

Federal Court



Cour fédérale

Date: 20100305

Docket: T-1054-09

Citation: 2010 FC 260

Ottawa, Ontario, March 5, 2010

PRESENT: The Honourable Mr. Justice Martineau

BETWEEN:

COBALT BRANDS, LLC

Applicant

and

GOWLING LAFLEUR HENDERSON LLP

Respondent

REASONS FOR JUDGMENT AND JUDGMENT

[1] The applicant, Cobalt Brands LLC (Cobalt), appeals the decision of the Registrar of Trade-Marks (the Registrar) to expunge from the Trade-Mark register (the register), registration number TMA219908 for the USQUAEBACH trade-mark and design (the USQUAEBACH mark) as a result of the applicant's failure to file evidence of use pursuant to subsection 45(3) of the *Trade-marks Act*, R.S.C. 1985, c. T-13, as amended (the Act).

[2] For the reasons that follow, the appeal will be allowed, the decision of the Registrar will be set aside, and the Registrar will be ordered to reinstate on the register, the applicant's USQUAEBACH mark bearing the registration number TMA219908.

[3] Section 45 of the Act provides the Registrar with the power to expunge any registered trade-mark from the register, where the registered owner is unable to show that the ware or service specified in the registration of their trade-mark was in use in Canada during the three-year period immediately preceding notice by the Registrar. This section also provides, however, that a registered trade-mark will not be expunged if it “appears” to the Registrar that the absence of use was due to special circumstances.

[4] For ease of reference, Section 45 of the Act provides the following:

45. (1) The Registrar may at any time and, at the written request made after three years from the date of the registration of a trade-mark by any person who pays the prescribed fee shall, unless the Registrar sees good reason to the contrary, give notice to the registered owner of the trade-mark requiring the registered owner to furnish within three months an affidavit or a statutory declaration showing, with respect to each of the wares or services specified in the registration, whether the trade-mark was in use in Canada at any time during the three year period immediately preceding the date of the notice and, if not, the date when it was last so in use and the reason for the absence of such use since that date.

45. (1) Le registraire peut, et doit sur demande écrite présentée après trois années à compter de la date de l’enregistrement d’une marque de commerce, par une personne qui verse les droits prescrits, à moins qu’il ne voie une raison valable à l’effet contraire, donner au propriétaire inscrit un avis lui enjoignant de fournir, dans les trois mois, un affidavit ou une déclaration solennelle indiquant, à l’égard de chacune des marchandises ou de chacun des services que spécifie l’enregistrement, si la marque de commerce a été employée au Canada à un moment quelconque au cours des trois ans précédant la date de l’avis et, dans la négative, la date où elle a été ainsi employée en dernier lieu et la raison de son défaut d’emploi

(2) The Registrar shall not receive any evidence other than the affidavit or statutory declaration, but may hear representations made by or on behalf of the registered owner of the trade-mark or by or on behalf of the person at whose request the notice was given.

(3) Where, by reason of the evidence furnished to the Registrar or the failure to furnish any evidence, it appears to the Registrar that a trade-mark, either with respect to all of the wares or services specified in the registration or with respect to any of those wares or services, was not used in Canada at any time during the three year period immediately preceding the date of the notice and that the absence of use has not been due to special circumstances that excuse the absence of use, the registration of the trade-mark is liable to be expunged or amended accordingly.

(4) When the Registrar reaches a decision whether or not the registration of a trade-mark ought to be expunged or amended, he shall give notice of his decision with the reasons therefor to the registered owner of the trade-mark and to the

depuis cette date.

(2) Le registraire ne peut recevoir aucune preuve autre que cet affidavit ou cette déclaration solennelle, mais il peut entendre des représentations faites par le propriétaire inscrit de la marque de commerce ou pour celui-ci ou par la personne à la demande de qui l'avis a été donné ou pour celle-ci.

(3) Lorsqu'il apparaît au registraire, en raison de la preuve qui lui est fournie ou du défaut de fournir une telle preuve, que la marque de commerce, soit à l'égard de la totalité des marchandises ou services spécifiés dans l'enregistrement, soit à l'égard de l'une de ces marchandises ou de l'un de ces services, n'a été employée au Canada à aucun moment au cours des trois ans précédant la date de l'avis et que le défaut d'emploi n'a pas été attribuable à des circonstances spéciales qui le justifient, l'enregistrement de cette marque de commerce est susceptible de radiation ou de modification en conséquence.

(4) Lorsque le registraire décide ou non de radier ou de modifier l'enregistrement de la marque de commerce, il notifie sa décision, avec les motifs pertinents, au propriétaire inscrit de la marque de commerce et à la personne à la

person at whose request the notice referred to in subsection (1) was given.

demande de qui l'avis visé au paragraphe (1) a été donné.

(5) The Registrar shall act in accordance with his decision if no appeal therefrom is taken within the time limited by this Act or, if an appeal is taken, shall act in accordance with the final judgment given in the appeal.

(5) Le registraire agit en conformité avec sa décision si aucun appel n'en est interjeté dans le délai prévu par la présente loi ou, si un appel est interjeté, il agit en conformité avec le jugement définitif rendu dans cet appel.

I. BACKGROUND

[5] The applicant, Cobalt, is a limited liability company under the laws of the state of New Jersey, U.S.A. that was created for the purpose of managing the production, marketing, bottling, labelling, shipping, importing and exporting blended Scotch Whiskey. In 2007, Cobalt purchased all the ownership rights and goodwill associated with the global USQUAEBACH mark including, but not limited to, the registration of the mark in Canada.

[6] The USQUAEBACH mark was originally registered in Canada on April 7, 1977, by Twelve Stone Flagon Ltd. (Twelve Stone), a manufacturer and retailer of blended Scotch Whiskey based in Pennsylvania, U.S.A. This trade-mark was registered for use in association with blended Scotch Whiskey. Between 1976 and 1997, Twelve Stone registered the USQUAEBACH mark in over twenty countries worldwide.

[7] In 2003, after the death of Mr. and Mrs. Stankiwicz, who collectively owned 95% of Twelve Stone, the production and sales of products associated with USQUAEBACH mark were suspended.

In April of 2003, all the global rights and interests in the USQUAEBACH mark were assigned to a Dutch liquor company and creditor of Twelve Stone, Van Caem International, B.V. (Van Caem), by order of the U.S. District Court for Western Pennsylvania. Van Caem then assigned all of their rights to their Belgian subsidiary, Van Caem Belgium, BVBA (Van Caem Belgium).

[8] On May 7, 2003, the Registrar amended the register to reflect Van Caem Belgium as the new registered owner of the USQUAEBACH mark in Canada

[9] Due to unforeseen circumstances, namely the death of Van Caem's principal owner in late 2003, by early 2004, Van Caem and its subsidiaries were forced to liquidate. Starting in 2005, Mr. Shai Perry, the President of Cobalt, negotiated with the Van Caem liquidators for the purchase of the USQUAEBACH mark. After incorporating Cobalt in 2006, Mr. Perry presented a formal written Asset Purchase Agreement and Bill of Sale for the USQUAEBACH mark in January 2007. This agreement included the purchase of the Canadian registration in question, and on March 28, 2007, the liquidators in charge of Van Caem's assets signed said agreement and had it notarized in accordance with applicable Dutch and Belgian law. The agreement became official on April 5, 2007 when Mr. Perry accepted on behalf of Cobalt, however due to a lien on the trade-mark file, it was not until mid-September 2007 that Cobalt had uninhibited control over the use of the USQUAEBACH mark.

Federal Court from any decision of the Registrar under this Act within two months from the date on which notice of the decision was dispatched by the Registrar or within such further time as the Court may allow, either before or after the expiration of the two months.

(2) An appeal under subsection (1) shall be made by way of notice of appeal filed with the Registrar and in the Federal Court.

(3) The appellant shall, within the time limited or allowed by subsection (1), send a copy of the notice by registered mail to the registered owner of any trade-mark that has been referred to by the Registrar in the decision complained of and to every other person who was entitled to notice of the decision.

(4) The Federal Court may direct that public notice of the hearing of an appeal under subsection (1) and of the matters at issue therein be given in such manner as it deems proper.

(5) On an appeal under subsection (1), evidence in addition to that adduced before the Registrar may be adduced and the Federal Court may exercise any discretion vested in the Registrar.

rendue par le registraire, sous le régime de la présente loi, peut être interjeté à la Cour fédérale dans les deux mois qui suivent la date où le registraire a expédié l'avis de la décision ou dans tel délai supplémentaire accordé par le tribunal, soit avant, soit après l'expiration des deux mois.

(2) L'appel est interjeté au moyen d'un avis d'appel produit au bureau du registraire et à la Cour fédérale.

(3) L'appelant envoie, dans le délai établi ou accordé par le paragraphe (1), par courrier recommandé, une copie de l'avis au propriétaire inscrit de toute marque de commerce que le registraire a mentionnée dans la décision sur laquelle porte la plainte et à toute autre personne qui avait droit à un avis de cette décision.

(4) Le tribunal peut ordonner qu'un avis public de l'audition de l'appel et des matières en litige dans cet appel soit donné de la manière qu'il juge opportune.

(5) Lors de l'appel, il peut être apporté une preuve en plus de celle qui a été fournie devant le registraire, et le tribunal peut exercer toute discrétion dont le registraire est investi.

[14] The applicant filed a motion on consent to have the respondent's Notice of Appearance struck out. This motion was granted by way of an order dated September 21, 2009, by Prothonotary Milczynski. While they remain a party to these proceedings, the respondent has not opposed this appeal and has not appeared before or filed any submissions with the Court.

II ISSUE

[15] The applicant does not contest that the mark in question fell into disuse. Rather, the question before the Court is whether there exist special circumstances that excuse the absence of use of the USQUAEBACH mark for the purposes of section 45 of the Act.

III ANALYSIS

[16] In the case at bar, the applicant failed to adduce any evidence before the Registrar. According to the applicant, this is because neither it nor its Canadian representatives ever received the Registrar's notice under subsection 45(1). Subsection 56(5) permits the applicant to adduce before the Federal Court, evidence in addition to that adduced before the Registrar. It has been clearly established in the jurisprudence that the applicant will not be prohibited from adducing evidence before the Federal Court simply because none was produced before the Registrar. This is especially so since pursuant to subsection 45(3), a registered owner of a trade-mark may have their trade-mark expunged for a "failure to furnish any evidence". In order to give registered owners a meaningful right of appeal, subsection 56(5) must be interpreted so as to enable a registered owner the same opportunity to file evidence before the Court as he or she had before the Registrar. This

interpretation is also in line with the principle that the Federal Court be allowed to exercise any discretion vested in the Registrar (*Austin Nichols & Co., Inc. v. Cinnabon Inc.*, [1998] 4 F.C. 569 at paragraphs 11 and 13 (C.A.) (*Austin Nichols*)).

[17] It is the owner of a registered trade-mark who has the obligation, under section 45 of the Act, to furnish affidavit evidence in support of their position. That said, the registered owner is entitled to furnish more than one affidavit and there is no rule prohibiting these affidavits from being sworn by third parties (*Canada (Registrar of Trade Marks) v. Harris Knitting Mills Ltd.* (1985), 60 N.R. 380 at page 383, [1985] F.C.J. No. 226 (F.C.A.) (QL) (*Harris Knitting*)). In determining this appeal therefore, the Court has given consideration to all of the evidence filed by the applicant, which includes the following four affidavits and their corresponding exhibits:

1. the affidavit of Shai Perry, President of the applicant
2. the affidavit of Arien Kroon, previously a manager of Van Caem Belgium
3. the affidavit of Colin Halpern, Vice President of Halpern Imports Limited (Halpern)
4. the affidavit of Aroujan Arman, a law student working at Blaney McMurtry

[18] Since the evidence which forms the record before the Court was not before the Registrar, the normal deferential standard of review does not apply. Normally, where new evidence is adduced before the Court that would materially affect the Registrar's decision, the applicable standard of review is correctness (*Molson Breweries v. John Labatt Ltd.*, [2000] 3 F.C. 145 at paragraph 51 (C.A.)). Because the evidence before the Court was not before the Registrar, the same standard

should apply in the present application (*3082833 Nova Scotia Co. v. Lang Michener LLP*, 2009 FC 928 at paragraph 29).

[19] The proceedings under section 45 are designed to remove the “dead wood” from the Trade-Marks Register in that they are intended to be a “simple, summary and expeditious procedure for cleaning up the trade-mark register of trade-marks that have fallen into disuse” (*Osler, Hoskin & Harcourt v. United States Tobacco Co.* (1997), 139 F.T.R. 64, [1997] F.C.J. No. 1671 at paragraph 21 (QL) (*Osler*)). The proceedings are not meant to be contentious as is evidenced by the fact that the requesting party is not entitled to file evidence and is not entitled to cross-examine the registered owner on their affidavits (*Osler*, above, at paragraph 17). Similarly, the proceedings under section 45 do not impose a heavy burden on the registered owner. While a bald assertion is not enough, the registered owner must simply demonstrate before the Registrar, or before the Court, that the trade-mark in question was used during the relevant period or that any disuse is due to special circumstances (*Osler*, above, at paragraph 16; *Swabey Ogilvy Renault v. Golden Brand Clothing (Canada) Ltd.*, 2002 FCT 458 at paragraph 7).

[20] The Federal Court of Appeal in *Scott Paper Ltd. v. Canada (Attorney General)*, 2008 FCA 129 (*Scott Paper*) recently shed light on what is meant by the phrase “special circumstances”. According to the Court of Appeal at paragraph 22 of its decision, the general rule is that in the absence of use, a trade-mark will be expunged. While an exception to this general rule exists where the absence is due to special circumstances, what are considered to be special circumstances must be circumstances that are not found in most cases of absence of use of a

trade-mark. Finally, the special circumstances, which excuse the absence of use of a trade-mark, must be the circumstances to which the absence of use is due. It is important to highlight that the Federal Court of Appeal states that the inquiry into whether special circumstances exist is an inquiry into the reasons for the non-use and that an intention to resume use cannot be used to support a finding of special circumstances (paragraphs 25 and 35).

[21] In *Scott Paper*, the Federal Court of Appeal was explaining its earlier decision in, *Harris Knitting*, above. In the latter decision, the Court stated that while it is impossible to enumerate what circumstances would constitute “special circumstances”, in making such a determination, the decision maker should consider the duration of the absence of use and the likelihood of its continuation, along with the extent to which the absence of use is due solely to a deliberate decision on the part of the registered owner or to factors outside his or her control.

[22] With the foregoing in mind, and with no reason to discredit the evidence submitted by the applicant, I believe that the applicant has demonstrated that the non-use of the USQUAEBACH mark is excused by the existence of special circumstances.

[23] First and foremost, the period of non-use must be determined in order to examine the cause. It is clear that the applicant did not obtain the rights to the USQUAEBACH mark in Canada until April 5, 2007. The applicant submits that in the case of an assignment of a trade-mark, the period of non-use, with regard to the present registered owner, should be considered from the date the owner acquired the mark (*Re Rainbow Jeans Co. Ltd.*, [1994] T.M.O.B. No. 152 (QL)). For the purposes

of the present application, I do not think it matters whether the Court considers the period of time since the applicant acquired the USQUAEBACH mark or the period since the mark was last used in Canada.

[24] The last use of the USQUAEBACH mark in Canada is likely attributable to the business carried out by Twelve Stone. At the time the evidence was filed by the applicant, Cobalt had not yet resumed use of the USQUAEBACH mark in Canada. Furthermore, according to the evidence submitted, there was never any business related to the sale of blended Scotch Whiskey bearing the USQUAEBACH mark between Van Caem Belgium and any wholesaler or other licensed entity in Canada. While the evidence on record shows that as late as September 2003 the Liquor Control Board of Ontario (LCBO) had listed for sale blended Scotch Whiskey products with the USQUAEBACH mark, there is no evidence to support that this stock was received by way of any business transaction with Van Caem Belgium. On the contrary, according to Mr. Halpern, the Vice President of Halpern Imports Limited, who acted as the import agent for Twelve Stone with respect to the various USQUAEBACH blended Scotch Whiskey products imported into the province of Ontario, the last shipment of products containing the USQUAEBACH mark was 75 cases of blended Scotch Whiskey which had been ordered by the LCBO in 2001. Therefore, the stock listed by the LCBO was likely part of the last sale carried out while Twelve Stone was the registered owner of the USQUAEBACH mark, which means that the last use of the mark would have been in or around 2001.

Special Circumstances

[25] As mentioned above, in 2001, Mr Stankiwicz and his wife, who collectively owned approximately 95% of Twelve Stone, passed away, resulting in the suspension of all sales of USQUAEBACH blended Scotch Whiskey. The death of the partners in charge of the business meets the criteria of special circumstances (*Re I.D. Fashions Ltd.*, [1998] T.M.O.B. No. 109 at paragraph 12). While this incident alone may not constitute special circumstances that are capable of justifying the absence of use of the USQUAEBACH mark over the last nine years, as is discussed below, the history of the ownership of this mark is plagued by a series of unfortunate events.

[26] The USQUAEBACH mark was assigned to Van Caem, and subsequently Van Caem Belgium, pursuant to a U.S. Court order in 2003. At the end of 2003, the principal owner of Van Caem died, resulting in the suspension of all business and ultimately a lengthy liquidation process that started in 2004 and, according to the applicant, lasted a number of years. While the affidavit of Mr. Kroon states that efforts had been made to find a producer of Scotch Whiskey in Scotland, the death of the principal owner put an end to any possibility of marketing, producing or distributing USQUAEBACH blended Scotch Whiskey in Canada.

[27] The duration of the absence of use between the last shipment of USQUAEBACH products to Ontario in 2001 and the date the applicant acquired the USQUAEBACH mark (April 5, 2007) was approximately six years. Given the fact that within these six years two registered owners of the USQUAEBACH mark were forced to discontinue carrying on their businesses as a result of the

deaths of their principal owners, I think it can be said that the absence of use within this time period was due to special circumstances. As is required by the decision in *Scott Paper*, the evidence demonstrates that the absence of use by these registered owners was directly related to the deaths in question. Furthermore, these incidents constitute circumstances that are not faced in most circumstances of non-use of a trade-mark and they cannot be said to be the result of a deliberate decision on the part of the registered owner.

[28] With regard to the period of time since Cobalt acquired the USQUAEBACH mark, Mr. Perry submits that he immediately began taking steps to re-commence the production and distribution of USQUAEBACH blended Scotch Whiskey products in Canada. These steps included, *inter alia*: finding a Scottish distiller that could match the quality of the USQUAEBACH products sold by previous owners; ensuring that each label associated with the different varieties of USQUAEBACH blended Scotch Whiskey complies with the labelling regulations; negotiating distribution deals in each province Cobalt wished to serve, namely Quebec, Ontario, Nova Scotia and New Brunswick; ensuring that Cobalt complies with local liquor regulations in the various jurisdictions it planned on serving (which in Canada would require Cobalt to ensure compliance with each individual province's liquor regulations); and finding a licensed importer in Canada. Given that the production and labelling of Scotch Whiskey must also comply with Scottish law, it is not surprising that this process would likely take a significant amount of time to complete.

[29] It is clear from the evidence that Mr. Perry was not dealing with the acquisition of an ongoing business with existing supply and distribution networks. As a result of the troubled history

of ownership over the USQUAEBACH mark, Mr. Perry was required to rebuild the production and distribution of USQUAEBACH Scotch Whiskey from the ground up.

[30] The record before the Court establishes that as early as July 2008, Mr. Perry was corresponding with the Société des alcools du Québec (SAQ) via e-mail. In one e-mail dated May 11, 2009, the SAQ agrees to purchase a total of 50 cases of USQUAEBACH blended Scotch Whiskey products. At the time this evidence was submitted to the Court, Mr. Perry stated that these shipments were expected to be delivered in October or November of 2009.

[31] While it has been made clear in *Scott Paper*, above, that the intention to resume use may not be used to support a finding of special circumstances, it is not the intention demonstrated through the applicant's actions which excuse the absence of use in the present case. It is relevant that the immediate resumption of use of the USQUAEBACH mark by Cobalt was impeded by the nature of the liquor industry, and more specifically, the regulatory schemes that must be complied with in each Canadian province. Even more importantly, however, is the fact that due to the two deaths between 2001 and 2007, USQUAEBACH blended Scotch Whiskey had not been in production for six years, requiring the applicant to start from beginning. The Court finds that in light of the foregoing, there is a basis to conclude that the absence of use of the USQUAEBACH mark since April 2007 was also due to special circumstances that are not normally faced in circumstances of non use and are not due to the deliberate decision of the registered owner.

[32] Furthermore, the evidence demonstrates that Cobalt intends to resume use of the USQUAEBACH mark and while this does not excuse the absence of use, it is a good indication that the period of non-use is likely close to an end.

[33] Given that the purpose of section 45 of the Act is to provide a means to have expunged from the register trade-marks which have not been used and for which there is no reasonable prospect that they will be used (*Rideout and Maybee v. Sealy Canada Ltd.* (1999), 87 C.P.R. (3d) 307 at paragraph 50), the Court finds that the USQUAEBACH mark should not be expunged from the register.

[34] In light of the foregoing, the appeal will be allowed, the decision of the Registrar must be set aside, and the USQUAEBACH mark under registration number TMA219908 must be reinstated.

[35] While the applicant has not asked for its costs, it has requested that the Court specify that such an order is not a waiver by and is without prejudice to the parties' rights to pursue any claims they may have against each other, including the legal costs relating to this proceeding. Such an order will be provided.

JUDGMENT

THIS COURT ORDERS AND ADJUDGES THAT:

1. The appeal is allowed without costs;
2. The decision of the Registrar of Trade-Marks dated April 29, 2009, with respect to the USQUAEBACH mark bearing the registration no. TMA219908 is set aside;
3. The Registrar of Trade-Marks is ordered to reinstate the applicant's trade-mark registration no. TMA219908 on the Trade-Marks Register;
4. The foregoing costs order is a not a waiver by and is without prejudice to the parties' rights to pursue any claims they may have against each other, including recovery of legal costs relating to this application proceeding.

“Luc Martineau”

Judge

FEDERAL COURT

NAME OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: T-1054-09

STYLE OF CAUSE: **COBALT BRANDS, LLC**
and GOWLING LAFLEUR HENDERSON, LLP

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: March 3, 2010

**REASONS FOR JUDGMENT
AND JUDGMENT:** Martineau J.

DATED: March 5, 2010

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No appearance FOR THE RESPONDENT

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