

Canada - recent developments in trade mark licensing

Ian MacPhee

On June 9, 1993 legislation came into effect in Canada to revise a number of intellectual property law statutes, including the Trade-marks Act. One of the most substantive amendments was the abolition of the registered user regime in the Trade-marks Act, thus rescinding the requirement to record licensees as registered users of trade marks.

It will be recalled that in a number of common law countries including Canada, licensing of a trade mark is viewed as causing a loss of distinctiveness which could result in the invalidity of the trade mark itself. The registered user scheme was designed to overcome this danger, by deeming that all use of a trade mark by a third party who was recorded as a user enured to the benefit of a trade mark owner.

It will also be recalled that it was a common defence in trade mark infringement proceedings in Canada for defendants to attack the validity of registered marks on the basis that the owner had permitted third parties to effect use thereof without proper registered user records in place.

Under the new section 50 of the Act, if a third party is licensed by or with the authority of a trade mark owner, and the owner has, under the licence, direct or indirect control of the character or quality of the goods or services, then the third party's use of the trade mark is deemed to have the same effect as use by the owner. This provision is expressly extended to include use of a trademark as part of a tradename. A further critical feature holds that a licensee's use will be deemed to have always had the same effect as use by the owner, assuming proper control was in place as aforementioned. A copy of the text of section 50 is attached.

A number of questions have been raised as to the meaning and impact of the new law. In particular, it was unclear whether a written license agreement had to be in place before a trade mark owner could claim the benefit of a licensee's use. Practitioners were also uncertain as to the nature of control required of a trade mark owner.

The Federal Court of Canada and the Canadian Trade-marks Office, Opposition Board, have recently released the first decisions to consider the new law.

The *Unitel* decision

As part of an ongoing battle between two major Canadian telecom carriers, Unitel Communications Inc brought an application to the Federal Court of Canada, Trial Division, to expunge registered trade marks owned by its competitor Bell Canada. The application to the court alleged that the registered trademarks, which included such marks as WATS, 900 SERVICE and CALLING CARD, lacked distinctiveness at the date of registration and at the date of filing of the expungement action.

There are nine major telecommunication companies

which provide the vast majority of long distance and local telephone services in Canada, each of which is a member of a cooperative association known as Stentor. It appears that some of the members of Stentor had been recorded as registered users of the trade marks at issue, but there were at least a few non-registered users for each of the marks. Although no written licences were produced, the trade mark owner filed traffic, interconnect and similar agreements in an effort to establish an implied license to said third parties to use the trade marks at issue.

His Honour Justice Gibson held that revenue sharing arrangements did not meet the requirement that the trade mark owner provide '... direct or indirect control of the character or quality of the ... services'. Thus, regardless of whether the registered user or licensing provisions of the Trade-marks Act apply, these agreements were not sufficient to rebut the evidence of unauthorised use by third party members of Stentor. The court also distinguished the Canadian legislation from the corresponding American legislation by noting that in the United States there is no requirement for a licensor to exercise quality control. In view of the foregoing, each of the trade marks at issue was declared invalid.

The MCI decision

In an opposition by an American company MCI Communication Corporation, to an application by a Canadian company to register the trade mark MCI in Canada, the opponent alleged prior use of its trade mark MCI in Canada in association with telecommunication services. It developed on cross-examination, however, that the opponent was in fact merely a holding company, and that all alleged use of its trade marks in Canada was effected by its operating subsidiaries. It was further established that no formal license agreement existed between the trade mark owner and said subsidiaries.

The Opposition Board held that in such circumstances, the opponent would not be entitled to rely on the alleged use by its subsidiaries in Canada. While the decision does not rule on whether a written license agreement is required, the Board held that in the absence of such an agreement, the opponent had to establish that at least an informal licensing arrangement existed. Further, the Board seemed to emphasise that actual control by the trade mark owner of the character or quality of the services, whether it be direct or indirect control, was an essential consideration. The Board also stated that the direct or indirect control must be provided, or be in effect, pursuant to a licensing arrangement: Accordingly, not only must a trade mark owner establish that means of control exist, but also that the control is effected pursuant to some sort of licence.

It is of further significance to note that these findings

will hold true even in the case where a trade mark owner and the user are wholly owned subsidiaries. As stated by Hearing Officer Martin:

‘There must also be evidence that the opponent controls the use of its trademarks by its subsidiaries and take steps to ensure the character and quality of the services provided’.

The Board also indicated that evidence submitted by the opponent to the effect that it monitored proper trade mark usage by its subsidiaries was not pertinent to the issue.

Until there is a final resolution of the issues dealt with by the Federal Court Trial Division and the Opposition Board, trademark owners would be well advised to have in place written licence agreements and adequate mechanisms to police use of their trade marks in Canada pursuant to said licences. Further, even if written licence agreements do exist, they should be reviewed to ensure that the proper standards of quality control and enforcement are provided for.

On a more positive note, a significant opportunity has been provided to trade mark owners in new section 50 to ensure that their trade marks remain free from challenge. Section 50(2) holds that where ‘public notice’ is given of the identity of a trade mark owner, and that the use is a licensed use, a presumption arises that the use is licensed by the owner and the character and quality of the goods or services is under its control. This could well develop into an important presumption, depending on its future interpretation by Canadian courts. For example, in trade mark infringement or opposition proceedings, the onus in such instances would be on the defendant or other person challenging the validity or distinctiveness of a trade mark, to establish that the character or quality of the goods or services is not under the control of the owner and/or that the owner has not licensed the use of the mark. It goes without saying that section 50(2) should have a significant influence on the packaging, labelling and advertising of goods and services in Canada.

It would seem likely that the legislation's reference to licensing ‘by or with the authority of the owner of a trademark’ will mean that sub-licensing of trade marks is permissible. It is also important to note that the new Act permits a licensee to call upon a trade mark owner to take proceedings for trade mark infringement, and if the owner refuses or neglects to do so within two-months time, the licensee itself may institute legal proceedings in its own name as if it were the owner, making the owner a defendant. However, the Act also provides that the owner and the licensee may expressly contract out of this provision.

Finally, owners are urged to review their portfolio of registered trademarks in light of the new section. In the past, an owner could not claim a licensee's use to its own benefit until such time as a registered user recordal was in

place. However, under the new legislation, assuming an owner had licensed a third party and had direct or indirect control of the character or quality of the goods or services, then it can now claim that use as its own. This should cause owners to consider filing applications for trade marks already registered in a situation where it is possible to obtain an earlier date of use. This is so because in Canada, priority between trade marks is determined by the first to use a mark and not the first to file or register. The fact that the legislation is expressly stated to be retroactive in effect lends further support for this view.

Licences

Licence to use trade -mark

50. (1) For the purposes of this Act, if an entity is licensed by or with the authority of the owner of a trade-mark to use the trade-mark in a country and the owner has, under the licence, direct or indirect control of the character or quality of the wares or services, then the use, advertisement or display of the trade-mark in that country as or in a trade-mark, trade-name or otherwise by that entity has, and is deemed always to have had, the same effect as such a use, advertisement or display of the trade-mark in that country by the owner.

Idem

- (2) For the purposes of this Act, to the extent that public notice is given of the fact that the use of a trade-mark is a licensed use and of the identity of the owner, it shall be presumed, unless the contrary is proven, that the use is licensed by the owner of the trade-mark and the character or quality of the wares or services is under the control of the owner.

Owner may be required to take proceedings

- (3) Subject to any agreement subsisting between an owner of a trade-mark and a licensee of the trade-mark, the licensee may call on the owner to take proceedings for infringement thereof, and, if the owner refuses or neglects to do so within two months after being so called on, the licensee may institute proceedings for infringement in the licensee's own name as if the licensee were the owner, making the owner a defendant.

*Ian MacPhee
Goodman Lapointe Ferguson
of Montreal, Quebec*