

**BUSINESSES BEWARE: DEPRECIATION IN GOODWILL CLAIMS  
NOT BOUND BY INDUSTRY LINES**

By Colleen Spring Zimmerman and Catherine Hart

The Federal Court of Canada (the "FCTD") recently released *Toys "R" Us (Canada) Ltd v Herbs "R" Us Wellness Society*, in which it considered whether a cannabis company, Herbs "R" Us Wellness Society ("Herbs R Us"), had breached Sections 20, 7(b) and 22 of Canada's *Trademarks Act* (the "Act") with respect to claims of trademark infringement, passing off and depreciation of goodwill. This is an interesting case in its review and application of Section 22 of the Act. It provides further protection for trademark owners in Canada.

**The Facts**

Herbs R Us operated a cannabis boutique and dispensary in Vancouver, British Columbia, notably one operating without a licence and which marketed itself using adult-themed content including nudity and swear words. It carried on its business under the trademark and trade name HERBS R US, with the following design:



Toys "R" Us (Canada) Ltd ("Toys R Us") made an application to the FCTD in which it argued that Herbs R Us had committed trademark infringement contrary to Section 20 of the Act and passing off contrary to subsection 7(b) of the Act, and that use of the HERBS R US design mark was likely to depreciate the value of the goodwill attaching to its registered trademark, contrary to Section 22 of the Act.

Toys R Us owns a family of marks being sixteen registered trademarks, all of which include the "R US" letter and word combination. The FCTD confined its analysis to a comparison between the HERBS R US design mark and the following registered trademark owned by Toys R Us:

**Summary: The FCTD Decision**

The FCTD held that Toys R Us failed to establish trademark infringement under Section 20 of the Act or passing off under subsection 7(b) of the Act. The FCTD accepted that there were similarities between the marks used by Herbs R Us and Toys R Us.



[Colleen Spring Zimmerman](#)  
Partner

t: 416.941.8884  
[cspringzimmerman@foglers.com](mailto:cspringzimmerman@foglers.com)

**Catherine Hart**  
Associate

t: 416.864.7612  
[chart@foglers.com](mailto:chart@foglers.com)

However, it found that the significant differences between the goods and services of the two companies were sufficient to conclude that a consumer would not infer that they were manufactured, sold or performed by the same person.<sup>1</sup>

Nevertheless, the FCTD went on to hold that Toys R Us had established that the use of the HERBS R US design mark was likely to depreciate the value of the goodwill attaching to Toys R Us' registered trademark. Correspondingly, it granted a permanent injunction to restrain Herbs R Us from adopting, using or promoting the trademark or trade name HERBS R US as or as part of any trademark, trade name, logo, domain name or social media account name. The FCTD also ordered Herbs R Us to deliver up or destroy any of its goods, packaging, labels or advertising material that bear the HERBS R US trademark and ordered it to pay Toys R Us nominal damages in the amount of \$15,000 and the costs of the Application. The FCTD rejected Toys R Us' request for punitive damages, as it did not consider it appropriate to award such damages based on the facts.

### The Trademark Infringement Claim

The owner of a registered trademark has the right to its exclusive use throughout Canada in association with goods or services listed in its registration. Pursuant to subsection 20(1)(a) of the Act, the exclusive right to use may be deemed to have been infringed by anyone who sells, distributes or advertises goods or services in association with a confusing trademark or trade name.

Subsection 6(2) of the Act provides that "the use of a trademark causes confusion with another trademark if the use of both trademarks in the same area would be likely to lead to the inference that the goods or services associated with those trademarks are manufactured, sold, leased, hired or performed by the same person, whether or not the goods or services are of the same general class".<sup>2</sup>

Further, when determining whether a consumer would infer that the same source exists for products with confusingly similar trademarks, the test is based on the "first impression in the mind of a casual consumer somewhat in a hurry" at a time when they have "no more than an imperfect recollection" of the registered mark and without giving the matter "detailed consideration or scrutiny".<sup>3</sup>

While the FCTD found that the overall impression of the two marks is very similar, in part because of the companies' use of "R US" with a design that accentuates the R as well as similarities in font, use of colour, appearance, sound and connotations of the R US element, the FCTD went on to hold that there was no likelihood of confusion between the marks.<sup>4</sup>

The FCTD placed emphasis on its finding that the goods, services and business of Herbs R Us were fundamentally different from those of Toys R Us.<sup>5</sup> The FCTD concluded that the parties' marks were

<sup>1</sup> *Toys "R" Us (Canada) Ltd v Herbs "R" Us Wellness Society*, 2020 FC 682 at para 3 [*Toys R Us*].

<sup>2</sup> Note that the current version of this provision of the Act includes the following, after the word class: "or appear in the same class of the Nice Classification".

<sup>3</sup> *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, 2006 SCC 23 at paras 18-20 [*Veuve*].

<sup>4</sup> *Toys R Us*, *supra* note 1 at para 21.

<sup>5</sup> *Ibid* at para 36.

associated with product lines that were vastly different given that the HERBS R US trademark had been used primarily in association with the sale of cannabis products and cannabis-related accessories, whereas Toys R Us trademarks were used in association with the sale of toys, games, electronics, and baby products, including children's and baby clothing, furniture and accessories.<sup>6</sup>

### The Passing Off Claim

Subsection 7(b) of the Act prohibits a trader from directing public attention to their goods, services or business in a manner likely to cause confusion between its goods, services or business and those of another.

The FCTD confirmed that "the three necessary components to a passing off claim under subsection 7(b) are the existence of goodwill, deception of the public due to a misrepresentation, and actual or potential damage."<sup>7</sup>

Consequently, the FCTD quickly dismissed the subsection 7(b) claim because Toys R Us' claim with respect to misrepresentation was grounded in its claim of infringement under Section 20, which the FCTD had previously rejected.<sup>8</sup>

### The Depreciation of Goodwill Claim

In its decision, the FCTD confirmed that "even where there is no likelihood of confusion, there may be a likelihood of depreciation of the goodwill attaching to a registered trademark".<sup>9</sup>

Subsection 22(1) of the Act provides that "no person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto".

Goodwill in a trademark "connotes the positive association that attracts customers towards its owner's wares or services rather than those of its competitors".<sup>10</sup>

The FCTD affirmed the four elements, as set out in *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, for a successful claim under Section 22:

1. A claimant's registered trademark was used by the defendant in connection with wares or services — whether or not such wares and services are competitive with those of the claimant;
2. The claimant's registered trademark is sufficiently well known to have significant goodwill attached to it; however, the mark does not need to be famous;

<sup>6</sup> *Ibid* at para 38.

<sup>7</sup> *Ibid* at para 47.

<sup>8</sup> *Ibid* at para 48.

<sup>9</sup> *Ibid* at para 50.

<sup>10</sup> *Ibid* at para 56.

3. The claimant's mark was used in a manner likely to have an effect on that goodwill (i.e. linkage); and
4. The likely effect would be to depreciate the value of its goodwill (i.e. damage).<sup>11</sup>

While use of the registered trademark does not have to exactly match the registration, there must be a link, connection or mental association in the consumer's mind with the registered mark and the mark used.<sup>12</sup>

The FCTD found that all four elements had been met in the case before it. The FCTD accepted that the HERBS R US mark was being used by Herbs R Us, per the definition set out in Section 4 of the Act, and that the parties' marks were sufficiently similar to evoke a mental association in the consumer's mind between the marks.<sup>13</sup>

As well, the FCTD found that Toys R Us had established that it was sufficiently well known in Canada to have significant goodwill associated with it, in light of its volume of sales, retail presence in Canada and extensive advertising and publicity offers.<sup>14</sup>

With respect to the third element, the FCTD decided that the similarities between the parties' marks and the evidence of extensive use, sales and advertising by Toys R Us were sufficient to establish a link in the mind of the consumer and correspondingly have an effect on the goodwill in Toys R Us' registered mark.<sup>15</sup>

Lastly, the FCTD held that it is likely that the goodwill in the Toys R Us mark would be damaged or depreciated by the use of the HERBS R US mark. The FCTD concluded that use of the HERBS R US trademark would reduce the distinctiveness of the Toys R Us mark and would "whittle away" at the brand's power to distinguish Toys R Us' products. As well, the FCTD found that the creation of an association between Toys R Us and a cannabis dispensary, particularly one operating without a licence and marketing itself using adult-themed content including nudity and swear words, would be "utterly inconsistent" with the reputation of the Toys R Us brand and that such an association is likely to tarnish the goodwill in the Toys R Us mark.<sup>16</sup>

The FCTD also noted that the only plausible reason for Herbs R Us' decision to use the HERBS R US trademark was for the purpose of trading off the goodwill and reputation established by Toys R Us.<sup>17</sup>

Correspondingly, the finding that the HERBS R US design mark was likely to depreciate the goodwill of the Toys R Us mark lead the FCTD to hold that an injunction, an award of damages and an order

---

<sup>11</sup> *Ibid* at para 51, citing *Veuve*, *supra* note 3 at para 46.

<sup>12</sup> *Ibid* at para 53.

<sup>13</sup> *Ibid* at para 55.

<sup>14</sup> *Ibid* at para 57.

<sup>15</sup> *Ibid* at para 59.

<sup>16</sup> *Ibid* at para 61.

<sup>17</sup> *Ibid* at para 62.

to deliver up or destroy any products or materials bearing the HERBS R US mark was appropriate in the circumstances.

## **A Reminder to Businesses**

As demonstrated in the Toys R Us decision, businesses may enforce and protect their brands through a variety of mechanisms under the Act. Further, the decision confirms that businesses can rely on Section 22 to protect their trademark assets in circumstances where trademark infringement or passing off claims may not be able to be established.

The FCTD's decision suggests that businesses should be hesitant to adopt and use any modification of another entity's mark, even when operating in a vastly different industry where confusion between brands is unlikely. The Court is prepared to enforce the broad protections offered to registered trademark owners under Section 22 of the Act.

If a business is found to use a mark in a manner which is likely to depreciate the value of the goodwill of another, it may be liable for damages, perhaps even punitive damages, and may face significant losses if required to deliver up or destroy certain products and marketing materials. In addition to legal costs, additional costs associated with re-branding further indicate that "boot strapping" off an existing brand should be avoided. Correspondingly, as a best practice, businesses should resist any inclination to build their brand using words or designs from existing brands. They should build unique and distinctive brands that will be able to grow with their businesses.