

Blaneys on Business



“Use is a prerequisite to obtaining and maintaining a trade-mark registration, and proof of ‘use’ is critical to the successful enforcement of trade-mark rights.”

This newsletter is designed to bring news of changes to the law, new law, interesting deals and other matters of interest to our commercial clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Business Law Department, Steven Jeffery at 416.593.3939 or sjeffery@blaney.com.

TRADE-MARKS -- USE THEM OR LOSE THEM

Steven L. Nemetz

Trade-marks are among a business's most valuable assets. Trade-mark rights can be lost or diminished, however, if a trade-mark is used improperly.

The concept of “use” is one of the most important and yet commonly misunderstood aspects of Canadian trade-mark law. A trade-mark owner's rights in a trade-mark are acquired in Canada through use. Use is a prerequisite to obtaining and maintaining a trade-mark registration, and proof of “use” is critical to the successful enforcement of trade-mark rights.

When determining trade-mark use, the Canadian *Trade-marks Act* makes a curious distinction between wares (i.e. goods) and services.

In the case of wares, a trade-mark is deemed to be used if it is marked on the wares themselves, or on their packaging, when they are distributed. A trade-mark is also deemed to be used if “it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred”. These requirements may be satisfied where the trade-mark is displayed on a hang tag affixed to the wares or on an invoice accompanying the wares at the time of delivery to the customer.

The placing of a trade-mark on a bottle cap, on tare slips where bulk products are weighed, or on sealing tape placed across a carton containing wares, has also been found to be sufficient use of a trademark.

The display of a trade-mark in advertising does not generally constitute use of the mark in respect of wares. This may not be the case if advertising materials such as a catalogue or product brochure are made available to the customer and associated with the mark at the point of purchase.

In the case of services, however, use of a trade-mark in advertising does constitute use, because a trade-mark is deemed to be used in association with services “if it is used or displayed in the performance or advertising of such services”.

The first person to use a trade-mark in Canada acquires the right to that trade-mark and is the person entitled to secure registration of the trade-mark. While trade-marks validly acquired can endure indefinitely, trade-mark rights can be seriously affected by non-use or improper use. Anybody (often the owners of competing or potentially competing trade-marks) can pay a \$150 government fee and give notice to begin proceedings to remove or amend the registration of a trade-mark anytime after three years from its date of registration. Where the Registrar of Trade-marks concludes that the trade-mark was not used in Canada during the three years immediately

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preceding the date of the notice, the trade-mark registration may be expunged or amended.

In these proceedings, there is considerable latitude as to the nature and form of the evidence required. Evidence of a single sale has proved to be sufficient to establish use of a trade-mark in the normal course of trade (where the evidence of the sale was not manufactured for the deliberate purpose of protecting the trade-mark registration). However, more than a simple statement that there has been use of the trade-mark is required. Accordingly, trade-mark owners who are interested in protecting a registration from cancellation for non-use should monitor the use of their trade-marks and, if necessary, take steps to ensure that there is sufficient genuine use of their registered trade-marks so that they will be able to provide the required evidence to maintain the trade-mark registration if called upon to do so.

It is also important to use the trade-mark as registered. Over time, businesses often make changes to the trade-mark as used for a variety of reasons. However, the practice of departing from the precise form of a trade-mark as registered is risky and could lead to the expungement of the mark on the basis that the registered form of the trade-mark has not been used. Therefore any deviations from the mark as registered should be reviewed with trade-mark counsel and consideration should be given to seeking protection for such modified form of the trade-mark by registering the modified form.

Last, a trade-mark owner should also be mindful of any use of its trade-mark by third parties, including the media. The essence of a trade-mark is distinctiveness, as it is this quality that allows the public to distinguish the wares and services of one source from another. Improper assignment, licensing

and allowing common use of a trade-mark may cause a loss of distinctiveness and result in a trade-mark registration becoming invalid. The failure of a trade-mark owner to be vigilant in connection with the use by others of confusingly similar marks may lead to what is known as “creeping encroachment” as successive parties use trade-marks which draw ever closer to the owner’s trade-mark, eventually disabling the owner’s right to restrain infringement.

It is also important for a trade-mark owner to guard against its trade-mark losing its distinctiveness through “genericide”. A trade-mark for a new product which becomes very popular may become the generic term by which such product is known (i.e. Shredded Wheat or Thermos). While a trade-mark owner may appreciate the publicity value of having its product referred to by its trade-mark, such improper trade-mark usage should be discouraged as it may lead to a loss of distinctiveness for the trade-mark.

The following are some important points to keep in mind in connection with trade-mark use:

- Do not jeopardize a trade-mark registration by allowing the trade-mark to fall into disuse.
- Use the trade-mark exactly as it appears in the trade-mark registration. Review with trade-mark counsel any proposed changes in the trade-mark as used.
- Trade-marks are grammatically proper adjectives. Use them as such and do not use them as nouns for name of the product. Discourage such use by others and limit opportunities for genericide.
- While not required by law in Canada, nonetheless use markings to indicate trade-mark ownership -- the letters TM to indicate a claim of unregistered

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trade-mark rights (in Quebec the letters MC) and the symbol ® (in Quebec the letters MD) to indicate ownership of a registered trade-mark.

- Monitor the use of the trade-mark both within your organization and by others, including the media. Establish policies for proper trade-mark use and ensure that they are understood and complied with by everyone within and outside the trade-mark owner's organization (i.e. marketing personnel, advertising consultants, printers).
- Do not allow the use of the trade-mark by others without proper licensing arrangements. Ensure that proper controls are in place with respect to the character or quality of the wares or services provided by trade-mark licensees. Provide for periodic review of the licensee's compliance with the trade-mark owner's quality control standards.
- When a trade-mark is being used by an entity other than the trade-mark owner a suitable legend should appear identifying the trade-mark owner and noting the fact that the trade-mark is being used under license. An example might be "X is a trade-mark of ABC Co., used under license". ■

REFORMED LAW ENHANCES CANADIAN GLOBAL COMPETITIVENESS

Remy G. Boghossian

Wide-ranging changes have been made to the *Canada Business Corporations Act* ("CBCA") - the first significant reform in more than a quarter-century - and some of these changes may well help Canadian companies in their effort to compete more effectively on the global stage.

The Act's requirement that the majority of a company's directors be "resident Canadians" has been lowered to 25 per cent (unless other federal laws impose specific foreign ownership restrictions; e.g. book publishing) and this may have some positive consequences. Stronger international representation on the boards of Canadian corporations may be very helpful in developing export markets, pursuing global investments and alliances and helping Canadian companies achieve a mix of skills and backgrounds that makes them increasingly competitive.

Another change affecting directors is the introduction of a "due diligence" defence whereby directors and officers now have greater protection against charges that they have not fulfilled their duties. Previously, the CBCA provided a "good faith reliance" defence for directors and officers. That is to say, so long as directors carrying out their duties have relied in good faith on materials such as reports of professionals or financial statements represented by a corporation's management, then they could avoid being held liable under the various liability provisions of the CBCA.

While this form of protection provided some comfort to directors and officers, it fell short considerably. Typically, in the ordinary course of managing a company, directors and officers will be required to make decisions that do not always rely upon professional reports, but rather, are based simply upon good business sense.

The Act now provides much broader protection to directors and officers such that they are deemed to have fulfilled their duties if they have exercised the care, diligence and skill that a reasonably prudent person would have exercised in comparable circumstances.

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The reformed CBCA took effect November 24, 2001 after a seven-year review process during which Industry Canada engaged in extensive consultations with various interest groups throughout the country. As a package, the amendments are intended to improve and modernize the legal framework of CBCA corporations by enhancing global competitiveness, clarifying responsibility, expanding shareholder rights and increasing efficiency. In addition, numerous technical amendments have been enacted to clarify the wording of certain provisions, reduce ambiguities in others, and eliminate duplication in others.

Beyond the amendments concerning directors, changes have been made regarding communications with shareholders, financial assistance that companies may provide, and rules regarding the securities sector.

COMMUNICATIONS WITH SHAREHOLDERS

Corporations are now allowed to use new and emerging technologies, such as electronic forms of communication, to communicate with shareholders (with the shareholder's consent) and to allow for shareholder participation in shareholder meetings.

FINANCIAL ASSISTANCE

Until the reforms were enacted, the CBCA restricted a corporation's ability to provide certain types of financial assistance. This restriction has been abolished by the new amendments. Directors should continue to keep in mind, however, that when authorizing any form of financial assistance by the corporation (e.g. loans to shareholders) directors remain subject to statutory fiduciary duties to act in the best interest of the corporation and can be sued personally for their failure to do so.

SECURITIES PROVISIONS

Provisions applicable to the securities sector, such as those pertaining to insider reporting, prospectuses and takeover bids, have been removed because they are redundant with existing provincial securities legislation.

The CBCA amendments mentioned in this article are only the tip of the reform iceberg, and it is fair to say that in its attempt to re-examine and modernize the Act, the federal government has not left too many stones unturned.

Many of these amendments may be made in the near future by the provinces; the Ontario legislature is already examining for adoption the changes in the CBCA.

Despite any trends towards harmonization between the CBCA and the legislation in each of the provinces, differences that deserve careful consideration still exist between federal and provincial statutes. Obtaining competent and informed legal counsel is imperative when deciding whether to incorporate federally or provincially, or more important, when seeking advice about continuing compliance with federal corporate legislation. ■

EXPECT THE BEST

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We welcome your comments. Address changes, mailing instructions or requests for additional copies should be directed to Chris Jones at 416 593.7221 ext. 3030 or by email to cjones@blaney.com. Legal questions should be addressed to the specified author.