

TRADE-MARK LICENSING IN CANADA - AN OVERVIEW

Allen D. Israel
allen.israel@lapointerosenstein.com
Lapointe Rosenstein
Montreal, Quebec

The licensing of a trade-mark in Canada, although permissible, has traditionally been a rather delicate subject in that allowing another to use one's trade-mark, if not structured and monitored properly, runs the risk that the mark will lose its distinctiveness. Trade-mark licensing operates hand in hand with the legal fiction that use of a trade-mark by a licensee will be a deemed use by the trade-mark owner and enure to the owner's sole benefit. This fiction respects commercial realities by allowing trade-mark owners to take full economic advantage of a valuable asset while at the same time protects the very basis for that value, namely distinctiveness and goodwill in the mark.

Specific mechanisms have been legislated as a platform for allowing the legal fiction of deemed use to operate. For example, until June 9, 1993 Canada had in place a registered user system which required a licensee to be recorded as a registered user with the Canadian Trade-Marks Office. This created some tension between the technical requirements of the registered user scheme on the one hand and commercial realities on the other, insofar as in many instances trade-mark owners did not register their trade-marks, or record licensees as registered users, whereas steps were taken to oversee and control the licensees activities to avoid any public deception and to maintain goodwill.

In order to adapt the law to these commercial realities, the courts were prepared in some cases to interpret the registered user provisions liberally, for example in conjunction with licensed use amongst related or associated companies and where proof existed that licensed use was controlled by the trade-mark owner. There was always the risk, however, that a court would strictly adhere to the registered user scheme and hold a trade-mark registration invalid if a licensee had not been recorded as a registered user.

On June 9, 1993 the Trade-Marks Act was amended whereby the registered user provisions were replaced with a licensing scheme under Section 50. Under section 50 where the owner has direct or indirect control over the character or quality of the licensed wares or services, then the use, advertisement or display of the trade-mark, as or in a trade-mark or trade-name or otherwise by the licensee, has, and is deemed always to have had, the same effect as such a use, advertisement or display of the trade-mark by the owner.

In practice, if the owner takes actual and concrete steps to monitor the character and quality of the licensed wares and services, all licensed use will enure to the benefit of the trade-mark owner as a deemed use. Section 50 also provides that to the extent public notice is given of the fact that the use of the trade-mark is licensed, and the identity of the owner, it shall be presumed, unless the contrary is proven, that use is licensed and that the owner of the trade-mark has control over the character and quality of the licensed wares and services. In some cases, even in the absence of a written license agreement, the courts are prepared to infer the existence of a license and quality control, for example in the case of an individual trade-mark owner who is also the president of a licensed company.

It is important to bear in mind, however, that these presumptions may be rebutted and therefore it is always recommended that a written license be entered into which includes quality control provisions and rights of inspection over the licensee. It is also important to spell out any limitations as to use, territory, responsibility for enforcing the marks against unauthorized users and the like. From the perspective of maintaining rights to the licensed mark, it is also recommended that a paper trail be in place so that if called upon the trade-mark owner can prove that it has taken steps on a regular basis, either directly or indirectly, to monitor and control the character and quality of the licensed wares and services.

In summary, it is recommended that a trade-mark owner identify those situations in which it is licensing the use of its trade-marks to third parties and to enter into suitable written agreements. It is also critical for the trade-mark owner to exercise actual quality control over the licensee's activities to ensure that the presumption of deemed use can operate. These principles are important in several commercial contexts including including franchising and cross branding.

Any inquiries or comments concerning this document should be addressed to Allen D. Israel at 514-925-6365 or by e-mail at allen.israel@lapointerosenstein.com.

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