CANADA’S ILL-CONCEIVED NEW “TRADEMARK” LAW: A VENTURE INTO CONSTITUTIONAL QUICKSAND

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I. INTRODUCTION

Bill C-31 entitled An Act to Implement Certain Provisions of the Budget Tabled in Parliament1 received Royal Assent on June 19, 2014. Division 25 of Part 6 of the Bill entitled Amendments Relating to International Treaties on Trademarks2 (hereinafter referred to as the “Impugned Legislation”) is to come into force on a date to be determined by regulations not yet promulgated.

The Impugned Legislation is buried in a finance bill comprising hundreds of pages of text and dozens of unrelated statutes, and comprises the most important amendments to federal trademark legislation since Confederation.3 The most significant—and damaging—provision of the Impugned Legislation is abolishment of the fundamental requirement of trademark use as a precondition to registration. It is to this aspect of the Impugned Legislation this paper is addressed.

Conceived and hatched without public consultation, the Impugned Legislation has been criticized by trade associations, including the Canadian Chamber of Commerce and the International Trademark Association, law associations, trademark owners large and small, and more than two hundred Canadian trademark lawyers from coast to coast. Ignoring all entreaties to reconsider at least the non-use provisions, the government relied on their majority in Parliament to ram through the legislation.

The Impugned Legislation, and in particular Sections 16, 30, and 40, grants to third parties exclusive rights in Canada to so-called trademarks that, under present Canadian law are not trademarks in any proper sense of the term because they may have no connection with actual trade and commerce. Registrations are granted based merely on an unverified statement of proposed use

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2. Id. cls 317-370.
3. The Dominion of Canada was formed on July 1, 1867.
of the trademark in Canada, and such registrations confer exclusive rights to the trademark throughout Canada irrespective whether the trademark is used in Canada. Under the Impugned Legislation, owners of registered so-called “trademarks” thus are enabled to prevent the continued use of real trademarks and trade names used for years in a province and to damage if not destroy the associated valuable goodwill built up by honest trade within a province, even though the registered mark may not have been used previously in trade and commerce. In addition, the Impugned Legislation empowers owners of such marks to deprive honest local traders of enjoyment of property in their goodwill without compensation, contrary to Section 1(a) of the *Bill of Rights, 1960*.4

The Impugned Legislation cannot be justified as a legitimate use of federal power in relation to “The Regulation of Trade and Commerce” under the *Constitution Act, 1867*, Section 91(2),5 because it intrudes unduly into matters of property and civil rights within a province as well as to matters of a merely local or private nature in a province, powers that are granted exclusively to the provinces respectively under Sections 92(13) and 92(16) of the *Constitution Act*, with no overriding national justification.

A significant defect of the Impugned Legislation is that it is devoid of any regulatory provisions dealing with the enforcement of statutory exclusive rights against good faith common and civil law users of similar trademarks, trade names, and corporate names. In some circumstances, the owner of a registration is entitled to enjoin such users, despite the lack of use of the registered mark in Canada, or any reputation in Canada, let alone in the area in which the common or civil law user is operating. Sooner or later, the validity of the proposed legislation is likely to be challenged on constitutional grounds, which challenge could be avoided if the legislation is amended as proposed in this paper.

The Impugned Legislation is also likely to significantly increase the cost and uncertainty involved in obtaining valid trademark registrations in Canada because it is likely to clog the Trademarks Register with speculative marks that have never been used and are unlikely ever to be used in Canada or elsewhere in relation to unrealistically long lists of goods and services. It encourages agile trademark pirates to prey on Canadian businesses, and it invites provincial legislatures to enact their own trademark legislation to protect local traders. As a result of what is certain to be a sharp increase in the number of actual and threatened trademark oppositions and litigation, the entities most likely to benefit from this are (i) trademark trolls, many of whom

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4. S.C. 1960, c. 44.
are based outside Canada, (ii) trademark search firms, and (iii) law firms.

The reasons why the Canadian Intellectual Property Office ("CIPO") has pushed forward this legislation are, at least to the author, not entirely clear. Despite being titled Amendments Relating to International Treaties on Trademarks, the provisions abolishing use as a precondition to the creation of trademark rights cannot be justified by Canada’s intended adherence to the Madrid Protocol, the Singapore Treaty, or the Nice Agreement. None of these treaties requires removal of the "use" requirement from Canadian law. In any event, adherence to treaties is not a legitimate justification to expand Parliamentary authority beyond its constitutional limits.

II. HISTORY OF CANADIAN FEDERAL TRADEMARK LEGISLATION

A. Brief Historical Legislative Background

The first federal trademark legislation in Canada was The Trade Mark and Designs Act of 1868. It provided for registration of trademarks based on use. Successive federal statutes likewise have required use as a prerequisite to registration. It was not until the present Trade-marks Act came into force in 1954 that federal

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6. CIPO has published on its website an article entitled Amendments to the Trade-marks Act: Questions and Answers. This article bases the case for the amendments on adherence to the Madrid Protocol, Singapore Treaty, and Nice Agreement, and claims that the changes are likely to help Canadian businesses. That claim is contradicted by the following facts. In 2013 Canadian companies collectively filed only 1084 CTM applications, compared to about ten times that number in the United States. Canadian entities that file only in Canada, the USA and the EU are unlikely to find Madrid attractive economically. Madrid will likely help foreign nationals who file more trademark applications in Canada annually than do Canadian applicants. Adherence to the Madrid Protocol is likely to increase that disproportion. It seems likely that CIPO’s primary motivation is to simplify its administrative tasks by removing the need for filing Declarations of Use, the filing of certified copies of home registrations by foreign applicants, and extensions of time associated therewith.


11. The Attorney General of Canada (Appeal No. 100 of 1936) v The Attorney General of Ontario and others (Canada) [1937] UKPC 6 (January 28, 1937), per Lord Atkin: “In other words the Dominion cannot merely by making promises to foreign countries clothe itself with legislative authority inconsistent with the constitution which gave it birth.”

12. 31 Vict. c. 55.

trademark legislation even allowed for registration of a trademark from an application based on proposed use in Canada, but registration nevertheless remains contingent on the later filing of a declaration attesting to use in Canada as a prerequisite to registration.

**B. Trade Mark Law Revision Committee**

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* \(^{14}\) (“UCA”). Under the UCA, trademark applications were required to be based on actual 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 United States system, which required use in commerce as a precondition for filing. Neither system was considered desirable for Canada. The U.K. system was rejected on the ground that the register would likely become crowded with trademarks that are not in use and are not likely to be used in the future in Canada. The U.S. 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 mysteriously renamed the *Trade-marks Act*).

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 in Canada, 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 described in the registration. On balance, the system has worked well.

**III. RELATIONSHIP BETWEEN COMMON LAW AND STATUTORY TRADEMARK RIGHTS IN CANADA**

**A. Trademarks and Goodwill**

At common law, an unused trademark or trade name has no value, in and of itself: it is only when the trademark or trade name is used in trade or commerce and creates goodwill that rights arise.

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that are protected by an action for passing-off or delict.\textsuperscript{15} Thus, at common law, it is the goodwill symbolized by the trademark or trade name that is protectable, not the trademark or trade name itself. That trademarks and trade names and the goodwill they symbolize are inextricably intertwined is the foundation upon which trademark law in Canada has been based since Confederation, whether under statute, common, or civil law.\textsuperscript{16}

In his treatise \textit{Intellectual Property Law: Copyright, Patents, Trade-marks}, Professor David Vaver states:

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.\textsuperscript{17}

Professor Vaver’s statement is quoted with approval in \textit{Corporativo de Marcas GJB, SA DE CV v Bacardi & Company Ltd.} \textsuperscript{18}

Similarly, in \textit{Masterpiece Inc. v Alavida Lifestyles Inc.}, a decision of the Supreme Court of Canada, Justice Rothstein stated the principle as follows:\textsuperscript{19}

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

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\item \textit{Ciba-Geigy Canada Ltd v Apotex Inc.} [1992] 3 S.C.R. 120 at 132, assimilates the legal position in both Québec and the common law provinces.
\item \textit{Corporativo De Marcas GJB, SA DE CV v Bacardi & Company Ltd}, 2014 F.C. 323 at para. 19.
\item \textit{Masterpiece Inc v Alavida Lifestyles Inc.}, 2011 S.C.C. 27 at para. 35, [2011] 2 S.C.R. 387. That a trademark and the goodwill it represents are inextricably intertwined likewise is the foundation of U.S. trademark law. In \textit{Boston Professional Hockey Association, Inc. et al v. Dallas Cap & Emblem Mfg, Inc.}, the point was expressed as follows:

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 ambit of trademark law. \textit{Boston Professional Hockey Association v Dallas Cap & Emblem Mfg, Inc}, 510 F. 2d 1004, 1014 (5th Cir. 1975).
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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 20:

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

B. Benefit To Consumers

The purpose of a trademark is to distinguish wares or services manufactured, sold, leased, hired or performed by the trademark owner from those manufactured, sold, leased, hired or performed by others.21 The role of a trademark therefore is “to create a link in the prospective buyer's mind between the product and the producer”.22 This essential link was expressed as follows by Binnie J. in Mattel: 23

It 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.

Thus, trademark law, whether common law or statute law, aims to protect both the trademark owner and the consumer from deceptive trade practices causing, or being likely to cause, confusion in the marketplace.

IV. THE IMPUGNED LEGISLATION

A. Abolition of Use Requirement

The Impugned Legislation permits registration of trademarks either on the basis of actual use in Canada, or proposed use in Canada.24 By permitting registration based merely on proposed use, the Impugned Legislation has abolished “use” as an essential precondition to creation of enforceable trademark rights, undermining the foundation of Canadian trademark theory and

23. Id.
24. Under the Impugned Legislation, it is no longer possible for a foreign entity to register based on a home registration and use abroad, or on the basis of making known in Canada. These grounds are unnecessary in the Impugned Legislation given the alternative of procuring registration based merely on proposed use in Canada.
law. In its place is a registration system that confers exclusive rights to the use of a registered mark and the right to prevent the use of confusingly similar trademarks and trade names throughout Canada irrespective whether the registered mark has ever been used. In effect, the Impugned Legislation amounts to legislating a federal passing-off law, without the requirement of prior use or reputation in the locality where the defendant does business.

The benefits accorded to the owner of a registration have not changed under the Impugned Legislation despite the removal of the obligation of prior use. Section 19 confers exclusive rights to the use of a registered trademark throughout Canada in respect of the goods or services covered by the registration. Section 20 provides that a registration is infringed if the use is such as to cause or be likely to cause confusion, within the meaning of Section 6 of the Act. In considering a claim of infringement, the Court is required to make the hypothetical assumption that the registered trademark and the accused trademark or trade name are used in the same marketplace in Canada even if the trademark registration is issued based merely on proposed use in Canada and the registered trademark is not in use in Canada at the date when the claim of infringement is assessed.

The Impugned Legislation imposes no obligation on registrants to use the registered mark in Canada within any specified period of time or at all, subject to the risk that a third party may seek cancellation for non-use after three years from the date of the registration. This is not an effective remedy, as it puts the onus on honest traders to commence costly cancellation actions, and there is nothing to prevent the owner of the registration from re-registering the trademark before the expiry of such period. The Registrar may also, sua sponte, require a registrant to prove use, but in the past this has seldom been invoked.

In contrast, under the Trade-marks Act, although any applicant, domestic or foreign, may file an application based on an intention to use the trademark in Canada, no registration is granted unless and until the applicant is able to show that use of the trademark has commenced in Canada for specified goods and/or services covered by the application. The registration is restricted to those particular goods/services.

The foregoing deficiencies further demonstrate the lack of a proper regulatory framework to support the grant of exclusive

26. Id. s. 20. The criteria set out in s. 6 are similar to those of the U.S. “Polaroid” test, Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (2d Cir. 1961).
27. Trade-marks Act, s. 45.
rights in trademark registrations especially those granted without any prior use.

B. The Impugned Legislation Imitates the CTM System, to the Detriment of the Canadian System

Community Trade Mark registrations (CTMs) may be registered by OHIM\textsuperscript{29} 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 \textit{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.

A prominent former U.K. jurist, The Rt. Hon. Professor Sir Robin Jacob, expressed his consternation with the rampant practice of over-claiming in CTM applications as follows:\textsuperscript{30}

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?\textsuperscript{31}

A brief inspection of trademarks registered as CTMs shows that many trademark owners routinely over-claim, in many cases to absurd lengths. For example, a CTM for a popular non-alcoholic

\footnotesize{\textsuperscript{29} Office for Harmonization of the Internal Market, located in Alicante, Spain.}
\footnotesize{\textsuperscript{30} David Kitchin & David Llewelyn, \textit{Kerly's Law of Trade marks and Trade Names} (13th ed. 2000)), Preface, pp. viii-ix.}
\footnotesize{\textsuperscript{31} See also 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: 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.}
beverage is registered, improbably, for, *inter alia*, preparations for destroying vermin, ironmongery, typewriters, and whips. Another CTM that is the name of a grocery chain, is registered for, *inter alia*, breathing apparatus for underwater swimming, bullet proof waistcoats, and many other goods and services unrelated to its business.

At present less than 3 percent of all trademark applications filed in Canada are opposed; in contrast more than 15 percent of all CTM applications are opposed every year. This benefits law firms, but disadvantages legitimate trademark users, especially small and medium-sized entities that can neither afford such expense nor the concomitant uncertainty as to if or when it is safe to adopt a trademark or trade name, without any apparent benefit to consumers.

V. THE IMPUGNED LEGISLATION INTRUDES UNDULY INTO MATTERS OF PROPERTY AND CIVIL RIGHTS WITHIN A PROVINCE

A. Federal Constitutional Authority

*Depends on Valid Exercise of Parliament’s “The Regulation of Trade and Commerce” Power*

In *Citizens’ Insurance Co v Parsons (1881)*,32 the Judicial Committee of the Privy Council distinguished two branches of federal power under Section 91(2): (1) the power over international and interprovincial trade and commerce, and (2) the power over general trade and commerce affecting Canada as a whole (“general trade and commerce”). This interpretation assures a proper balance between the authority of Parliament in relation to the regulation of trade and commerce, and the otherwise overlapping exclusive authority of provincial legislatures in relation to property and civil rights within the province.

Following *Citizens’ Insurance*, a number of cases33 have further discussed the interplay between federal authority under Section 91(2) and exclusive provincial authority in relation to property and civil rights, and local trade within a province under Sections 92(13) and 92(16). LeBel J discussed these cases at length in *Kirkbi*.34 In all cases where federal legislation depends for its validity on “The Regulation of Trade and Commerce” power, the

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legislation must embody an appropriate regulatory scheme. In other words, compliance with Section 91(2) requires that “trade and commerce” is regulated. Trademarks that are not in use in Canada can hardly be regulated. In addition, there is nothing in the Impugned Legislation that properly regulates the enforcement of registrations especially those that are not in use in Canada against common and civil law users, as discussed below.

**B. The Canada Standard Case**

In *Reference re legislative jurisdiction of Parliament of Canada to enact the Dominion Trade and Industry Commission Act, 1935*, the Supreme Court of Canada was asked to decide, *inter alia*, the constitutional authority of Parliament to enact legislation proclaiming “Canada Standard” and the initials “C.S.” to be national trademarks owned by the Government of Canada, used under prescribed conditions in relation to goods meeting certain standards. In a unanimous decision, Chief Justice Duff held that the provisions of the legislation relating to these trademarks were *ultra vires* of Parliament.

Duff C.J. found it unnecessary to comment on the constitutionality of the federal trademark legislation as a whole (then the UCA Act), but made the following observation in relation to the interplay between federal and provincial rights:

... it is not necessary to pass upon the question whether or not the exclusive legislative jurisdiction of the Dominion extends to the subject of trade marks in virtue of Subdivision 2 of Section 91, “The regulation of trade and commerce.” *The so-called trade mark is not a trade mark in any proper sense of the term. The function of a trade mark is to indicate the origin of goods placed on the market and the protection given to a trade mark is intended to be a protection to the producer or seller of his reputation in his trade. The function of the letters “C.S.,” as declared by Section 18(1), is something altogether different. That subsection is really an attempt to create a civil right of novel character and to vest it in the Crown in right of the Dominion. Generally speaking, except when legislating in respect of matters falling within the enumerated subjects of Section 91, Parliament possesses no competence to create a civil right of a new kind which, if validly created, would be a*

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36. *Id.*

37. The late Gerald Eric Le Dain, who was a justice of the Supreme Court of Canada and previously Dean of Osgoode Hall Law School, referred to Duff C.J. as “one of Canada’s greatest judges”: *Sir Lyman Duff and the Constitution*, Osgoode Hall Law Journal (1974) 12: 261.
civil right within the scope and meaning of Heading No. 13 of Section 92. The second subsection is also objectionable as attempting to control the exercise of a civil right in the provinces. (Emphasis added).

The Privy Council in 1937 reversed this decision. LeBel J. referred to this in Kirkbi, as follows:

The Privy Council judgment relies, albeit implicitly, on the second branch of the trade and commerce powers under s. 91(2) to confirm Parliament’s jurisdiction to enact trade-mark legislation: Reference re Dominion Trade & Industry Commission Act, 1935, [1937] A.C. 405 (Canada P.C.). Lord Atkin for the Privy Council commented as follows (at p. 417):

No one has challenged the competence of the Dominion to pass such legislation. If challenged one obvious source of authority would appear to be the class of subjects enumerated in s. 91(2), the regulation of trade and commerce, referred to by the Chief Justice. There could hardly be a more appropriate form of the exercise of this power than the creation and regulation of a uniform law of trade marks . . .

The constitutionality of specific provisions of the Trade-marks Act has been challenged, but the validity of the Act as a whole has never been conclusively determined.

LeBel J. does not comment on the specific issue that was before the Privy Council, namely the constitutional validity of federal legislation regulating defined national trademarks. What is important to the present discussion is not the authority of Parliament to legislate in relation to trademarks in general, but to legislate in relation to so-called trademarks, i.e. trademarks “in gross,” particularly legislation lacking a proper regulatory framework governing the interface between registration rights and common and civil law rights.

Lord Atkin was well aware of what Duff C.J. meant by “so-called trademarks” when he wrote:

Ordinarily a trade mark gives rights only when used in connection with goods manufactured or sold by the person who has the right to use the mark. A trade mark “in gross” would be an anomaly. (Emphasis added.)

The Privy Council found the statute intra vires of Parliament because the trademarks protected by the statute were an integral

38. [1937] A.C. 405. Until 1949, the Judicial Committee of the Privy Council, based in London, was the highest court of appeal in relation to Canadian constitutional matters.


40. Id.
part of a scheme for granting statutory licenses to persons who complied with specified standards with consequences for misuse. No such justification exists in the Impugned Legislation because exclusive rights are created to registered marks “in gross” without any system of regulating the enforcement thereof against good faith common and civil law producers, manufacturers or merchants. Canada Standard does not stand for the proposition that Parliament can legislate in relation to anything it chooses to call a “trademark,” rather that any such legislation must fulfill a significant national purpose and be part of an appropriate regulatory scheme. No such purpose and no such regulatory scheme is found in or justified by the Impugned Legislation.

To summarize, the authority of Parliament to legislate a national scheme for regulating the registration, use, and enforcement of real trademarks is not challenged here. The present Trade-marks Act can be justified constitutionally on the ground that it is in the national interest to have a uniform body of trademark statute law regulating the adoption, use, registration and enforcement of trademarks throughout Canada. What is challenged is the authority of Parliament to invest exclusive rights in non-trading entities by permitting registration of marks that have never been—and may never be—used in Canada and thereby to empower such entities to interfere with bona fide trade in a province, with no overriding justifiable national purpose, and without any nuanced regulatory scheme for balancing relative national and local rights.

The Impugned Legislation cannot be justified as “regulation” of competition given that the registered “trademark” itself may never have been used anywhere and thus the owner has no legitimate competitive business interests. Lastly, adherence to international trademark treaties is not a legitimate purpose of Sections 16, 30, and 40 of the Impugned Legislation, and in any case cannot justify undue intrusion into matters of property and civil rights within a province as well as to matters of a merely local or private nature in a province.

In Macdonald v. Vapour Canada Ltd. Section 7(e) of the Trade-marks Act was held ultra vires of Parliament by the Supreme Court of Canada on the ground there was no regulatory scheme governing the enforcement of the prohibition defined by the section. Chief Justice Laskin stated that:

41. To be sure, the Trade-marks Act contains some anomalies, such as granting registration protection to marks registered and used abroad, but at least in such situations the trademark has been used somewhere for specified goods and/or services.
One looks in vain for any regulatory scheme in s.7 let alone s. 7(e) [of the challenged legislation]. Its enforcement is left to the chance of private redress without public monitoring by the continuing oversight of a regulatory agency which would at least lend some colour to the alleged national or Canada-wide sweep of s.7(e). The provision is not directed to trade but to the ethical conduct of persons engaged in trade or business, and, in my view, such a detached provision cannot survive alone unconnected to a general regulatory scheme to govern trading relations going beyond merely local concern. Even on the footing of being concerned with practices in the context of trade, its private enforcement by civil action gives it a local cast because it is as applicable in its terms to local or intraprovincial competitors as it is to competitors in interprovincial trade. (Emphasis added.)

In light of the foregoing, it is clear that to be valid, the Impugned Legislation must regulate interprovincial trade more than it does intraprovincial trade. There is nothing in the Impugned Legislation that makes that distinction. On the contrary, under the Impugned Legislation, someone in Barcelona could obtain a Canadian trademark registration based on an unverified statement of proposed use in Canada covering a long list of goods and services including restaurant services, and obtain an injunction against someone in Canada who uses a similar trademark for restaurant services in a small locality in Canada, even if the Spanish registrant has not used the trademark in Canada or even Spain, and has no reputation anywhere, let alone in Canada and thus it cannot be said to be engaged in trade and commerce at all with respect to the mark.

C. The Impugned Legislation Trenches on Provincial Jurisdiction over Local Trade

The following three hypothetical examples are intended to demonstrate that the Impugned Legislation and in particular Sections 16, 30, and 40 read together, permit an unjustifiable high degree of intrusion into matters of property and civil rights or matters of a merely local or private nature within a province with no sensible national justification and therefore are ultra vires of Parliament. It is submitted that these examples demonstrate that the Impugned Legislation can trump good faith common and civil law rights that could have been built up for years, with no overriding national justification and nothing regulating the interface between registration rights and common and civil law rights.
Example 1

On January 2, 2009, Marie Blais incorporated a Québec company called Restaurant Trois Légendes Québec Inc. (“Légendes Inc.”) to operate a restaurant in Trois-Rivières, Québec, called TROIS LÉGENDES. Légendes Inc. has no intention of expanding beyond Trois-Rivières, or even to open more than one restaurant. The restaurant becomes successful and well-known in Trois-Rivières. A few months earlier, on September 1, 2008, a German company called Legende GmbH applied for a CTM for THREE LEGENDS covering a wide variety of goods and services in multiple classes including “provision of food and drink.” On February 2, 2009, one month after Légendes Inc. opened the TROIS LÉGENDES restaurant in Trois-Rivières, Legende GmbH applied to register THREE LEGENDS in Canada for the same specification of goods and services as covered by its CTM application, claiming Convention priority based on its prior CTM application. Legende GmbH’s Canadian application for THREE LEGENDS issued to registration on February 2, 2010, thirteen months after Légendes Inc. opened the TROIS LÉGENDES restaurant in Trois-Rivières.

At the time Legende GmbH applied to register THREE LEGENDS as a CTM, and at the date of its registration in Canada, Legende GmbH had not used the trademark anywhere. On January 2, 2012, three years after Légendes Inc. opened the TROIS LÉGENDES restaurant, Legende GmbH found out about the restaurant and demanded that Légendes Inc. cease and desist from using TROIS LÉGENDES as the name of the restaurant or as part of the corporate name unless it agrees to pay a royalty to Legende GmbH. Légendes Inc. refuses to comply, and Legende GmbH then sues in the Federal Court of Canada asking for an injunction.

Legende GmbH’s Canadian registration cannot be challenged for non-use for a period of three years from the date of the registration, and Légendes Inc. has no realistic defence under the Impugned Legislation based on their prior use in Trois-Rivières because Legende GmbH’s priority date of September 1, 2008 precedes Légendes Inc.’s date of first use of January 2, 2009. Under the Impugned Legislation, Légendes Inc.’s trademark or trade name use of TROIS LÉGENDES is an infringement of Legende GmbH’s registration for THREE LEGENDS, and therefore Légendes Inc. is liable to an injunction despite the fact that the registered mark THREE LEGENDS is not and has never been used by Legende GmbH anywhere.

There is little Légendes Inc. could have done to avoid this result. At the date Légendes Inc. opened its restaurant, Legende GmbH’s Canadian trademark application had not yet been filed, and even if they had known about it, the disparate list of goods
and services would not have provided Légendes Inc. with any clear indication of Legende GmbH’s real intentions.

By contrast, under the Trade-marks Act, Legende GmbH would not have been entitled to register validly the THREE LEGENDS trademark covering inter alia “provision of food and drink” unless it had used the trademark in Germany or elsewhere for such services before its Canadian filing date, or unless it had used the trademark in Canada prior to registration. No such restrictions are contained in the Impugned Legislation.

This example shows how, by giving anyone who registers a trademark the extraordinary relief of an injunction in the absence of use in Canada or anywhere else, the Impugned Legislation can intrude into matters of property and civil rights within the province with the potential of trumping honest prior common law or civil law rights.

Example 2

On January 2, 2008 Peter McDonald incorporated a Nova Scotia company under the name Bluenose Furniture Limited (“Bluenose Ltd.”) which from that date commenced operation of a furniture store in Halifax, Nova Scotia, called THE BLUENOSE. Bluenose Ltd. has no intention of expanding beyond Halifax, or even to open more than one store. The store becomes successful and well known in Halifax.

A British Columbia company called Blue Furniture Ltd. (“Blue Furniture”) applied for registration of the trademark BLUENOSE in Canada on February 1, 2008, based on proposed use in Canada, covering a wide variety of goods and services including “retail furniture store services.” Blue Furniture’s application issued to registration on February 2, 2009, thirteen months after Bluenose Ltd. opened the THE BLUENOSE furniture store in Halifax. At the date of registration, Blue Furniture had not used the trademark anywhere in Canada.

On February 2, 2011, two years after the date of its registration for BLUE NOSE, Blue Furniture opened a furniture store in Vancouver called BLUENOSE, and on February 3, 2014, opened a furniture store in Halifax called BLUENOSE, across the street from Bluenose Ltd.’s THE BLUENOSE store, that has continuously been in operation since its opening on January 2, 2008. Bluenose Ltd. is advised that they have no basis for challenging the validity of Blue Furniture’s registration based on its prior use unless it can prove that Blue Furniture was aware of the existence of its Halifax store when Blue Furniture applied to

register BLUENOSE in Canada. Blue Furniture denies any such prior knowledge and Bluenose Ltd. cannot prove otherwise.

Bluenose Ltd. may be entitled to continue to use the trademark THE BLUENOSE and the corporate name provided that they obtain an order under Section 21 of the Trade-marks Act, permitting them to continue to use THE BLUENOSE as the trademark and trade name of the store if they can satisfy the court that the concurrent use of the trademark/trade name THE BLUENOSE with the Blue Furniture registered mark BLUENOSE in Halifax “is not contrary to the public interest” and provided that the Court decides to permit such confusing use “with an adequate specified distinction from the registered trade-mark.”

This example shows that after the federal registration procured by Blue Furniture has become incontestable under Section 17(2) of the Trade-marks Act, Bluenose Ltd. has no choice except to face direct competition from Blue Furniture and the inevitable erosion of the goodwill built up after more than five years of investment and effort. Blue Furniture’s registration acts as a shield against a passing-off action despite the facts that (i) Bluenose Ltd. has a prior reputation in Halifax, (ii) Blue Furniture’s use of BLUENOSE in Halifax is certain to cause confusion, and (iii) and Bluenose Ltd.’s business is certain to be damaged.45

Example 3

Joe McKnight opened a bakery in Okotoks, Alberta on July 1, 2013, making and selling organic bread under the trademark THE HEALTHY MOOSE. Prior to opening the bakery, McKnight made a trademark search that revealed the existence of a Canadian registration dated June 1, 2013, for HEALTHY MOOSE by a Malta company, called Moose Factory Ltd., based on proposed use in Canada and covering goods and services in ten different classes. A search of the Internet by McKnight prior to opening his bakery failed to reveal any information about Moose Factory Ltd. and therefore McKnight was not able to even guess about the true interest of Moose Factory Ltd. in relation to the long list of goods and services contained in their Canadian registration. McKnight wishes to get on with his business, and does not wish to wait until after three years from the date of the registration before being able to challenge the registration for non-use. Even then, it could take about a year or even much longer before the validity or scope of the registration is determined in a cancellation action.

45. This example is based on a true example of the collision between registration rights and prior common law rights: see http://news.google.com/newspapers?nid=1812&dat=19900620&sid=tJpaAAAAIBAJ&sjid=qksDAAAAIBAJ&pg=2784,3574439.
If McKnight were now to apply to register THE HEALTHY MOOSE for bread, such an application would be refused in view of the prior registration of Moose Factory Ltd. McKnight decides to take a chance, in the hope that Moose Factory has no genuine interest in using HEALTHY MOOSE for bread, and launches his business, which soon becomes very successful in Okotoks and vicinity.

On July 1, 2014, a year after McKnight opened his bakery, Moose Factory Ltd. finds out about McKnight’s use, commences use of THE HEALTHY MOOSE for bread in Moncton, New Brunswick, and soon thereafter sues McKnight for trademark infringement. McKnight is advised that he has no ground to apply to have the registration cancelled for non-use. Despite the fact that McKnight has built up a substantial business in Okotoks with valuable goodwill, he now faces an injunction preventing him from continuing to use THE HEALTHY MOOSE even though his use in Canada predated that of Moose Factory Ltd. by a year.

Under the Trade-marks Act, Moose Factory Ltd. would not have been able to register the trademark in Canada without first filing a declaration of use in Canada, in which the goods or services actually sold or performed in Canada in association with the trademark would have been specified. In the alternative, Moose Factory Limited would have to have registered the trademark in Malta and have used the trademark somewhere for specified goods or services prior to filing in Canada, in which case McKnight would have been able to determine whether or not his proposed use of THE HEALTHY MOOSE would have collided with the registration.

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The foregoing examples illustrate that the Impugned Legislation is both potentially highly intrusive, and not “truly necessary” or “integral” to the federal scheme as case law requires. A proper consideration of the seriousness of the encroachment on provincial powers and of the proper standard for the relationship between a legislative provision and a valid federal scheme is required to ensure that the balance of constitutional powers is maintained and focuses the analysis on the "pith and substance" of the provision. For the reasons given above, it is submitted that the Impugned Legislation fails this test and unduly skews the balance of constitutional powers in favor of Parliament without proper justification.

VI. THE IMPUGNED LEGISLATION PROVIDES A WINDFALL FOR TRADEMARK TROLLS

“Trademark trolls” (i.e., trademarks that are registered without an intention to use them, for the purpose of extorting payments from legitimate merchants) have not been a significant factor in Canada because trademark registrations are based on use, thus helping to ensure that registration is granted to businesses with a real commercial interest in the mark. 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, trademark pirates often are able to operate within the law because they are able to register trademarks used by others in another country, without 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:47

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?

VII. LEGISLATIVE PROPOSALS

The problems referred to above can be avoided by implementation of the following changes to the Impugned Legislation that will assure compliance with basic trademark law and provide a much stronger constitutional foundation. The interests of foreign trademark owners remain protected by allowing them to file optionally on the basis of proposed use in Canada (eventually followed by proof of use in Canada) and/or filing based on a home registration and use abroad. In addition, the proposed changes require all registrants to submit proof of use of their registered trademarks between the fifth and sixth years following registration, a provision that is intended to assure proper federal regulation of trademarks post registration.

1. Applications for registration of trademarks48 would be based on (1) use of the trademark in Canada, (2) a bona fide intention to use the trademark in Canada, and (3) in the case of foreign applicants, on a trademark registration or application in


48. In light of the provisions of the Singapore Treaty, applications would be entitled to a filing date based on limited information but would have to meet the standards set out in this proposal, prior to being entitled to proceed to advertisement for opposition.
their home country together with use in one or more countries prior to filing in Canada.\textsuperscript{49}

2. If an application is filed based on use in Canada—as now—the application would be required to state the date of first use in Canada for each general class of goods/services covered by the application.

3. If an application is filed based on bona fide intention to use in Canada, use in Canada would be required to commence—as now—prior to issuance of the registration, and the registration would 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.

4. Registration could—as now—be made by foreign entities who have registered the trademark in their home country, have used the trademark either in the home country or elsewhere prior to filing in Canada for specified goods/services, and who declare that they have a bona fide intention to use the trademark in Canada. Such registrations would 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 would be required to have issued to registration before their Canadian application is advertised for opposition.

5. All registrants would be required to submit verified proof to CIPO of the use of the registered trademark in Canada between five and six years from the date of registration, which period cannot be extended. Registrations will either be cancelled in the event such proof is not filed, or amended to restrict them to the goods/services for which such proof is made.

It is beyond the scope of this paper to deal with all aspects of the Impugned Legislation, some of which are not controversial. That said, the Impugned Legislation ignores some very important needs for reform, such as (i) repeal of Section 9 (1)(n), which allows so-called “public authorities” to protect “official marks” against any third party use or registration irrespective of any likelihood of confusion, (ii) replacement of Sections 17(2) and 21 (referred to above) with a more fair way of regulating the respective rights of registrants and common and civil law users, and (iii) providing a more fair and more realistic test of likelihood of confusion than the hypothetical test required by Section 6 of the \textit{Trade-marks Act}, which requires the Court to assume that the respective marks or

\textsuperscript{49} It is not considered necessary to provide for registration based on “making known” as this ground is seldom relied upon, is likely unnecessary, and in any event is very hard to prove.
names are used in the same marketplace regardless whether this is the case or not.

VIII. CONCLUSION

The interests of traders and the public alike in Canada are best protected by a system that requires use or reputation of trademarks in Canada to justify the enforcement of such marks. The trademark legislation in Bill C-31 is *ultra vires* of Parliament because it creates exclusive rights in trademarks “in gross,” rights that have never before been recognized under Canadian law as deserving of legal protection, whether by statute, common or civil law, and without any proper scheme for regulating such trademarks in Canada. The Impugned Legislation intrudes unduly into property and civil rights within a province, as well as to matters of local trade, in circumstances where real trademark and real trade name rights can be trumped by federal rights protecting marks that are not trademarks at all, properly speaking, and which are unknown in the locality where the common or civil law user operates. The Impugned Legislation lacks adequate measures to protect against over-claiming and in fact encourages over-claiming, and thus it promises to make it more 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.