

### Court clarifies what constitutes special circumstances in absence of use

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In *Cobalt Brands LLC v Gowling Lafleur Henderson LLP* (2010 FC 260, 5th March 2010) a series of unusual events has led the Federal Court to find special circumstances and reinstate a previously expunged registration.

In 2009 the registrar of trademarks expunged the registration of the trademark USQUAEBACH (and design) (Registration TMA219,908) for Scotch whisky, which is owned by Cobalt Brands LLC. This decision was appealed to the Federal Court.

In Canada, when a registrant does not use its registered trademark for a period of three years, the registration becomes vulnerable to expungement via a request by a third party. The purpose of this process is to remove 'dead wood' from the Trademark Register and purge registrations for trademarks that are no longer used. On receipt of the request, the registrant is required to:

- Show use of its mark within the preceding three years.
- Demonstrate that, due to special circumstances, it was not able to use its mark.

While a bald assertion of use by the registrant is not sufficient, the burden to establish use is not heavy. In the present case, the respondent requested that the registrar issue notice to Cobalt to provide evidence of use between 2005 and 2008. When Cobalt failed to respond to the request, the registrar expunged the registration for USQUAEBACH. Cobalt claimed that it had not used the USQUAEBACH mark between 2005 and 2008 due to special circumstances.

The issue before the court was whether the special circumstances justified Cobalt's non-use of the USQUAEBACH mark in Canada. It is established that special circumstances must be circumstances that are not found in most cases of non-use of a trademark, and the absence of use cannot be the result of a deliberate decision on the part of the registrant.

Twelve Stone Flagons Ltd registered the USQUAEBACH mark in Canada in 1977. In 2003 the principal owners of Twelve Stone died and their assets were assigned to a Dutch company and creditor of Twelve Stone, Van Caem International BV, which then assigned the USQUAEBACH mark to its Belgian subsidiary, Van Caem Belgium BVBA. In late 2003 the death of the principal owner of Van Caem International forced both Van Caem International and Van Caem Belgium into liquidation.

Shai Perry, the president of Cobalt, started negotiations with the liquidators for Van Caem Belgium to purchase the USQUAEBACH mark. Perry then incorporated Cobalt in 2006 and presented a formal asset purchase agreement to Van Caem Belgium in January 2007. The agreement was finalised in April 2007 and the USQUAEBACH mark was assigned to Cobalt in May 2007. However, due to a lien on the USQUAEBACH mark, Cobalt did not attain uninhibited rights in the USQUAEBACH mark until September 2007.

During 2008, Cobalt:

- Took steps to locate a Scottish distiller that matched the quality of the Scotch whisky previously sold under the USQUAEBACH mark.
- Worked on compliance with labelling regulations.
- Negotiated with distributors in Quebec, Ontario, Nova Scotia and New Brunswick.
- Ensured that provincial liquor regulations were met.
- Located a licensed importer in Canada.
- Ensured that the production and labelling of its products complied with Scottish law.

Finally, Cobalt established its intention to resume use of the USQUAEBACH mark, as it had an agreement to deliver 50 cases of the Usquaebach Scotch whisky to the *Société des alcools du Québec* in October or November 2009.

The court found that Cobalt did not acquire an ongoing business with an existing network of suppliers and distributors; rather, it was required to rebuild the production and distribution of Usquaebach Scotch whisky from the ground up. Further, Cobalt intended to resume use of the USQUAEBACH mark in Canada. In light of



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the events surrounding the ownership of the USQUAEBACH mark in Canada, the court held that Cobalt had met the criteria for special circumstances of non-use and reinstated the registration.

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