TRADEMARKS IN CANADA: The Federal Court clarifies the concept of “bad faith”

February 2, 2023

In the decision *Beijing Judian Restaurant Co. Ltd.* v. *Wei Meng*, 2022 FC 743, rendered by the Honourable Angela Furlanetto on May 18, 2022, the Federal Court clarified what constitutes bad faith in trademark law. Prior to the decision, the concept of bad faith in relation to trademarks was interpreted rather cautiously in Canadian jurisprudence.

Background

Beijing Judian Restaurant Co. Ltd. (the “Applicant”) petitioned the Court to invalidate the registration of Respondent Wei Meng (the “Respondent”) for the trademark depicted below (the “Respondent’s Mark”), on the grounds that the registration was obtained in bad faith, and to strike the trademark from the Canadian Register of Trademarks, in accordance with subsection 57(1) and paragraph 18(1)(e) of the *Trademarks Act* (the “Act”).



In support of its application, the Applicant filed two affidavits of its representatives, which set out the facts below. The Respondent did not cross-examine the Applicant on the affidavits, file any evidence, or appear at the hearing. The following facts are therefore undisputed.

The facts

Since 2005, the Applicant has been running a chain of restaurants in China and using, in connection with its restaurants, the mark below, as well as each of the components of this mark, alone or in combination (the “JU DIAN Marks”).



The JU DIAN Marks are highly visible in China. They are featured in numerous advertisements promoting the Applicant’s restaurants and the JU DIAN Marks. The JU DIAN Marks and the Applicant’s chain of restaurants are therefore well known in that country.

Moreover, in 2011 and 2013, respectively, the Applicant began promoting its restaurants in association with the JU DIAN Marks on the WEIBO and WECHAT platforms in an effort to target the Chinese population in and outside China.

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In 2015, the Applicant considered the possibility of bringing its chain of restaurants to Canada. The Applicant decided to open its first restaurants in Canada in the Vancouver and Toronto regions, as these have a large Chinese population that would likely be familiar with the Applicant's chain of restaurants. The Applicant opened restaurants in Vancouver and Toronto in 2018, and a restaurant in Richmond, British Columbia, in 2019.

The Applicant was however unaware that the Respondent had applied to register the Respondent's Mark in Canada a few months earlier, on June 27, 2017, based on proposed use in association with restaurant services, among others.

It appears that, during the same period, the Respondent had also applied to register in Canada several marks belonging to other Chinese restaurant chains.

In April 2019, the Respondent visited the Applicant's Vancouver restaurant and accused the Applicant of stealing his mark. A series of meetings and discussions between the parties ensued, during which the Respondent demanded that the Applicant pay him the sum of $1,500,000 to use the Respondent's Mark without acquiring its ownership, and threatened to contact the Canada Revenue Agency if the Applicant did not cease using the mark. The Applicant refused to pay the Respondent any sum whatsoever and did not yield to his threats.

In the meantime, the Respondent's Mark was registered in Canada.

In June 2019, the Applicant learned of an advertisement that the Respondent had posted on a British Columbia website. The advertisement was for the sale of the registration of the Respondent's Mark. The Applicant contacted the Respondent anonymously to obtain more information on the offer. The Respondent offered the Applicant a trademark license at a cost of $100,000 per year, justifying the price by stating that the mark was already well known in China with the Applicant's restaurants.

The Applicant then sent the Respondent a formal notice demanding that he cease using the Applicant's mark and abandon its registration in Canada. The Respondent refused to comply. The Applicant thus filed an application for invalidation and expungement of the registration.

The law

Although paragraph 18(1)(e) of the Act provides that a registration may be invalidated if the application for registration was filed in bad faith, the Federal Court noted in its decision that the Act contains no definition of the term "bad faith." It pointed out that, because paragraph 18(1)(e) of the Act is relatively new, very little Canadian jurisprudence has examined what constitutes bad faith in trademark matters.

In its decision, the Federal Court drew on various sources to determine whether the registration of the Respondent's Mark could be invalidated on the basis of bad faith.

First, the Court considered the observations of the Parliament of Canada regarding the adoption of the amendments to the Act, which state that:

> The amendments aim, notably, to hinder the registration of a trademark for the sole purpose of extracting value from preventing others from using it.
> The amendments would 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 a trademark.

Second, the Court analyzed certain Canadian decisions rendered prior to the adoption of paragraph 18(1)(e) of the Act in matters of bad faith. It noted that Canadian jurisprudence had already invalidated trademark registrations on the basis of bad faith where the applicant had filed a series of applications for registration in Canada for well-known trademarks.

Lastly, the Court reviewed decisions rendered in Europe and the United Kingdom. It concluded that

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in these jurisdictions, filing an application for registration of a trademark without intending to use it for a legitimate commercial purpose and with the sole intention of preventing a third party from entering the market or interfering with its business may constitute bad faith. The same is true where an applicant wishes to register a trademark for extortion purposes.

The Court then analyzed the relevant date in order to assess bad faith under paragraph 18(1)(e) of the Act. It stated that while the relevant date is the date on which the application was filed, evidence subsequent to that date may be considered relevant if it helps to clarify the reasons why the application was filed.

The Court held that the Applicant had the burden of establishing bad faith, which had to be proven on a balance of probabilities with clear and convincing evidence. The Court however specified that where the facts could only be known to the Respondent, circumstantial evidence and inferences from proven facts could be sufficient to establish the Respondent's objectives at the time of the application's filing.

The facts show that, at the time the application was filed, the Respondent was aware of the Applicant's restaurants in China and that the JU DIAN Marks had acquired a certain reputation, at the very least, among the Chinese population in British Columbia. The Court also concluded that it was highly unlikely that the Respondent had created a mark identical to that of the Applicant on his own, considering the originality of the mark. It was therefore more likely that the Respondent had wanted to register the same mark, knowing that it was associated with the Applicant's restaurants in China, in order to benefit from its reputation.

The Court nonetheless made the following clarification: filing an application for a trademark, even if it is identical to that of a third party, is insufficient to invalidate its registration, as there may be a legitimate basis to obtain a registered trademark in Canada for the same trademark that is registered and used by a third party elsewhere, where the third party's trademark has no reputation in Canada. Thus, it is the intention to "abuse the trademark regime" or the bad faith of the owner that must be established on a balance of probabilities.

The Court concluded that the Applicant's evidence established that the Respondent had registered the trademark without a legitimate commercial purpose:

> The JU DIAN Marks are known in Canada, at least by the Chinese population in British Columbia.
> The Respondent acknowledged in his exchanges that the JU DIAN Marks are associated with the Applicant's chain of restaurants and are well-known trademarks.
> The Respondent applied to register the Respondent's Mark in Canada for the purpose of extorting money by leveraging the trademark's reputation.
> The Respondent applied to register trademarks in Canada belonging to Chinese restaurant chains.

The Court therefore held that the circumstances of the case constituted bad faith, but noted that in the United Kingdom, an inference of bad faith may be rebuttable where there is registration of a known trademark by an applicant who has no connection with the legitimate owner of the trademark. However, in the United Kingdom, where an applicant has engaged in a pattern of acquiring multiple such registrations, rebutting the inference of bad faith becomes significantly more difficult.

In the absence of evidence from the Respondent to rebut the inference of bad faith created by the circumstantial evidence, the Court found that the evidence on file established the Respondent's intent to use the registration for extortion purposes.

The Court invalidated the registration of the Respondent's Mark and ordered that the registration be expunged from the Register of Trademarks.

What this means

It appears from this decision that the Court's analysis is largely factual and that the burden of

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establishing the intent of the owner of a given trademark at the time an application is filed may be difficult, especially where a foreign applicant's trademark has no reputation in Canada.

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