

## Trademark Invalidated as “Bad Faith” Attempt to Extort Legitimate Owner

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Success breeds success and imitation is the sincerest form of flattery. Foreign trademark owners, particularly those associated with successful business models and popular services are vulnerable to “bad faith” trademark squatting in Canada. A solution is emerging to that problem.

Justice Furlanetto’s recent decision in *Beijing Judian Restaurant Co. Ltd. v. Wei Meng*, 2022 FC 743 is the first time a court has used the new “bad faith” ground to invalidate a trademark. In doing so, Justice Furlanetto thoroughly considered the types of behaviours that may amount to bad faith and provides useful guidance to trademark owners on how to successfully advance a bad faith claim and recover Canadian rights in their trademarks.

### Bad Faith - Section 18(1)(e)

Section 18(1)(e) was added to the *Trademarks Act* (the Act) in 2018. It created a new basis for challenging a registered trademark on the basis that the application was filed in bad faith. Section 18(1)(e) is intended to:

- “hinder the registration of a trademark for the sole purpose of extracting value from preventing others from using it” and to
- “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 the trademark.”

To date, courts have waded gently into the interpretation of “bad faith.” In *Beijing Judian*, the Court took the interpretation head on. This interpretation was animated by the legislative purpose and the problems it was intended to address.

### Background

Beijing Judian Restaurant Co. Ltd. owns and operates two restaurants in British Columbia (since 2018), and a number of well-known restaurants in China (since 2005), using a family of JU DIAN character trademarks, including the “JU DIAN & Design Mark” trademark:



Unbeknownst to Beijing Judian, Wei Meng, an individual, applied and obtained a registration for an identical trademark in Canada, for use in association with “restaurant services; take-out restaurant services” and “beer.” Meng filed the application in 2017 based on proposed use and registration was granted in 2019.

Beijing Judian applied to have Meng’s JU DIAN & Design Mark registration expunged on the basis that the application was filed in bad faith as well as other grounds of invalidity. Beijing Judian also requested a declaration that Meng’s actions constituted passing off. Meng did not actively defend the proceeding and failed to attend the hearing. Justice Furlanetto found that the registration was invalid on the bad faith ground and ordered it expunged, but did not find that there was passing off.

## What is “Bad Faith”?

Bad faith is not defined in the Act. This case represents the most fulsome consideration of bad faith in an expungement proceeding to date.

The party alleging bad faith has the onus of proving it. However, bad faith necessarily involves facts that are uniquely within the knowledge of the registrant. In such cases, the Court noted that circumstantial evidence and inferences from proved facts may be sufficient to establish the true (and nefarious) objectives of the registrant at the time the impugned application was filed. In addition, the Court found that the registrant’s actions after filing may also be relevant to establishing his or her bad faith intentions.

In this case, Meng did not file any evidence. Beijing Judian’s evidence established that:

- Meng approached Beijing Judian and demanded \$1.5 million for the JU DIAN & Design Mark. When Beijing Judian refused to purchase the mark, Meng made threats against Beijing Judian’s business.
- Meng later advertised the JU DIAN & Design Mark for sale on a British Columbia website. When Beijing Judian arranged to have him contacted, he offered to license the mark for the opening of a franchise for \$100,000 per year.
- Around the same time as he applied to register the JU DIAN & Design Mark, Meng applied to register trademarks of several other restaurant chains in China, none of which he was affiliated with.
- At the date of filing, Meng was aware of Beijing Judian’s trademarks and reputation. The evidence established that Chinese-Canadians were aware of Beijing Judian’s trademarks.

# Cassels

In view of this, the Court concluded that Meng applied to register the JU DIAN & Design Mark with the intention of extorting money from Beijing Judian or using its reputation to obtain money from others. The Court also noted Meng's filing of the other applications as a pattern of activity that indicates that he had no legitimate commercial purpose in filing the JU DIAN & Design Mark application. As a result, the Court found there the filing of the application to be in bad faith and the registration to be invalid.

However, the Court noted that the intentional filing of an application for the JU DIAN & Design Mark would not in and of itself amount to bad faith – there are potential legitimate bases for a party to register a mark that is registered and used elsewhere by another party, particularly if that foreign owner has no reputation in Canada. In this case, Beijing Judian's evidence along with Meng's own actions showed that the JU DIAN & Design Mark had sufficient reputation amongst at least the Chinese Canadian population in British Columbia at the time of filing the application.

In determining whether Meng's actions amounted to bad faith, the Court thoroughly considered the purpose of the provision, and legal commentary and jurisprudence on bad faith, both Canadian and foreign.

## Passing Off & Relief

The Court did not find, however, that Meng had engaged in passing off. Despite having filed a declaration of use, there was no evidence that Meng had actually used the JU DIAN & Design Mark commercially. As such, the second part of the test for passing off could not be met – there was no misrepresentation to the public (the mere listing of the mark on the Trademarks Register does not establish confusion or a likelihood thereof where there has been no use of the mark). The Court therefore declined to grant damages or an injunction.

While Beijing Judian also requested punitive damages as a deterrent for Meng's reprehensible conduct, the Court did not grant them. The Court specifically noted that allegations of bad faith are not a separately actionable tort and so there was no basis to grant punitive damages.

## Takeaways

Assessing bad faith is highly fact-specific. This case identifies the sorts of behaviour that may constitute bad faith and serve as a basis to expunge a trademark registration. Trademark owners can use bad faith against trademark squatters who have obtained registrations of the foreign marks in Canada provided, of course, that the foreign trademark owner can establish at least some reputation in Canada.

This decision will also undoubtedly inform the analysis in Opposition proceedings in cases where the foreign trademark owner is able to catch and oppose the application before it registers.

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