

## To Plead Bad Faith, or Not to Plead: That is the Question.

*A look inside bad faith following amendments to the Canadian Trademarks Act.*

To plead bad faith or not to plead: that is the question — and this Alert may have the answer.

Despite its longstanding recognition in Canadian jurisprudence, bad faith has fairly young roots in the text of the *Trademarks Act* <sup>1</sup> (the Act). Along with significant amendments to the Act that came into force on June 17, 2019, including removing the requirement for “use” of a trademark in Canada (or abroad) as a precondition to registration, bad faith was added as a ground to invalidate the registration of a trademark under s. 18(1)(e) of the Act, and to oppose an application to register a trademark under s. 38(2)(a.1) of the Act.

A definition of bad faith was not included. To date, bad faith under the Act and the threshold of what activity could or will constitute bad faith still remains somewhat uncertain. In the three years since the amendments to the Act came into force, courts have provided more clarity on what does not constitute bad faith than what does.

This Alert aims to provide a brief history of bad faith under the Act; and summarize what may (and will likely *not*) constitute bad faith, based on the limited available judicial guidance, including the recent federal court decision *Blossman Gas, Inc. v. Alliance Autopropane Inc.*, 2022 FC 1794.

### History and Policy

The concept of bad faith is not new to trademark law. Under the Act, as it read prior to the June 17, 2019, amendments, bad faith was read into s. 30(i) to form a potential ground of opposition.<sup>2</sup> While s. 30(i) did not specifically mention bad faith and instead required an applicant to confirm its satisfaction of its entitlement to use the applied-for trademark in Canada, case law applying this section allowed opponents in very limited situations to successfully oppose registration if they could show there was bad faith in the applicant’s conduct.<sup>3</sup> In practice, a section 30(i) ground only succeeded in the most extreme cases, such as where evidence showed that the applicant had a pattern of filing for famous trademarks owned by third parties.<sup>4</sup>

When the amendments to the Act were announced in 2014, many Canadian trademark practitioners and trademark owners balked at the proposed amendment to remove the requirement that a trademark must be in use in Canada or abroad as a prerequisite of registration. In an attempt to appease these criticisms, bad faith was added to the Act. In the legislative history surrounding these amendments, it became clear that the goal of codifying bad faith under s. 18(1)(e), along with its corresponding opposition ground s. 38(2)(a.1), was aiming to “hinder the registration of a trademark for the sole purpose of extracting value from preventing others from using it;”<sup>5</sup> and to “prevent the abusive use of the trademark regime, such as by applying for registration with the sole intention of seeking remuneration from the legitimate owner of the trademark.”<sup>6</sup>

However, little in the Act or the underlying regulations guided practitioners and trademark owners in how the new bad faith grounds of challenge or opposition would be interpreted and applied.

### What Is Bad Faith?

In the limited case law applying it, bad faith under the Act can be “characterized as a breach of a legal or moral obligation on the part of an applicant towards a third party” with or without contractual or pre-contractual relations,<sup>7</sup> and will not “necessarily include an assessment of morality or intentional fault, but may be economic in nature.”<sup>8</sup>



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Even more challenging than defining bad faith is determining what types of activities can be considered to be in bad faith. Given their recent enactment, there is very limited treatment and application of subsections 18(1)(e) and 38(2)(a.1) of the Act. However, the Trademarks Opposition Board (the Board) and the federal court have used case law under s. 30(i) of the former Act as guidance to parse out what may (or will not) constitute bad faith.

Two examples of what will constitute bad faith under s. 18(e) of the Act can be seen in two recent decisions of the federal court in *Blossman Gas* and *Beijing Judian Restaurant Co Ltd v Meng*, 2022 FC 74 – the first decision invalidating a trademark registration pursuant to s. 18(1)(e) of the Act.

In *Blossman Gas*, Blossman Gas, Inc. brought an application to strike a former sublicensee's (Alliance Autopropane Inc., or AAP) four trademark registrations from the register pursuant to s. 57 of the Act, and sought damages as a result of alleged passing off. The claim arose out of Blossman's ownership over multiple ALLIANCE AUTOGAS-formative trademarks, including the following design trademark:



(the Alliance AutoGas design).

AAP, while being Blossman's active sublicensee, applied to register four ALLIANCE AUTO-formative trademarks, including the following design trademark:



(the '034 mark).

Among the various grounds available for expungement, Blossman argued that AAP applied to register the '034 mark in bad faith pursuant to s. 18(1)(e) of the Act. The court agreed, finding that as at the time of application, AAP:

- was a sublicensee of Blossman, having agreed to the terms of a license agreement that included terms that Blossman (i) owned the name Alliance AutoGas; and (ii) represented and warranted that it was the sole owner of the tradenames and marks described in the agreement;
- understood it was only a sublicensee of the Alliance AutoGas Design, not the owner of it;
- understood its right to use the Alliance AutoGas Design was dependent on the *continuation* of the relevant license agreements (which had terminated at the time of the decision);
- did not inform or consult Blossman with respect to the trademark applications; and
- the court was satisfied that Blossman had established it had a valid unregistered trademark and protectable goodwill in the ALLIANCE AUTOGAS trademark and the 034' mark in Canada.

Importantly, the court held that bad faith is an important factor in assessing whether punitive damages are warranted. Punitive damages are sparingly awarded in Canada and are often reserved for the most egregious of conduct. The court held that while a finding of bad faith will not automatically give rise to punitive damages, AAP's conduct here merited an award of punitive damages of \$5,000 "worthy of sanction and serving as a deterrent reminder to licensees that attempts to register their licensor's trademarks may come with financial consequences."

The court noted that its decision finding bad faith by AAP was consistent with the EU and UK approaches, where six principles governing bad faith include that:

1. good faith is presumed unless the contrary is proved on a balance of probabilities;
2. bad faith includes not only dishonesty but also "some dealings which fall short of the

- standards of acceptable commercial behavior observed by reasonable and experienced people in the particular area being examined”;
3. the purpose of bad faith as a ground of invalidity is to prevent abuse of the trademark system, either vis-à-vis the trademarks office or third parties;
  4. the determination of bad faith is an overall assessment taking into account all factors relevant to the particular case;
  5. the court or tribunal must ascertain what the applicant knew and then decide whether, in light of that knowledge, their conduct was dishonest or otherwise falls short of the standards of acceptable commercial behavior, judged by ordinary standards of honest people and not the applicant’s own standards; and
  6. consideration must be given to the applicant’s intention.

The court further held that while bad faith under the Canadian Act may differ from in the EU and UK, the experience of other jurisdictions in considering bad faith in this context is of value.

In *Beijing Judian*, the court held the intentional filing of an application for a trademark that is registered and used by a third party abroad *and* has goodwill in Canada constituted bad faith. The record also included evidence that the respondent made similar trademark filings in other jurisdictions based on “proposed use” around the same time for other trademarks associated with different well-known entities (for which the respondent had no known affiliation). The court agreed that this pattern of activity indicated that the respondent filed the trademark application without a legitimate commercial purpose.

### What Is Not Bad Faith?

Although *Blossman Gas* and *Beijing Judian* show that bad faith grounds may be successful in expungement proceedings, trademark jurisprudence has mostly told readers what will *not* constitute bad faith. In fact, as of the date of this article, there has yet to be a formal judicial test to determine what bad faith requires. However, a review of the case law can show us what conduct is unlikely to meet the “bad faith” threshold, including:

1. Filing an application for a trademark that is registered and used by a third party abroad without any goodwill in Canada.<sup>9</sup>
2. Mere knowledge of the existence of an opponent’s trademarks or trade names.<sup>10</sup>
3. Awareness of prior use or application of an allegedly confusing trademark (including if not the opponent’s).<sup>11</sup>
4. If an applicant of a trademark registration is a competitor of the opponent and allegedly trying to profit from the goodwill of an opponent’s brand *without* any substantive evidence.<sup>12</sup>
5. An allegation that a respondent purposely filed a trademark registration to usurp an existing trademark and harm a business *without* substantive evidence in the record.<sup>13</sup>
6. If an applicant is willfully blind as to whether it had the right to make the application in the face of its competitor and failed to make obvious inquiries.<sup>14</sup>
7. The mere fact that an opponent may have been involved in the creation of the applicant’s trademark brand (as an employee of the applicant or through an alleged partnership).<sup>15</sup>

Despite the limited success of bad faith under the amended Act, Board and federal court decisions (including former s. 30(i) jurisprudence) and the legislative history of the amendments to the Act can help determine what activities could come within the scope of ss. 38(2)(a.1) or 18(1)(e) of the Act, including:

1. Trademark squatting (registering a trademark with the motive to sell it for a profit to ride on a brand’s goodwill) “provided there is evidence of record to support that allegation.”<sup>16</sup>
2. If an applicant files multiple trademark applications around the same time for registration of well-known house brand trademarks of unaffiliated entities without any explanation.<sup>17</sup>
3. If a distributor, licensee, or an affiliated entity has attempted to register a licensor’s

- marks.<sup>18</sup>
4. If a party files applications for a large number of well-known marks for arguably related goods and/or services in an attempt to “coat-tail on the established reputation of so many well-known marks.”<sup>19</sup>
  5. Where a pre-existing business relationship between the parties exists, and the evidence suggests that a trademark applicant may have had prior knowledge that the applied-for trademark (or a similar trademark) had been adopted by the opponent previously in the same geographic area.<sup>20</sup>
  6. Where the evidence suggests a party’s intention to use the reputation of existing trademarks to their economic advantage, such as extorting money or obtaining money from others.<sup>21</sup>
  7. Applying to register a mark without any intention of using it in a legitimate commercial way, where the sole objective is to prevent a third party from entering the market or to interfere with their business.<sup>22</sup>
  8. Otherwise “misusing” the registration system.<sup>23</sup>

## Key Takeaways

It is clear that meeting the threshold of “bad faith” under ss. 38(2)(a.1) and 18(1)(e) of the Act will be a fact-dependent inquiry that will turn on the quality of the evidence provided. The jurisprudence has shown the strength of the evidence can make or break a case.

And so we return to where we began: whether or not to plead bad faith. In this author’s opinion, the answer is to do so when you have a strong evidentiary record showing the applicant’s clear knowledge of superior prior rights in and to a mark in Canada and analogous bad faith” conduct (i.e., breach of a commercial, franchise, and/or license agreement, a pattern of squatting behavior, extortion, the absence of legitimate commercial purpose, or misusing the registration system) or other egregious commercial behavior. Previous jurisprudence can be instructive in determining the type of case that must be met. As the court in *Beijing Judian* held, any seeking party will have the burden of establishing that an application for a trademark was made in bad faith by proving such an assertion “on a balance of probabilities with clear, convincing, and cogent evidence.”

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<sup>1</sup> R.S.C., 1985, c. T-13.

<sup>2</sup> *Sapodilla Co Ltd v Bristol-Myers Co*, (1974), 15 C.P.R. (2d) 152.

<sup>3</sup> *Sapodilla Co Ltd v Bristol Myers Co*, (1974), 15 C.P.R. (2d) 152.

<sup>4</sup> See, for example, *Cerverceria Modelo, SA de CV v Marcon* (2008), 70 C.P.R. (4th) 355 (TMOB), where the opponent showed that the applicant applied to register 18 other well-known marks, including ABSOLUT, HEINEKEN, FINLANDIA, BEEFEATER, CANADIAN CLUB, COORS, BUDWEISER, JACK DANIEL'S and DOM PERIGNON, for related goods.

<sup>5</sup> Legislative Summary Publication No 42-1-C86-E, section 2.5.7.2, Subdivision B, December 14, 2018.

<sup>6</sup> Bill C-86, 3<sup>rd</sup> reading, *House of Commons Debates*, 42-1, No 361 (29 November 2018) at 1155 (Hon Dan Ruimy).

<sup>7</sup> *Beijing Judian Restaurant Co. Ltd. v. Meng*, 2022 FC 743.

<sup>8</sup> *Blossman Gas, Inc. v. Alliance Autopropane Inc.*, 2022 FC 1794.

<sup>9</sup> For example, see *Beijing Judian*, where the federal court held “there may be a legitimate basis to obtain a registered trademark in Canada for the same mark that is registered and used by a third party elsewhere where there is no reputation for the third party’s mark in Canada.”

<sup>10</sup> *Woot Inc v Woot Restaurants Inc Les Restaurants Woot Inc*, 2012 TMOB 197; *Amann Co., Ltd., Amann USA Inc., Shanghai Jie Bing Restaurant Management Co. Ltd. and Snowy Dessert Inc. v Snowy Village Dessert Cafe Ltd.*, 2020 TMOB 145).

<sup>11</sup> *Navsun Holdings Ltd v Sadhu Singh Hamdard Trust*, 2015 TMOB 214; *Chicago Climate Exchange, Inc v Bourse de Montréal Inc*, 2014 TMOB 78; *Sobeys West Inc v Schwan's IP, LLC*, 2015 TMOB 197).

<sup>12</sup> *Gooddoctor Pharmaceutical Group Co., Ltd. v Ping An Insurance (Group) Company of China, Ltd.*, 2022 TMOB 163.

<sup>13</sup> For example, see *Yiwu Thousand Shores E-Commerce Co. Ltd. v. Lin*, 2021 FC 1040, where the court held, “While the respondent’s actions in Canada and the United States may suggest a burgeoning pattern of conduct from which an inference of bad faith could be made, I am not convinced that it should be made on the record before me.”)

<sup>14</sup> *Norsteel Building Systems Ltd. v. Toti Holdings Inc.*, 2021 FC 927; *Advanced Purification Engineering Corporation (APEC Water Systems) v. iSpring Water Systems, LLC*, 2022 FC 388.

<sup>15</sup> *Quint Group Inc. v Quintcap Inc.*, 2021 TMOB 281.

<sup>16</sup> *Shenzhen Lepower Electronic Co., Ltd. v Stavros Bachtsetzis*, 2022 TMOB 180.

<sup>17</sup> *Metro Brands v. Julia Wine Inc.*, 2014 TMOB 230, aff’d *Julia Wine Inc. v. Marques Metro, S.E.N.C.*, 2016 FC 738.

<sup>18</sup> *Turbo-K Limited v Roselli Chemicals Inc*, 2021 TMOB 77.

<sup>19</sup> *Cerverceria Modelo, SA de CV v Marcon*, 2008 CanLII 88189.

<sup>20</sup> *Yves Levis v Mikhail Golubev*, 2019 TMOB 100.

<sup>21</sup> *Beijing Judian Restaurant Co. Ltd. v. Meng*, 2022 FC 743.

<sup>22</sup> *Beijing Judian Restaurant Co. Ltd. v. Meng*, 2022 FC 743.

<sup>23</sup> *Shenzhen Lepower Electronic Co., Ltd. v Stavros Bachtsetzis*, 2022 TMOB 180.

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**If you have any questions about this article or if you need assistance navigating bad faith under the Act, please feel free to contact any member of our Canadian Intellectual Property team.**

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