

TRADE-MARK LICENSING IN CANADA - WHAT TO WORRY ABOUT

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The worst nightmare from a franchisor's perspective might be to wake up one morning and be told by an attorney that the one of the most valuable assets of your franchise system, the trade-mark under which your franchisees operate, is no longer valid and that it is open for anyone to use. The next thing you know, you are being sued by your panicked franchisees for not taking the steps to ensure that the integrity of your mark was maintained. How did this happen?

The answer will probably be that you as a franchisor, and presumably owner of the licensed trade-mark, did not take steps to enter into a proper license agreement, or, more likely, that even though a license agreement was in place, you did not take adequate steps "on the ground" to actually monitor the character and quality of the licensee's wares or services. It is recommended to always keep in mind that even though it is possible to license a trade-mark in Canada, if the license is not structured and monitored properly, there is the very real 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. The courts were, in some cases, prepared 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 (Canada) 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 by the licensee, has, and is deemed always to have had, the same effect as such 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 of 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.

It is important to bear in mind 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 franchisor/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 short, it is recommended that a franchisor 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 by the franchisor can operate in order to maintain the integrity and exclusive rights to the licensed mark.

Another important issue which often arises in the context of trade-mark licensing is co-branding. This is a situation in which the trade-marks of two or more owners appear on or in conjunction with the same goods and services. In order to avoid confusion among consumers it is highly recommended that trade mark notices appear alongside the trade marks with a further notation, wherever practical, pointing to the actual owners of the respective marks. This is another measure designed to ensure that the distinctiveness of the respective marks is maintained. If there is any possibility that one or more of the owners of the co-branded marks will have involvement regarding the character of quality of the co-branded goods or services, cross licenses of the co-branded trade-marks should be in place between the owners to ensure that any and all use of the marks properly filters up to the correct owner.

Turning to the conditions of the licenses themselves, over and above commercial terms such as royalty or lump sum payments, the license should ideally include terms relating to the territory of the license, whether the license is exclusive or non-exclusive, the right to grant sublicenses, quality control provisions, rights of inspection by the licensor, obligations to register the licensed trade-marks, responsibility for litigation and so on.

In some cases the trade-mark owner may have to reveal confidential business information and methods to the licensee especially as these relate to quality control provisions. In such cases it is very important to ensure that a confidential disclosure agreement is entered into between the licensor as the disclosing party and the licensee as the recipient of the confidential information.

Another issue which warrants attention concerns copyright as a separate bundle of intellectual property. In the case of a trade-mark which includes artistic designs or logos, copyright to the designs as artistic works may also be licensed and therefore may add value to the licensing arrangements. It is therefore recommended that the trade-mark owner ensure that it owns the copyright to any and all design elements in the trade-mark in order to maximize the value of its licensing program.

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