cases have found that s.4(1) requires a “transfer...for the purpose of acquiring goodwill and profits from the marked goods.”

Justice Manson concluded that:

*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. [para. 20]*

### **Goods Merely Promotional?**

Justice Manson agreed with the Applicant that the evidence from the supplier is relevant and should be considered in analyzing the promotional purposes of the sales of the t-shirts. The Court agreed with the Applicant that adverse inferences can be drawn from the Respondent's own evidence, particularly in s.45 cases as evidence only from the registrant is adduced and affidavits are not subject to cross examinations.

The Court concluded that in the absence of profit, it is difficult to see what purpose the sales to employees could serve other than promotion of Lush Canada's primary business and charitable campaigns. Given the primary, if not exclusively, promotional nature of the sales, Justice Manson found the Registrar's decision unreasonable.

***Test for Use Different in Section 4(3) and Section 4(1)?***

Justice Manson agreed that the tests for use as set out in s.4(3) and s.4(1) of the Act are different. However, he emphasized that the purpose of s.4(3) 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. After citing from the *Coca-Cola Ltd. v. Pardhan* decision of Strayer J.A., Justice Manson concluded that:

*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. [para 30].*

In the final result, the LUSH registration for clothing was expunged from the register.

***For more information, please contact:***



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