

BRIEF

BILL C-31: PROPOSED TRADEMARKS LEGISLATION

Submitted by:

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1. INTRODUCTION

We are a group of Canadian intellectual property lawyers who practice in different firms, but are united in opposition to the proposed elimination of trademark “use” as a prerequisite for obtaining trademark rights in Canada. Each of us has decades of experience in obtaining and enforcing trademark rights in Canada and abroad, and we all serve both domestic and foreign-based trademark owners.

Trademark owners need and deserve the protection of trademarks from misappropriation and fraud. In addition, it is strongly in the interests of consumers that trademarks mean something they can rely upon. As Justice Binnie said, for a unanimous panel of the Supreme Court of Canada in *Mattel, Inc. v. 3894207 Canada Inc.* (“*Mattel*”), 2006 SCC 22, at para. 2,

a trademark... is a guarantee of origin and inferentially, an assurance to the consumer that the quality will be what he or she has come to associate with a particular trade-mark (as in the case of the mythical “Maytag” repairman). It is, in that sense, consumer protection legislation.

At the same time, economic growth requires honest and free competition. Ideally, there should be a reasonable balance between these respective needs.

Our principal concern with the trademarks legislation proposed in Bill C-31, the *Economic Action Plan Act, 2014, Part 1*, is that elimination of the fundamental

requirement of trademark use as a prerequisite to creation of enforceable trademark rights skews this balance against the interests of the public and fair traders.

As discussed in detail below, the proposed legislation is likely to significantly increase the cost and uncertainty involved in obtaining valid trademark registrations in Canada because it is sure to clog the Trademarks Register with speculative marks that have never been and are unlikely ever to be used in Canada or elsewhere, covering unrealistically long lists of goods and services. In addition, the proposed legislation may invite a constitutional challenge, it encourages agile trademark pirates to prey on Canadian businesses, and it invites provincial legislatures to enact their own trademark legislation. The entities likely to benefit from all this are trademark trolls, many of whom are based outside Canada, trademark search firms, and law firms as a result of what is certain to be an explosion in the number of actual and threatened trademark oppositions and litigation, as European trademark experience amply demonstrates.

Before the legislation is finalized, the Committee is urged to invite its careful study by trade associations, law associations, and experts in domestic and international trademark law, as well as constitutional law experts. The changes we propose do not affect Canada's intended adherence to international treaties such as the Madrid Protocol, the Singapore Treaty, and the Nice Agreement. None of these treaties aim at trademark harmonization. Moreover, adherence to them does not require removal of the "use" requirement from Canadian law.

The problems referred to above can be avoided by implementation of the following changes to the legislation that will assure compliance with basic trademark law:

1. Applications for registration of trademarks may be based on (1) use of the trademark in Canada, (2) a *bona fide* intention to use the trademark in Canada, or in the case of foreign applicants, (3) either on a trademark registration in their home country together with use in one or more countries prior to filing in Canada, or (4) use of the trademark in a country other than Canada, and the trademark having become well-known in Canada at the filing date of the application in Canada by reason of distribution of goods in Canada in association with the trademark or by advertising of goods or services in association with the trademark in Canada.

2. If an application is filed based on *bona fide* intention to use in Canada, use in Canada must commence – as now – prior to issuance of the registration, and the registration must be restricted to those goods/services in association with which the trademark in fact has been used in Canada. This applies to all applicants, domestic or foreign.

3. If an application is filed based on use in Canada, – as now – the application must state the date of first use in Canada for each general class of goods/services covered by the application.

4. Registration can – as now – be made by foreign entities who have registered or at least applied for registration of the trademark in their home country, have used the trademark either in the home country or elsewhere prior to filing in Canada, and who declare that they have a *bona fide* intention to use the trademark in Canada. Such registrations must be restricted to the precise goods/services in association with which the trademark was so used prior to the filing date in Canada. In the case of applications by foreign applicants based on an application filed in their home country, the home country application must have issued to registration before their Canadian application is advertised for opposition.

5. In the case of applications based on making known in Canada, the applicant must have used the trademark, and the application must – as now – state the date when the trademark became well-known in Canada. Also, the application must contain a statement that the applicant has a *bona fide* intention to use the trademark in Canada.

2. HISTORY OF FEDERAL TRADEMARK LEGISLATION IN CANADA

The first federal trademark legislation was called *The Trade Mark and Designs Act of 1868*, 31 Vict. c. 55. It provided for registration of trademarks based on use. Successive federal statutes likewise required use as a prerequisite to registration. It was not until the present *Trade-marks Act*, R.S.C. 1985, c. T-13 came into force in 1954 that federal trademark legislation allowed for registration of a trademark from an application based on proposed use in Canada, subject to the filing of a declaration attesting to use in Canada as an essential prerequisite to registration.

In 1947, the Trade Mark Law Revision Committee ("TMLRC") was established by the Government of Canada to recommend changes to the *Unfair Competition Act*, 1932 ("UCA"). Under the UCA, trademarks could be registered based on use, but it was not possible to file based on proposed use. The TMLRC had two models for study, the United Kingdom system which permitted registration of trademarks based merely on an intention to use, and the USA system which required use in commerce as a precondition for filing. Neither system was considered desirable for Canada. The UK system was rejected on the ground that the register would likely become crowded with trademarks that are not in use and not likely to be used in Canada or even elsewhere. That prediction was proved accurate. The USA system was rejected because it was thought that the requirement of use as a precondition for filing would promote applications based on token if not phony use.

The TMLRC invited submissions from many different sources, including trade associations, law associations, and many others. They deliberated until 1953 when their report was given to the Secretary of State, and eventually the statute they proposed was enacted as the *Trade Marks Act* (later renamed the *Trade-marks Act*). No such broad public consultation to our knowledge occurred in connection with the drafting of the proposed trademarks legislation, despite the fact that the proposed changes are far more sweeping in scope than that of the TMLRC.

The compromise chosen by the TMLRC, which ultimately was enacted in the *Trade-marks Act*, permitted the filing of trademark applications based solely upon an intention to use, with safeguards to ensure that the registration would not be issued until after the trademark is in use in Canada, as proved by the filing of a declaration attesting to use in relation to specific goods or services. On balance, the system has worked very well. There is no sensible reason to abandon a system so carefully conceived that has stood the test of time.

3. TRADEMARK RIGHTS “IN GROSS”

Canadian law does not recognize, and never has recognized rights to a trademark “in gross”: merely thinking up a trademark is not enough. It is not the trademark as such that is protected, it is the goodwill the trademark symbolizes. Goodwill and the trademark are inextricably intertwined. That has been the case for as long as there has been trademark law in Canada, whether under the common law or statute. This is precisely what the proposed trademark legislation threatens to abolish, with far reaching adverse consequences.

The leading Canadian intellectual property academic, Professor David Vaver, states in his text *Intellectual Property Law*, 2nd ed., Toronto: Irwin Law, 2011, at p. 471:

Without “use” a trade-mark is nothing. It cannot be registered; if registered, it can be expunged. Anyone holding an unused mark probably cannot or does not want to invest in it, may just want to play dog in the manger and block competitors from using it, or may want to get into the business of selling marks, not goods or services. None of this is worth encouraging and the system treats him as an undesirable.

Professor Vaver’s statement was quoted with approval in March, 2014 by the Federal Court in *Corporativo de Marcas GJB, SA de CV v. Bacardi & Company Ltd.*, 2014 FC 323.

Likewise, Justice Binnie said, in *Mattel*, at para 5:

... the gravamen of trade-mark entitlement is use.

In the recent *Masterpiece* decision of the Supreme Court of Canada, 2011 SCC 27, Justice Rothstein stated the following at para. 35:

“At the outset, it is important to recall the relationship between use and registration of a trade-mark. Registration itself does not confer priority of title to a trade-mark. At common law, it was use of a trade-mark that conferred the exclusive right to the trade-mark. While the Trade-marks Act provides

additional rights to a registered trade-mark holder than were available at common law, registration is only available once the right to the trade-mark has been established by use. As explained by Ritchie C.J. in *Partlo v. Todd* (1888), 17 S.C.R. 196, at p. 200:

It is not the registration that makes the party proprietor of a trade-mark; he must be proprietor before he can register”

That a trademark and the goodwill it represents are inextricably intertwined is likewise a foundation of USA trademark law. In the *Boston Professional Hockey Association v. Dallas Cap & Emblem Mfg., Inc.* case, 510 F.2d 1004 (5th Circ., 1975), the point was expressed as follows, at para. 35:

A trademark is a property right which is acquired by use. . . .An individual selects a word or design that might otherwise be in the public domain to represent his business or product. If that word or design comes to symbolize his product or business in the public mind, the individual acquires a property right in the mark. The acquisition of such a right through use represents the passage of a word or design out of the public domain into the protective ambits of trademark law.

Thus, in both Canada and the USA, “use” is the foundation of trademark law, in contrast to some other countries where trademark rights are based on mere registration, not use.

The objectives of Canada’s adherence to the Madrid Protocol, the Singapore Treaty and the Nice Agreement have nothing to do with the issue of trademark use as a prerequisite to registration. The USA is an adherent to all of these treaties, and USA law requires use in the USA as a precondition for enforcement of federal trademark registration rights in the USA.

Not so with the proposed Canadian statute. Under its provisions, anyone can register in Canada a trademark for a lengthy list of goods and/or services for which the applicant may have no real intention of ever using in Canada or elsewhere. That is a feature of European law, which the proposed legislation imitates, and which has given rise to an enormous amount of costly and time-consuming trademark oppositions and litigation.

At present in Canada only about 2% of all trademark applications filed are opposed; in the case of the Community Trade Mark (“CTM”) in the EU, over 15% of all applications are opposed every year. This benefits law firms, but hardly benefits traders, especially small and medium size entities that can ill afford such expense nor the concomitant uncertainty as to when or if it is safe to adopt a trademark or trade name.

CTMs may be registered for the whole of the European Union. An applicant is entitled to apply to register a trademark for a voluminous list of disparate goods or services without

even having to declare a *bona fide* intention to use the mark for such goods/services. This leads to numerous applications having unreasonably broad specifications of goods and services, and "deadwood" trademark registrations covering goods/services for which there is no use anywhere and there is unlikely ever to be such use. That is precisely what the legislation in its present form promises for Canada.

A prominent former U.K. jurist, Lord Justice Jacob of the Court of Appeal of England and Wales, expressed his consternation with the rampant practice of over-claiming in CTM applications as follows (David Kitchin & David Llewelyn, *Kerly's Law of Trade marks and Trade Names* (13th ed. 2000)), Preface, pp. viii-ix:

It is apparent from the specifications of goods being allowed by OHIM that owners are being allowed to register for ranges of goods or services far wider than their use, actual or intended. This causes the Office massive unnecessary work-hours spent ploughing through long specifications to find out whether, buried in there, are goods or services of which the mark is descriptive. Even more seriously these overbroad registrations are likely to hamper trade. And of course they may put up costs for anyone seeking registration of a mark or contemplating using it. The problem needs resolution. Sooner, rather than later, rules will have to be developed to stop this nonsense. It is not good enough to say that there can be later part-cancellation of wide specifications for non-use. Who would bother with the expense and time involved when they want to get on with their business?

In *South African Football Association v. Stanton Woodrush (Pty) Ltd.*, 2002 ZASCA 142 a South African case involving the trade mark Bafana Bafana (the name of a soccer team) that was the subject of numerous registrations covering wildly disparate goods, Harms, JA put the over-claiming issue in that case as follows at para. 1:

Presumably, as a result of all this the public in due course will be able to purchase even Bafana Bafana manure, artificial limbs and eyes and teeth or use Bafana Bafana beauty care and legal services.

A brief inspection of trademarks registered as CTMs shows that many trademark owners significantly over-claim. For example, a CTM for a non-alcoholic beverage is registered for, *inter alia*, ironmongery, typewriters, and whips. Another CTM that is the name of a grocery chain, is registered for, *inter alia*, preparations for destroying vermin, breathing apparatus for underwater swimming, bullet proof waistcoats, amongst many other goods and services unrelated to their business.

4. TRADEMARK LEGISLATION ABSENT USE MAY BE ULTRA VIRES

The legislation if enacted may invite a constitutional challenge to the authority of

Parliament to legislate rights conferred by registration in the absence of use. In effect, this amounts to creating trademark rights “in gross”. The issue is whether the proposed legislation constitutes an undue invasion of the rights of the provinces to legislate in relation to property and civil rights within the province, and therefore is *ultra vires* of Parliament, and whether it can be justified as “regulation of trade and commerce” given there is no trade, and no commerce to regulate at the time of creation of trademark rights “in gross”. As indicated above, under Canadian law, a trademark absent use cannot be enforced, so the present legislation purports to create a new right that never existed before in Canada.

The authority of Parliament to legislate in relation to trademarks stems from s. 91(2) of the *Constitution Act, 1867*, which grants to Parliament exclusive jurisdiction in relation to the regulation of trade and commerce. This jurisdiction has two branches, (1) the power over international and interprovincial trade and commerce, and (2) the power over general trade and commerce affecting Canada as a whole. The authority of Parliament to enact a national registration scheme has never successfully been challenged, but the circumstances presented by the proposed *Trademarks Act* are different from what has previously judicially been considered.

The Supreme Court of Canada dealt with the constitutional validity of the *Trade-marks Act* in *Kirkbi AG v. Ritvik Holdings Inc.* 2005 SCC 65. In writing the unanimous opinion of the Court, Justice LeBel stated as follows at paragraph 31:

The scheme set out in the *Trade-marks Act* regulates both registered and unregistered trade-marks. It regulates the adoption, use, transfer, and enforcement of rights in respect of all trade-marks. If trade-marks are intended to protect the goodwill or reputation associated with a particular business and to prevent confusion in the marketplace, then a comprehensive scheme dealing with both registered and unregistered trade-marks is necessary to ensure adequate protection. The inclusion of unregistered trade-marks in the regulatory scheme is necessary to ensure the protection of all trade-marks. **The *Trade-marks Act* is more than simply a system of registration.** (emphasis added)

The proposed *Trademarks Act* is a system of registration, in conferring rights based on registration and not on use. As such, it creates a new right that arguably cannot be justified as a valid exercise of the authority of Parliament to legislate in relation to the regulation of trade and commerce. If the trademark has not been used anywhere, how can conferring rights to it be said to be “regulation of trade and commerce”? Conversely, the provinces have the exclusive right in relation to property and civil rights within the province, and consumer protection is an important aspect of that right, as stated by Justice Binnie in *Mattel*, para. 2.

Consider what might occur where a registration is issued in Canada to a German national absent use anywhere, for a very long list of goods and services, including restaurant services. As now proposed, such a registration is immune from cancellation for non-use for a period of three years from the date of the registration. At the same time, the registrant is entitled to the exclusive right to use the mark (s. 19), the Act deems use of a confusing trademark or trade name by a third party to be infringing, and the registration is presumed to be valid. After the registration has issued, someone in Halifax commences use of a confusing trademark or trade name for a restaurant without knowledge of the issuance of the registration, and without any evidence of bad faith. Such use, although valid at common law, will constitute trademark infringement and thus make the user liable to an injunction even though the registered mark has not been used before in Canada or anywhere else. In this example, “restaurant services” is buried in a very long list of unrelated goods and services, so there is no simple way to determine the registrant’s true intentions. In such a situation, the equities would be tilted sharply in favour of the Haligonian restaurateur, and the constitutional validity of the legislation would be tested in that context.

5. TRADEMARK TROLLS

Trademark trolls, i.e. entities that pirate others’ trademarks, to date have not been a significant factor in Canada because trademark registrations are based on use in Canada or elsewhere. This impedes the ability of trademark trolls to secure registrations in Canada in the hope they can hold the legitimate trademark owner for ransom. In Europe, however, trademark pirates often are able to operate within the law because they are able to register trademarks used by others in another country, without themselves having to use the trademark before registration. This is precisely the situation that the present legislation invites. In his widely read blog IPKats, Professor Jeremy Phillips made this remark about trademark trolls:

The IPKat notes that the existing businesses may be able to oppose or invalidate registrations based on marks protected by passing off, and perhaps to rely on bad faith grounds. However, the Kat has a niggling doubt –is it truly bad faith to register in a first to file system? <http://ipkitten.blogspot.ca/2008/04/trade-mark-trolls-reach-uk.html>

Arty Rajendra, of the IP specialist law firm Rouse, commented on the growing threat of trademark trolls in an article entitled “Trademark trolls-a new phenomenon?, see http://www.rouse.com/media/120436/trademark_trolls___a_new_phenomenon_arty_rajendra.pdf.

6. PROVINCIAL TRADEMARK STATUTES

Trademark legislation first was enacted in Canada in 1860 by the Province of Canada (now Ontario and Québec), then a British colony. It was called *An Act respecting Trade-marks*, 1860, 23 Vict. c. 27. In 1861, the 1860 statute was repealed and registration of marks was made possible by the *Trade Marks and Designs Act of 1861*, 1861, 24 Vict. c. 21. Then in 1867, the year before Confederation, the Province of New Brunswick enacted *An Act relating to Trade Marks*, 30 Vict. c. 31. No other province to date has enacted their own trademark legislation, although it is likely they have the constitutional authority to do so. Until now, there has not been any real incentive for the provinces to consider such legislation, but the Committee should be aware that this is a real, and not fanciful possibility if any province concludes that it is in the best interests of traders based in the province to allow them to be able to secure provincial trademark rights independent of any federal rights. The patchwork quilt of trademark rights, which is the case in the USA, could hardly be in Canada's best interests, but that is precisely what this legislation threatens. Moreover, someone who obtains a provincial registration based on use in a province after someone else has obtained a federal registration without use anywhere, may well be in a position to demonstrate that the federal legislation intrudes unduly on property and civil rights within the province, and is not a legitimate exercise of federal power in relation to the regulation of trade and commerce.

7. CONCLUSION

The interests of traders and the public alike are best protected by a system that ultimately requires use or reputation of trademarks to justify the enforcement of such marks. The proposed trademark legislation in Bill C-31 lacks adequate measures to protect against over-claiming and in fact encourages over-claiming, and thus it promises to make it difficult and expensive to clear trademarks for use in Canada. This is particularly disadvantageous to small and medium size entities, for which the cost and uncertainty associated with obtaining a trademark registration is likely to be an impediment to trade.

We therefore urge further study of the proposal to eliminate use as a condition for registration of trademarks in Canada. We have no doubt that many organizations and individuals who are experienced with the practical problems of obtaining and enforcing trademarks both in Canada and internationally would be glad to become part of the research process, as was the case in 1947.

Respectfully submitted,

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