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# Trademark Litigation

Graham Hood

## End of the Line: Federal Court Finds Subway's Trademark Rights Infringed by Cannabis Retailer

Earlier this year, the Federal Court issued its decision in *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583, a case involving a cannabis retailer that knowingly adopted a parody mark in connection with its business. This case was no laughing matter for the plaintiff, Subway IP LLC (Subway), or the Court, which ruled in favor of Subway, and awarded the plaintiff permanent injunctive relief, damages and over 80% of its costs. This case demonstrates not only the expeditious relief available to brand owners in Canadian trademark litigation, but also the serious consequences for cannabis companies that (foolishly) adopt parody marks to piggyback on the goodwill and reputation of established brands.

## Background

Subway, the well-known restaurant company that owns Canadian registered trademarks used in association with SUBWAY-branded sandwich restaurants, brought an application in the Federal Court against Budway, Cannabis & Wellness Store, William Matovu and Atlantic Compassion Club Society.<sup>1</sup> Budway, Cannabis & Wellness Store (Budway) is a Canadian company operating a cannabis retail store in Vancouver, BC. Mr. Matovu is its owner and

directing mind. The respondents had adopted and were using the trademark BUDWAY, and prominently displayed, outside its storefront, the following design mark:



In addition to their infringing use of the BUDWAY mark shown above, the respondents also adopted a “mascot” that alluded strongly to Subway’s brand. Among the evidence filed with the Court were “Instagram posts ... show[ing] the use by [the respondents’ Instagram profile] ‘budwayonclark’ of a ‘mascot’ in the form of a submarine sandwich filled with cannabis leaves, with what are apparently bloodshot and half-opened eyes. This mascot appear[ed] in the video clip, smoking what is presumably a joint, with the legend ‘It’s the way, bud’ appearing below it”.<sup>2</sup>

In its application, Subway alleged that the respondents had (i) infringed its trademark rights, (ii) directed public attention to its goods, services and business in such a way as to cause or be likely to cause confusion in Canada (also known as passing off), and (iii) depreciated the value of the goodwill attached to its registered SUBWAY trademarks, including the subject trademark of registration No. TMA521134, shown below:



(SUBWAY Design Mark)

## Court Decision

The Court granted Subway’s application in its entirety and agreed that the respondents infringed Subway’s registered trademark rights.

In determining whether the parties’ trademarks are confusing, the Court considered all the surrounding circumstances, including the particular circumstances identified in subsection 6(5) of the *Trademarks Act*, namely inherent and acquired distinctiveness, length of time the trademarks have been in use, the nature of the goods, services, business, and trade, and the degree of resemblance between the trademarks.

In considering these circumstances, the Court found that Subway’s registered trademark rights in and to the Subway Design Mark were infringed.

## Degree of Resemblance

The Court found that “[t]he resemblance between the marks points strongly toward a finding of confusion”.<sup>3</sup> In considering the degree of resemblance between the marks, the Court found that “the word element of the mark is similar, with the similarities in letters and pronunciation between SUBWAY and BUDWAY being self-evident”.<sup>4</sup> Interestingly, the Court also held that the respondent’s use of a coined term strengthened the degree of resemblance between the marks in the ideas suggested by them: “[t]he fact that ‘budway’ is not itself a word means that it would tend to be read in a manner to connote the common word ‘subway.’ In context, the connotation would be with Subway’s SUBWAY-branded restaurants in particular”.<sup>5</sup>

The Court went on to find that “the similarity between the marks, and the associative connotation with Subway’s restaurants, is further enhanced by the respondents’ use of the same logo elements that appear in the [SUBWAY Design Mark], namely the colour differentiation between the first three and last three letters, and the arrow design motif”.<sup>6</sup>

## Distinctiveness

The Court found that the SUBWAY Design Mark has a “fairly high degree of inherent distinctiveness”.<sup>7</sup> While the “sub” element is strongly suggestive of the submarine sandwiches sold at SUBWAY restaurants, “the use of that element in the SUBWAY trademarks is distinctive. This distinctiveness is further enhanced by the graphic elements of the marks, which include the arrow designs and colour differentiation”.<sup>8</sup> In addition, the Court found that the SUBWAY Design Mark is “well known” in Canada, having gained “significant acquired distinctiveness” as a result of Subway’s extensive sales, advertising and promotion of the SUBWAY Design Mark in Canada.<sup>9</sup>

As for the distinctiveness of the respondents’ mark, the Court found that “the distinctiveness of its graphic elements derives primarily from adopting the elements seen in [Subway’s] trademarks”, concluding that “[t]he relative distinctiveness of the trademarks again point[ed] to a finding of confusion”.<sup>10</sup>

## Length of Use

While Subway had used its trademarks for many years, the respondents had used their mark for only a year or so. This

factor also pointed to a finding of confusion.

## Nature of the Goods, Services and Business

Notably, the parties’ goods in this case actually overlapped. Unlike in *Toys “R” Us (Canada) Ltd v Herbs “R” Us Wellness Society*, a 2020 Federal Court decision in which the cannabis products offered by the respondent and the toys and other product lines in the applicant’s registrations were fundamentally dissimilar and made confusion unlikely, in the present case, Subway’s trademark registrations covered “snacks, namely ... pastries, cookies”, among other goods. The evidence showed that the respondents advertised and offered for sale edible cannabis products, including cookies and brownies. The Court agreed with Subway that, while “their ingredients may differ, both parties offer foodstuffs and edible products to their consumers”.<sup>11</sup> The respondents’ use of a submarine sandwich mascot and references to “munchies” further strengthened the similarities between the parties’ goods.

## Nature of the Trade

The nature of the parties’ trade did not undermine the likelihood of confusion, as, generally speaking, both Subway and the respondents were found to offer goods at a retail level with a similar size of store, offering goods for immediate purchase, including on a “take-out” basis.

The Court concluded that there is “a reasonable likelihood of

confusion between the respondents’ BUDWAY trademark and [the SUBWAY Design Mark]”, adding that “the context makes it perfectly clear that the respondents have adopted their mark by deliberately drawing on the famous mark of [Subway]”.<sup>12</sup>

## Respondents Liable for Passing Off

The Court found that Subway established all the necessary elements of a passing off claim, namely (i) the existence of goodwill, (ii) deception of the public due to a misrepresentation, also known as “misrepresentation creating confusion”,<sup>13</sup> and (iii) actual or potential damage, as well as ownership of a valid registered or unregistered trademark.

In considering the existence of goodwill in Subway’s trademarks, the Court noted that the respondents’ very adoption of the confusingly similar BUDWAY trademark strongly suggested that Subway’s trademarks possess goodwill to be traded upon: “the existence of goodwill is reinforced by the respondents’ conduct in taking advantage of that goodwill and reputation by copying the logo and using a submarine sandwich mascot”.<sup>14</sup>

For the reasons summarized above, the Court concluded that the requisite deception of the public was established by the respondents’ adoption of a confusingly similar trademark.

As to the existence of damage, the Court found that Subway’s loss of control over its marks and the resulting harm to its goodwill and reputation arising from the respondents’ conduct was sufficient to meet the third element of the passing off test.



## Respondents Depreciated the Value of the Goodwill Attached to Subway's Trademarks

The Court likewise found that Subway had established that the respondents' use of the BUDWAY trademark was likely to depreciate the goodwill attached to the SUBWAY Design Mark, contrary to section 22 of the *Trademarks Act*, having established all the necessary elements of a depreciation of goodwill, or dilution, claim, namely (i) use, (ii) goodwill, (iii) linkage and (iv) damage.

The Court was easily satisfied that the respondents' BUDWAY trademark was being used within the meaning of section 4 of the *Trademarks Act*, was so closely akin to the SUBWAY Design Mark as to evoke a mental association between the two, and that the SUBWAY Design Mark benefitted from "substantial" goodwill.<sup>15</sup>

As to the requisite linkage, the Court ruled that "the mental linkage is inescapable",<sup>16</sup> given the substantial similarities between the respondents' BUDWAY trademark and the SUBWAY Design Mark, and the apparent deliberate copying of the SUBWAY Design Mark: "it is clear from the respondents' use of the subway sandwich mascot that such a linkage was intended and considered desirable".<sup>17</sup> Furthermore, the Court found that Subway's evidence of social media users making the immediate connection between the parties' marks further supported the existence of a likely linkage among the consuming public.

In assessing the requisite damage, the Court made note of the expansive definition of such damage in Canadian jurisprudence; it can stem from the "blurring" of

brand image, or a "whittling away" of the registered trademark's power to distinguish the owner's products. In this case, the Court found not only that the respondents' use of its BUDWAY trademark resulted in "blurring of the SUBWAY brand image" and reduction in Subway's ability to distinguish its goods and services, but also that the damage to Subway's goodwill was increased by (i) the nature of the respondents' goods, "in contrast with the 'healthy and active' lifestyle promotion that Subway has made efforts to associate with the [SUBWAY Design Mark]", and (ii) the respondents' operating an unlicensed cannabis dispensary from a location having a "somewhat downmarket exterior appearance".<sup>18</sup>

The Court permanently enjoined the respondents from using the BUDWAY trademark, and ordered them to deliver up or destroy "goods, packaging, labels, and advertising material that bear the BUDWAY trademark in any form",<sup>19</sup> and to pay damages in the amount of \$15,000, and costs in the amount of \$25,000.

## Lessons Learned

### Expeditious Relief Readily Available in Canadian Trademark Litigation

This case is another example of the expeditious relief available to brand owners in Canadian trademark litigation. Provided that a brand owner's rights are adequately enforceable, and the evidence of infringement is clear, the brand owner may obtain permanent injunctive relief, damages and costs on an expedited basis by proceeding by way of an application, a Court proceeding based entirely on a paper record. In some cases,

a brand owner may obtain a judgment within a year's time. Notably, in *Subway IP*, the Court issued its decision about 10 months after Subway commenced the proceeding, and awarded Subway over 80% of its costs, recognizing that Subway "ha[d] been put to the commencement and completion of [its] application by the respondents' failure to respond to [its] correspondence and the litigation".<sup>20</sup>

To learn more about the differences between actions and applications, see "5 reasons why Canada is an attractive jurisdiction for trademark litigation".

## Trademark Dilution Is Alive and Well in Canada

Unlike in the U.S., which has seen a steep and steady decline in accusations of federal trademark dilution, in Canada, brand owners regularly plead "depreciation of goodwill", or dilution, in trademark infringement actions and applications. Furthermore, unlike in the U.S., there is no "fame threshold"; the claimant need only own a registered trademark in Canada.

Though claims for depreciation of goodwill and trademark infringement require a plaintiff to satisfy different tests, the considerations overlap somewhat and, with some exceptions, such as *Toys "R" Us (Canada) Ltd v Herbs "R" Us Wellness Society*, 2020 FC 682, the Federal Court may find a single set of circumstances to satisfy both tests.

Recent decisions of our Federal Court suggest that trademark dilution claims are alive and well in Canada. In the last few years, the Court has issued several decisions awarding permanent injunctive relief, damages and costs, having found depreciation of the value of

the goodwill attached to the plaintiffs' registered trademarks, including in the following cases:

- *H-D USA, LLC v Varzari*, 2021 FC 620;
- *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583;
- *Boulangerie Vachon Inc v Racioppo*, 2021 FC 308;
- *CSA v Pharma Plastic Industries Inc*, 2021 FC 136;
- *Nintendo of America Inc v Pariseau*, 2020 FC 925;
- *Toys "R" Us (Canada) Ltd v Herbs "R" Us Wellness Society*, 2020 FC 682;
- *Biofert Manufacturing Inc v Agrisol Manufacturing Inc*, 2020 FC 379;
- *Louis Vuitton Malletier SA v Wang*, 2019 FC 1389;
- *Louis Vuitton Malletier SA v Tobey*, 2019 FC 1056;
- *Christian Dior Couture, SA v Tobey*, 2019 FC 1055;
- *Givenchy, Societe Anonyme v Tobey*, 2019 FC 1054;

- *Celine, Société Anonyme v Tobey*, 2019 FC 1053; and

- *Diageo Canada Inc v Heaven Hill Distilleries, Inc*, 2017 FC 571.

Understandably, claims of depreciation of goodwill are appealing to brand owners because the statutory language grounding such claims is broad, and the limits of such claims have not yet been found by Canadian courts. Where a clear-cut case of trademark infringement or passing off is difficult to establish, a claim of depreciation of goodwill may fill the gap; it affords brand owners a useful and versatile tool to assist them in defending their brand equity, particularly in cases like *Subway IP* and *Toys "R" Us*, where the respondents adopted so-called parody marks.

To learn more about depreciation of goodwill, and the broad scope of section 22 of the *Trademarks Act*, see "Not all pun and games: Federal Court not amused with cannabis company's brand parody".

## Parody Marks Are No Laughing Matter

The Court's decision in *Subway IP* also serves as another cautionary tale for small startups in any

industry that wish to trade on the goodwill and reputation of an established brand with a playful mark or name. As the Court's decision clearly shows, so-called parody marks are no laughing matter.

Unlike Canada's *Copyright Act*, which recognizes as "fair dealing" (analogous to the U.S. concept of "fair use") the use of another's works for the purposes of "parody or satire",<sup>21</sup> the *Trademarks Act* does not share its sense of humor; parody or satire is *not* a viable defence to trademark infringement, passing off or depreciation of goodwill in Canada.

Cases like *Subway IP* and *Toys "R" Us* demonstrate an emerging trend in the cannabis industry, in particular, where companies have been prone to adopting "punny" marks or names "inspired" by those of famous or well-known brands. These decisions underscore the inherent dangers of adopting, for one's own commercial gain, a mark or name that alludes to another's brand. Most recently, Mars Canada Inc. commenced a proceeding against five proprietors of Canadian Web sites advertising, offering for sale and selling illegal cannabis confectionery in blatantly infringing packaging that bears an undeniable resemblance to Mars Canada's popular SKITTLES confectionery products:





Mars Canada has claimed trademark infringement, passing off and depreciation of goodwill against the defendants. The case, *Mars Canada Inc v John Doe #1, operating and carrying on business as King*, remains pending before the Federal Court.

## Conclusion

Whether you are, or represent, an established brand that enjoys significant goodwill, or a small startup in search of a brand name, there are lessons to be learned from the Court's decision in *Subway IP*. For major brand owners, the expeditious

relief available when proceeding by way of application, coupled with the breadth and flexibility of section 22, should be borne in mind when considering legal action against others who may depreciate, dilute, tarnish or "whittle away" their brand equity. For new companies, particularly those in the cannabis industry, the adoption of a "punny" name may lead to litigation and a subsequent rebranding, which can cost significant amounts of money, and doom a company to failure before it even starts. In either case, expert trademark counsel should be sought before taking steps to defend an established brand, or launch a new one, in Canada.

*Graham Hood is an anticounterfeiting expert and trademark litigator with Smart & Biggar LLP. Graham's practice spans all aspects of trademark counselling, prosecution and litigation. He regularly counsels brand owners in the cannabis industry on how to best select, use and enforce their trademarks. Follow him on Twitter at @TMLitigator.*

*The preceding is intended as a timely update on Canadian intellectual property and technology law. The content is informational only and does not constitute legal or professional advice.*

1. The evidence filed with the Court showed that Atlantic Compassion Club Society had by then ceased to exist, so the application proceeded against the respondents, Budway, Cannabis & Wellness Store and Mr. Matovu.
2. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 13.
3. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 21.
4. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 20.
5. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 20.
6. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 20.

7. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 22.
8. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 22.
9. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 23.
10. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 24.
11. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 28.
12. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 30.
13. *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65 at para 68.

14. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 32.
15. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 41.
16. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 42.
17. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 42.
18. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at paras 43–44.
19. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 51.
20. *Subway IP LLC v Budway, Cannabis & Wellness Store*, 2021 FC 583 at para 57.
21. *Copyright Act*, RSC 1985, c C-42, s 29.