

COMMON LAW TRADEMARKS AT RISK?

Do you or any of your clients use a trademark without the benefit of a trademark registration? Many businesses do. Sometimes, the trademark is being “test driven” before the business invests in filing a formal application to register the trademark. Sometimes, the trademark is used by a local business with no plans to expand. Sometimes, the business simply can’t afford the cost of filing a trademark application.

In legal parlance, such unregistered trademarks are known as “common law” trademarks and the owner of such marks are generally entitled to exercise a monopoly over their trademark in the geographic region of the country where it enjoys a reputation. By contrast, the owner of a registered trademark is entitled to exercise a monopoly over their trademark throughout Canada.

While the potential conflict between registered trademarks and common law trademarks is longstanding, recent amendments to the *Trademarks Act* have drawn renewed attention to the issue. Some have even alleged that the amendments are unconstitutional.ⁱ This article will try to explain the controversy.

The Existing Act

Historically, Canada has recognized property rights in trademarks only after they have been used in Canada to promote a product or service. The first business to adopt the trademark was the party entitled to its registration. This is often referred to as the principle of “first in time, first in right”. However, there is a longstanding exception

to this rule that has rarely attracted much attention.ⁱⁱ

After a trademark registration passes its fifth anniversary, it cannot be expunged from the register on the grounds that another business in Canada had prior common law property rights in the mark. In other words, the registration is incontestable. The only exception is where the registrant adopted the mark with knowledge of its prior use by a third party.ⁱⁱⁱ

What does this mean for a business that had prior common law property rights in a trademark now registered to a different business? The Act provides that it may apply to the courts for permission to continue to use its longstanding trademark in a “defined territorial area concurrently with the use of the registered trademark”. However, it cannot prevent use of the registered trademark in that same territorial area.^{iv} In other words, the geographic monopoly that it previously enjoyed in its common law trademark has been extinguished by a trademark registration.

The fundamental trait of all forms of property is the right to exclude others from using it. Trademarks, like all forms of intellectual property, are intangible. If you take away its monopoly, an intellectual property will cease to exist. There is simply no property right left for the “owner” to exercise.

The Constitution

An important role of the *Constitution Act, 1867* is to define the division of powers between the federal and provincial governments. Although power may be exercised concurrently in some areas, power

in other areas is exclusively granted to one level of government or the other.

For instance, the federal government is expressly granted exclusive authority to enact laws governing copyright and patents.^v Although the constitution is silent with respect to trademarks, the courts have since decided that the federal government is also entitled to enact laws governing trademarks under its power to regulate “trade and commerce”.^{vi}

On the other hand, the provincial governments have exclusive authority to govern “property and civil rights” in their respective provinces.^{vii}

Given the *Trademarks Act* is federal legislation, the obvious question is whether the federal government has intruded on exclusive provincial powers in granting rights to one party that can effectively extinguish the property rights of another party?

Under the existing *Trademarks Act*, the answer to this question was likely something along the lines of:

Property rights in a trademark are acquired through their use by businesses in the Canadian marketplace. Through the *Trademarks Act*, the federal government is merely regulating the property rights already acquired by the parties through such trade and commerce. Where there is a conflict between two parties in the same property, the *Trademarks Act* provides a solution, albeit imperfect. Parties should register their trademarks to avoid such an imperfect result.

The New Act

In pending amendments to the *Trademarks Act*, the federal government has effectively removed steps from the application process that were intended to prevent the registration of trademarks that had never been used in Canada.^{viii} Although the federal government claims that “use” is still required for a valid trademark registration^x, the amendments seem to permit the registration of a trademark on the basis of proposed use.^x

In other words, the pending amendments seem to permit the registration of a trademark before the registrant has started to use the trademark, but provide means to expunge the registration as invalid if it is not used by the registrant. This suggests that the failure to use a trademark prior to its registration may be “cured” by commencing use after the date of its registration.^{xi} This may prove to be especially unfair to businesses with prior common law property rights in the trademark.

For example, it appears that the failure to use a trademark prior to its registration may be “cured” when the registrant finally starts to use the trademark 6 or more years after its registration. At that point, the registration is also incontestable simply because it has been registered for more than five years and its validity was not previously challenged. In such circumstances, a business with prior common law property rights in the trademark may not become aware of the potential conflict until after the registrant starts to use of the trademark. Unfortunately, by that point, its common law property rights have been effectively extinguished without recourse.

So, we come back to the constitutional question: in its pending amendments to the *Trademarks Act*, has the federal government intruded on exclusive provincial powers in granting rights to one party that can effectively extinguish the property rights of another party? As noted above, the answer for the existing *Trademarks Act* is that the federal government is merely exercising its power to regulate “trade and commerce” by regulating property rights acquired by the parties through such trade and commerce.

However, the pending amendments to the *Trademarks Act* seem to create presumptive property rights that do not exist at common law and do so in circumstances where no “trade or commerce” has occurred. By exercising these new property rights, a registrant may obtain property rights not recognized at common law and these rights can, moreover, defeat the prior common law property rights of another party.

At first blush, it therefore appears that the federal government may have intruded on exclusive provincial powers without any apparent justification.

Potential Solutions

For the individual business owner, the simplest solution is to file applications to register their common law trademarks without delay where feasible. If it’s already too late, they may be facing the daunting prospect of a constitutional challenge to effectively preserve exclusive rights in their trademark.

For the provincial governments, the solution may be to challenge the constitutionality of the pending amendments through the courts. There are already rumours that Quebec is considering such a challenge.

For the federal government, the solution is more amendments to the *Trademarks Act*, hopefully before the already pending amendments come into force in late 2015.

Frankly, I’m hoping for the latter solution, but I’m not optimistic.

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.

ⁱ Daniel Bereskin, “Canada’s Ill-Conceived New ‘Trademark’ Law: A Venture into Constitutional Quicksand” (2014) 104 TMR 1112

ⁱⁱ *Trademarks Act*, section 14 may be considered a second exception. However, it is only available to foreign applicants who may currently file applications for registration in Canada on the basis of “use and registration” of their trademarks abroad and this ground will be abolished by the pending amendments.

ⁱⁱⁱ *Trademarks Act*, section 17(2)

^{iv} *Trademarks Act*, section 21

^v *Constitution Act, 1867*, section 91(22) & 91(23)

^{vi} *Constitution Act, 1867*, section 91(2);

Macdonald v. Vapour Canada Ltd., [1977] AC 405 (SCC)

^{vii} *Constitution Act, 1867*, section 92(13) & 92(16)

^{viii} Under the existing *Trademarks Act*, an application to register a trademark can be filed on the basis of proposed use, but the applicant has to file a declaration of use prior to registration. Under the pending amendments, applications will not have to specify any grounds and declarations of use will no longer be required: *Economic Action Plan 2014, No. 1* at Division 25, ss. 317-359.

^{ix} Under the pending amendments, section 45 will still authorize the expungement of a registration at any time after the third anniversary of its registration if the registrant fails to file evidence that the registered trademark has been used in Canada. However, it is an open question as to whether it will still be possible to expunge a trademark registration prior to its third anniversary on the grounds of non-use as you can under the existing legislation.

^x Previously, only foreign applicants were able to obtain a registration on the basis of “use and registration” abroad. Under the pending amendments, applications will no longer be

required to specify any grounds and a trademark will be defined to include a mark “that is used or proposed to be used”: *Economic Action Plan 2014, No. 1* at Division 25, s. 319. This seems to indicate that both domestic and foreign applicants may obtain a registration before the subject trademark has ever been used in Canada.

^{xi} Under the current law, such a “cure” is not permitted. A trademark registration is always vulnerable to expungement if the registrant did not commence use of the trademark prior to the date of registration: *Unitel Communications Inc. v. Bell Canada* (1995), 61 CPR(3d) 12 (FCTD) at para 131