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Trademarks: 'HERBS R US Design' Found to Depreciate the Goodwill attaching to the 'TOYS R US Design'

Section 22 of the *Trademarks Act* in Canada prohibits a person from using a trademark registered by another in a manner that is likely to have the effect of depreciating the value of the goodwill attaching to that trademark. While the provision is broad in scope, a claim of "depreciation of goodwill" succeeds only when a trademark owner establishes the following:¹

1. the defendant used the trademark owner's registered trademark, or a mark "sufficiently similar" to evoke a mental association between the two marks, in connection with goods or services;
2. the trademark owner's trademark is sufficiently well known to have significant goodwill attached to it;
3. the trademark owner's trademark was used in a manner which is likely to have an effect on that goodwill (linkage); and
4. the likely effect would be depreciation or damage of the value of the goodwill of the trademark owner's trademark (damage).

Successful claims for "depreciation of goodwill" have not been common in Canadian jurisprudence. However, facts play a vital role in the outcome of a case and the Federal Court of Canada recently

¹ *Veuve Clicquot Ponsardin v Boutiques Cliquot Ltée*, 2006 SCC 23 [Veuve] at para 46.

had the opportunity to revisit this topic in *Toys "R" Us (Canada) Ltd v Herbs "R" Us Wellness Society*, 2020 FC 682 ("**Herbs**").

The *Herbs* Decision

The *Herbs* decision features a longstanding toy store operator (the "**Applicant**") against a cannabis dispensary operator (the "**Respondent**"). The Applicant is the owner of the TOYS R US Design mark. On the other hand, the Respondent had used the HERBS R US Design mark in association with its business. For reference, the two marks are provided as follows:



TOYS R US Design mark



HERBS R US Design mark

While the Court determined that there was no likelihood of confusion between the Applicant's TOYS R US Design mark and the Respondent's HERBS R US Design mark due to the "vast differences between the goods and services"² being offered by the Applicant and the Respondent, the Court nevertheless found that the marks were sufficiently similar, and that the Respondent's HERBS R US Design mark had the required effects to depreciate the goodwill of the Applicant's registered TOYS R US Design mark. Of notable importance, the *Herbs* decision demonstrates that "depreciation of goodwill" may occur even when the offending party and the offended party operate in vastly different markets.

In applying the above four-part test of "depreciation of goodwill" to the facts of this case, the Court held that: (i) there were "marked similarities" between the Applicant's TOYS R US Design mark and the Respondent's HERBS R US Design mark to evoke mental association between the two marks;³ (ii) the Applicant's TOYS R US Design mark was "sufficiently well known" in Canada, as evinced by the

² *Herbs* at para 44.

³ *Herbs* at paras 55 and 59.

Applicant's significant sales volumes, extensive advertising and publicity efforts, and physical and online presence in all Canadian provinces;⁴ and (iii) linkage between the Applicant's TOYS R US Design mark and the Respondent's HERBS R US Design mark was established due to their marked similarities.⁵

With regard to the last factor of the four-part test, the Court focused on depreciation resulting from "a reduction of distinctiveness resulting from a mark being 'bandied about by different users'" [emphasis added].⁶ With reference to the facts of the case, the Court in the *Herbs* decision note the following:

[...] the creation of an association between the Toys "R" Us and a cannabis "dispensary," particularly one that appears to be operating without a licence, and one that markets through social media with adult-themed content said to include nudity and swear words, is "utterly inconsistent" with the reputation of the TOYS R US brand, and [...] is likely to tarnish the goodwill associated with the [TOYS R US Design mark].⁷

The Court further noted that there was no reason for the Respondent to adopt the HERBS R US Design mark other than to trade off the goodwill and reputation established by the Applicant.⁸ As a result, and notwithstanding the marked differences between the Applicant and the Respondent's goods and services and disparate nature of the Applicant and the Respondent's respective businesses, the Court found that the Respondent's use of the HERBS R US Design mark in association with its business likely had the effect of depreciating the goodwill attaching to the Applicant's TOYS R US Design mark.

⁴ *Herbs* at para 57.

⁵ *Herbs* at para 59.

⁶ *Herbs* at para 60.

⁷ *Herbs* at para 61.

⁸ *Herbs* at para 62.

The Court awarded, among other things, an aggregate of \$30,000 in costs and damages to the Applicant.

Take-Aways

The *Herbs* decision is an apt reminder of the various causes of action that are available to a registered trademark owner under the *Trademarks Act*. As shown in the *Herbs* decision, a claim of “depreciation of goodwill” may be successful notwithstanding the disparate nature of an applicant and a respondent’s respective businesses. For some companies, and particularly emerging companies, the associated cost and damage awards from a resulting court action may be sufficient to keep one grounded indefinitely. Businesses, large or small, would benefit from doing appropriate trademark clearances prior to adopting a desired trademark.

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a cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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