

TRADEMARKS: LOSS OF DISTINCTIVENESS

To the surprise of some, a trademark is not an indefeasible property right. Even a trademark registration will not protect a trademark that has been abandoned or lost its distinctiveness in the market.

In the June 2011 issue of the Hamilton Law Journal, I reviewed the law related to the loss of trademark rights through abandonment. In this article, I will examine the loss of trademark rights through the loss of distinctiveness.

Significance of a trademark registration?

In Canada, trademark rights are acquired when a business associates a mark with its products or services in the context of their sale. Through this association, the trademark thereafter serves to distinguish the products and services of the business from those of its competitors. The registration of a trademark sets up a presumption that the registrant enjoys proprietary rights in the mark for this purpose. However, the proprietary rights are, in fact, established and maintained through use of the trademark in the market.

Lawyers familiar with real estate may consider a trademark registration akin in some ways to the registration of title to land under the old Registry System. If the owner allows others to routinely walk over or fence off part of the land for a significant period of time, the exclusive title of the owner may be compromised or defeated. The public may acquire a right of way through long use and third parties may acquire title to the land through adverse possession.

With respect to trademarks, distinctiveness is the quality that entitles trademarks to legal protection as a form of intangible property. Unless a trademark is exclusively associated in the market with the wares and/or services of one business in such a manner as to identify the business as the source of those wares and services, the business has nothing the law recognizes as worthy of protection. As a result, loss of distinctiveness carries with it the loss of exclusive proprietary trademark rights.

Generally speaking, a trademark may lose its distinctive character by:

- a. improper assignment;
- b. improper licensing; and/or
- c. common or generic use.

Like abandonment of a trademark, loss of distinctiveness is a question of fact.

Improper Assignment

Although trademarks may be assigned:

- a. with or without the associated goodwill; and
- b. in respect of all or some of the wares and services with which it had been used by the assignor,

care must be exercised to ensure that the trademark can continue to serve distinguish the wares and services of the assignee from those of others, including the assignor.

A formal assignment does not give rise to any presumption that the trademark will

continue to be distinctive in the hands of the assignee. If an assignment either deceives or confuses consumers as to the source of the associated wares or services, the subject trademark will lose its distinctive character. This most often occurs when trademark rights subsist in two or more businesses to use the trademark in such a manner that consumers are confused as to the source of the associated wares and services. For instance, trademark rights may subsist in two parties where a business sells its sporting goods division to a competitor together with exclusive rights to a trademark for those wares, but retains the exclusive right to use the same trademark for its clothing division. If the clothing manufactured by the assignor and the sporting goods manufactured by the assignee may be sold in the same lines of trade, confusion may ensue and result in a finding that the mark has lost its distinctive character.

Material changes to the quality or character of the wares and services for which the trademark is used may also result in the deception of consumers and result in a finding that the trademark has lost its distinctive character.

For the foregoing reasons, businesses are generally well-advised to announce the assignment of trademarks and any resulting changes to the character or quality of the associated wares and services by way of a direct notice to past consumers and/or advertising to the relevant market.

Improper Licensing

As discussed above, it is a fundamental legal principle that a trademark must be exclusively associated in the market with the wares and/or services of one business source. If it is not, the mark will not be

recognized by the law as a trademark worthy of protection. This is true for both registered and unregistered trademarks.

Given that use of a trademark by a licensee generally results in the mark being associated with more than one business source, the common law considered trademark licensing to be an unacceptable incongruity that would almost inevitably render a trademark non-distinctive and ineligible for legal protection. Thus, trademark licensing was a valueless exercise at common law in that it would ultimately destroy the trademark itself.

In light of modern business practices, this principle was found to be unduly restrictive and the common law was amended by statute. Under the current licensing scheme, the underlying source theory in Canadian law has shifted from strictly requiring that wares and services associated with a trademark be available from only a *single source* to one requiring that those wares and services be subject to *quality control from a single source*.

Provided that a business exercises direct or indirect control over the quality or character of the wares and services associated with its trademark, use by a licensee will not render the mark non-distinctive.

However, if a business does not actively exercise control over the wares and services associated with its trademark by licensees, the mark will become associated with multiple standards of quality and/or character and thereby lose distinctiveness. Generally, this will occur if there are: (a) multiple uncontrolled licensees over a short period of time; or (b) one or more uncontrolled licensees over a long period of time.

As a result, trademark licenses should be in writing and provide the business with rights to inspect the premises of the licensee and to terminate the license if it does not comply with defined standards. Businesses should also schedule and carry out routine inspections of its licensees. The foregoing remains true even if the licensee is part of the same group of companies. There is no legal presumption that a business controls the quality or character of wares and services delivered by its affiliates or subsidiaries.

Common or Generic Use

A trademark may also lose distinctiveness if the business fails to “police” improper use of the trademark by itself and others. This generally refers to steps taken by a business to correct instances where a trademark is improperly used as a generic term for the product or service instead of a brand name.

This includes use of the trademark as a generic term by consumers, licensees, distributors, retailers, suppliers, journalists and, most importantly, competitors. In most cases, generic use of a trademark occurs through ignorance and can be simply corrected with a polite letter. However, where a competitor has adopted the trademark for strategic reasons, more formal legal action may be required.

A trademark may also be improperly used by the business itself. Although it is important to highlight trademarks from a marketing perspective, a business should take steps to ensure that consumers also know the generic name of its products and services. For instance, a business should ensure that its own promotional and packaging material also includes references to the generic name of the product or service.

The foregoing can be special risk where a business enjoys exclusive patent rights in a product or service that is commonly identified by its trademark rather than a generic term. When the patent expires and falls into the public domain, the former trademark may similarly become available to competitors as a common name for the product or service. For this reason, businesses are encouraged to develop both a generic and a brand name for patented products and services.

If a trademark becomes the common name of the associated good or service, it cannot serve its function as a trademark to distinguish the wares and services of one business from others. It consequently loses its status as a trademark and may be used by any business in the industry. This was the unfortunate fate of the ESCALATOR trademark for “moving staircases”

To determine whether a trademark has become generic, the case law suggests that two questions be considered:

- a. Will use of the mark, or a confusing mark, by other businesses deceive the consumer into believing that, in purchasing the wares or services so named, they are purchasing those of the original business source associated with the mark?; or
- b. Will consumers understand that the mark refers only to a type of good or service available from several business sources?

If deception would result from its use by other businesses, the mark still functions as a trademark for the original business source and has not yet fallen into the public domain. If no deception would result, the mark has

become the common name of the associated good or service and may be used by any business.

Conclusion

Trademarks are valuable business property, but have unique vulnerabilities that should be taken into account in their management. Businesses should not lose sight of the fact that a trademark, even if registered, is not an infeasible property right.

To avoid losing its proprietary rights in a trademark, the business must ensure that the mark continues to be exclusively associated with its business by:

- a. evaluating the impact of proposed assignments in advance and publicizing them after the fact;
- b. exercising active control over the quality or character of wares and services associated with its trademark by licensees; and
- c. policing any improper use of its trademarks as generic terms.

Disclaimer: The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.