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Don't let licences jeopardise your trade mark

As licensing becomes a more attractive prospect for trade mark owners, **Jean-Philippe Mikus** urges licensors to take heed of Canadian legislation and case law governing licence validity

Granting licences has become a nearly integral part of using and developing trade marks. It helps expand a trade mark's reach to cover a wider range of goods and services while mitigating the financial risks normally associated with this type of expansion. The owner of the trade mark can rely on the expertise and network of businesses already established in the relevant areas of trade. In this way, a company that owns a strong trade mark in its primary line of business can maximise the financial advantages of its prominence and fame. In the wake of recent Supreme Court of Canada case law, one might also go so far as to say that the prominent use of a trade mark in association with a diversified range of goods and services is an important factor when claiming broad protection as a famous mark.

Applying this formula in Canada can be dangerous, however, if the requirements imposed by Canadian legislation are ignored. Where there is failure to comply, Canadian courts can declare a trade mark invalid for loss of distinctiveness, expunge a business's trade mark registration, or even refuse to register a trade mark. This could leave the door wide open to third parties interested in riding on the coat tails of a company's fame. Such a calamity is not unheard of even after years of apparent stability. One reason for this is that Canada's Registrar of Trade marks accepts for purposes of registration general statements regarding arrangements with licensees. The fact that a trade mark has been issued a certificate of registration is no guarantee of success in the event the validity of licences is put into question.

Licence regulations

In Canada, the validity of licences is not tied to their registration in a public register or any other form of disclosure to a public authority. This, however, is a relatively recent development. Prior to 1993, all licences had to be registered with the Canadian

Intellectual Property Office to ensure the trade mark's validity. Licence registrations made under that old regime ceased protecting trade mark owners after this legislative change. An application for registration of a trade mark must nonetheless specify if the proposed or existing use of the trade mark is by the applicant or a third party to whom a licence is or will be granted. It is not necessary, however, to specify the identity of the licensees.

section 50 of the Trade marks Act provides that the use of a trade mark by a licensee is deemed to have the same effect as the use by the owner of the trade mark, provided that under the licence, the trade mark owner controls the character or quality of the goods and services at issue. This provision gives little indication of the backdrop against which it is set. Canadian law inherited from British trade mark law the historical concept that a trade mark can only be associated with the industry of a single entity. Granting licences was construed as a misrepresentation to consumers of the origin of the goods, since until then goods had always been manufactured exclusively by the owner of the trade mark. Such conduct was sanctioned by loss of trade mark rights.

section 50 of the Trade marks Act does not entirely repeal this rule; it merely creates a way for businesses to grant licences without compromising their trade marks. That said, entrepreneurs are well advised to tread the path traced by the Trade marks Act. One of the difficulties confronting businesses operating in Canada is the relative youth of this legislative provision. There are still a number of grey zones that should be navigated with caution.

Treading the Trade marks Act

Section 50 of the Trade marks Act states that the licensee must grant control over the character or quality of the goods or services. If the text of the licence agreement only governs the appearance of a trade mark (layout,

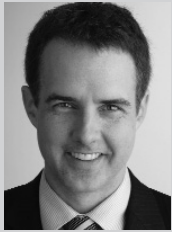
size, colours, etc) without dwelling on the quality or character of the goods or services themselves, maintaining rights to the licensed trade mark could prove more difficult. It would then have to be shown, for instance, that such a provision was an implied term of the agreement.

Standards concerning the quality and character of the goods and services must be set by the owner of the trade mark for the licensees to comply with. Until now,

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the courts have not required a very detailed articulation of such standards. In some cases, the fact that a trade mark holder had to comply with quality standards defined from time to time by the trade mark

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He regularly represents both foreign and Canadian clients in litigation involving patents, trade marks, passing off, copyright, trade secrets and unfair competition. He also acts in information technology litigation involving, for example, software, web sites and other IT systems.

Jean-Philippe is a trade mark agent and acts in this capacity on behalf of a large number of clients with extensive trade mark portfolios before the Canadian Intellectual Property Office (CIPO) and the Trade-Mark Opposition Board. He provides advice concerning the development of trade mark use policies and trade mark license agreements so as to preserve the validity of trade marks.

He provides strategic advice relating to intellectual property to maximise the protection of intangible business assets.

He has experience in other legal issues relating to information technology, Internet, wireless technology, broadcasting, software, online music services, gaming software and electronic commerce.

owner without more specificity sufficed. Requiring licensees to maintain or exceed the character and quality of goods or services already on the market may also be sufficient. Naturally, it is a far more delicate matter to define standards for businesses that venture outside their usual field of activity. The agreement must normally provide means for controlling the character and quality of goods and services. Such provisions can require, for example, that samples be approved prior to production, manufacturing samples be sent on request, or for the inspection of production or distribution facilities.

Courts have not yet clearly ruled on whether trade mark owners must cite evidence that they have actually controlled the character and quality of goods and services manufactured under licence pursuant to the agreement. However, the mere existence of an adequately drafted licence agreement has prevented businesses from losing their trade marks in the course of administrative proceedings initiated to expunge unused trade marks. In such a context, trade mark holders must be able to show use by a licensee when they do not use the trade mark themselves in Canada. This can probably be explained by a desire to respect the summary nature of such administrative proceedings by limiting the scope of the evidence adduced. It is uncertain whether such a lax approach would be acceptable in Federal Court (judiciary) proceedings. Businesses would be wise to implement controls and be in a position to document them.

Danger from within

The dangers associated with licence grants can also exist within a group of related companies. Courts have already indicated that the mere fact that a trade mark owner holds directly or indirectly all or a majority of the shares of a company using a trade mark is not by itself enough to establish sufficient control under section 50 of the Trade marks Act. No special treatment is given to licences granted within a corporate group, except where trade marks relate to pharmaceutical preparations (provided conditions such as indicating the name of the trade mark owner on the packaging and the name of the distributor holding the licence are met).

Care should be taken when drafting and managing licence agreements (especially within the same corporate group) as certain provisions can give rise to difficult issues in the event of a dispute with a third party. One classic problem arises from provisions prohibiting the use of trade marks in a different form or in association with goods or services not identified in the agreement.

Any changes made to the trade mark will usually require such provisions be amended or extended to cover additional goods or services. If the intent to allow the licensee to follow these developments does not correspond to the language of the agreement, anyone who wants to oppose the trade mark may argue that the licensee acted unlawfully and without any control by the trade mark owner (and therefore without the protection afforded by section 50 of the Trade marks Act, exposing the trade mark to possible impingement claims).

Claim control

The absence of a written licence agreement will not necessarily entail the loss of rights to a trade mark. A demonstration will need to be made, however, that control was indeed exerted by the trade mark owner, even in the context of summary administrative proceedings. When the general public has easy access to the licensed goods and services, it is often possible to demonstrate such control if the goods and services have been periodically consumed by the officers or employees of the trade mark owner, even in an informal context. Otherwise, it may be difficult to bring such evidence if a structured compliance program was not in place.

One way to help defend an attack on the validity of a registration is to require licensees to affix on the goods, the packaging thereof or even on panels or promotional brochures for services, a notice stating that the trade mark in question is the property of the registered owner, and that it is used under licence. Under section 50 of the Trade marks Act, the character or quality of the goods or services is then presumed to be under the trade mark owners' control. However, such a notice will not necessarily preclude an attack based on loss of control. If actual evidence is brought of absence of control over the character or quality of the goods and services (or a sufficient level of deficiency of this control), this presumption can be reversed.

Know when to license

A licence may not be needed in a number of situations. For example, Canadian courts recognise that the benefit derived from the use of a trade mark, such as the resale by importers, distributors or retailers, of prod-

ucts acquired from the trade mark owner automatically inure to the owner. A licence does not need to be granted further to section 50 of the Trade marks Act in this case. The same is true for the resale of a service provided by the trade mark owner. If a distributor or importer modifies the goods or provides additional services (such as repair, installation or configuration services) in connection with the trade mark, a proper trade mark licence could be useful to counter any

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future attacks. This would also be the case for services rendered in connection with a trade mark by the retailers or distributors of the trade mark owner's goods. The Courts have recognised, however, that the considerable level of control that exists in franchisor-franchisee relations meets the requirements of section 50 of the Trade marks Act.

Ensuring that the use of your trade mark in Canada is structured so as to benefit from the protection of section 50 of the Trade marks Act when necessary is of great strategic importance. Attacks based on the alleged loss of a trade mark's distinctiveness or the absence of use by the owner of a trade mark registration because of improper licensing are extremely common in Canada. Countless administrative proceedings are instituted under section 45 of the Trade marks Act to expunge trade mark registrations and to overcome confusion-based objections by the Registrar of Trade marks. Furthermore, trade mark infringement litigation will usually give rise to a counterclaim that the trade mark and its registrations are invalid. Claim of entitlement to a trade mark arising through use is also usually contested in infringement proceedings by arguing that the plaintiff cannot benefit from the use made by its licensees. Failing to put in place adequate corporate policies governing the licensing in Canada can place your business in a compromising position, forcing you to settle at a discount even in cases of blatant misappropriation of your trade mark's reputation. If the matter goes further, a judgment could forfeit your rights to a trade mark.