

## Bill C-31: What are the Practical Issues of Trademark Rights in a Non-Use Regime?

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The Canadian Government has introduced the most fundamental changes to the Canadian trademarks regime in more than a half century, by way of a budget bill entitled, the *Economic Action Plan 2014 Act, Part 1*, or Bill C-31, that also amends more than 60 other pieces of legislation. Part of Bill C-31 is a restatement of Bill C-8, the *Combating Counterfeit Products Act*, which is still before Parliament, and many of these changes are welcome updates to trademark legislation.

However, Bill C-31 proposes to eliminate the requirement that a mark be used somewhere before registration. While the last major overhaul of the trademark system was accomplished under the guidance of a panel of renowned experts with detailed consultation and significant input from many sources, the Government has acted largely without consultation in making this change, despite the huge impact these amendments will have on trademark clearance, risk analysis, registration rights, enforcement and maintenance. The importance of the changes demands full and careful consideration, not only of the impact on both Canadian businesses and international trademark owners, but also on the constitutional implications of the changes. Businesses and trademark owners should request the Government reconsider the Bill with advice from industry and legal experts both in Canada and abroad.

While Government commentary suggests that the Bill is part of a package preparing for accession to the Madrid Protocol, the changes regarding trademark use have nothing to do with the Protocol, which very specifically does not require any changes to national laws on registration requirements.

Bill C-31 provides that an applicant who has used, *or proposes to use* a mark, and is entitled to do so, may apply for registration. Applicants will not be required to include a date of first use in Canada, nor a statement of *bona fide* intent to use, and applicants who propose to use their mark will not need to file a declaration of use before obtaining registration. The “use and registration abroad” filing ground is eliminated. Other changes, (e.g. regarding classification of goods and services) are included in the Bill, and as Canada is a country that has not yet used the Nice Classification of goods, there is bound to be a prolonged and difficult adjustment period. The experience of Canadian trademark owners in protecting their trademarks internationally in countries subject to the Nice classification demonstrates how costly and time consuming it is when the various Madrid countries have different standards as to how goods or services are to be classified. However, it is the absence of a use requirement that has the potential to disrupt the trademark system the most, and cause the most hardship for Canadian trademark owners, especially small and medium-sized enterprises.

Canada’s trademark law is based both on legislation and judicial interpretation. Trademark registrations have, up to now, reflected real rights of the owner, since use is required in Canada, or elsewhere, before registration. Registration entitles owners to specific advantages, including the exclusive right to use the mark throughout Canada; the right to sue for depreciation of goodwill; and a presumption of validity of the registration, unless otherwise challenged. A registered trademark blocks registration of another confusing mark. At the core of Canadian trademark law, reflected not only in the current *Trade-marks Act*, but also in almost a century and a half of judicial interpretation, is that use is a necessary corollary to not only registration, but enforcement of trademark rights.

Abandoning that system for one that permits registration based on a “proposed use”, which could be characterized as a possibility of use, or at worst a figment of the applicant’s imagination, while at the same time, preserving all the rights of registration will clearly lead to much mischief and long term damage to the relevance of the Register of Trademarks (“the Register”). Worse, this will result in increased costs and uncertainty.

The following outlines some of the many steps where absence of use can impact business decision-making, adding costs to the process, and increasing risks for all trademark and trade name owners:

### Selecting a new mark

Most businesses conduct searches in advance of adoption of a new trademark to ensure that there are no confusing trademarks or trade names in use, or applications/registrations on the Register that may block their own registration, or pose a threat of an

infringement or passing off action. The Register is a key tool for risk analysis. Currently the Register shows, for both applications and registrations, the grounds on which the application was filed – namely use in Canada with a stated date of first use, proposed use, or use and registration abroad. Knowing if use has or has not commenced, and if so, the date of first use is a key element to risk analysis. Bill C-31 will remove that part of the analysis for all new marks.

### **Assessing rights between competing applications**

Entitlement between applicants will be determined based on the earliest of the use or filing dates. However, Bill C-31 does not require the date of first use to be identified, and any examination in the Trademarks Office will presumably be done simply on the basis of first to file. To permit useful assessment of entitlement by applicants and by the Trademarks Office, the date of first use information is critical. It is both expensive and uncertain to determine whether a trademark is in use, and if so, since when and on what goods or services.

### **Assessing rights between an applicant and a registrant**

Similarly, an application can be refused if it is confusing with a registered trademark. Potential applicants can now check the Register to determine if the registration issued with a claim to use after that of the applicant, in which case the registration might be vulnerable to expungement. Having easy access to information on dates of use, as is now the case, is helpful in permitting applicants to make a decision to pursue, or not, their mark. The Register will no longer provide helpful clues to registrability under Bill C-31.

### **Selecting corporate names and trade names**

Selection of a trade name or corporate name in many provinces is based on criteria that include confusion with prior trademarks, including in some provinces, registered trademarks. Businesses searching the Register and seeing registrations that give no indication of use, or when or where use may have started, will not easily be able to determine if their names are available or could be enjoined. The willingness of provinces to include consideration of registered trademarks in corporate name selection could be eroded by registrations that don't reflect any use, anywhere.

### **Deciding whether to oppose a new application**

The decision by existing trademark or trade name owners to oppose a new application usually starts with an assessment of priority between the advertised mark and rights of the possible opponent. That decision is immediately easier if the application details include a date of first use, or information on use in other countries. If an application is advertised with no indication of use, it will be impossible to provide even preliminary advice on the merits of any opposition.

The lack of information on use or not, will most certainly result in higher costs for investigations and searchers, and higher costs for opinions on risk assessment, or chances of success in oppositions or other challenges. The clear winners in this system are search and investigation companies. The additional cost will have to be borne by businesses trying to protect their trademarks.

### **Allowance will no longer sort out “real” rights from proposed rights**

Currently, once an application has been examined and advertised and there is no opposition, or any opposition has been resolved, the application is allowed. If filed on proposed use grounds, the applicant must file a declaration of use in Canada, and all applicants must pay a registration fee. This stage has the beneficial effect of forcing proposed use applicants to focus on the goods/services of real interest so that registrations cover only the goods/services that are used, and also results in applications in which owners have lost interest being abandoned. Bill C-31 omits “allowance” – instead, applications will go straight to registration upon the end of the opposition term or the resolution of any opposition. Applicants now file for long lists of goods on proposed use grounds – it is not uncommon to see lists of hundreds, or even thousands of goods/services. Requiring a declaration of use limits those applications, since otherwise, registrations may issue for goods/services well beyond the reasonable limits of any real business interests of many registrants. This will crowd the Register with marks that are not representative of real rights, and will increase the difficulty of selecting and clearing new marks, all at added costs to business.

### **Business evaluation**

Trademarks and goodwill are often a business' most valuable assets. Many trademarks are alleged to be worth millions and even billions, and accountants frequently include trademarks on the balance sheets. Those valuations make sense when the marks represent use, reputation and goodwill. They do not when the registered mark has never been used, and permitting registrations with no use will complicate the important business of valuing intellectual property assets.

### **Statutory Rights for registrants**

The *Trade-marks Act* now provides that the owner of a registered mark has the exclusive right to use that mark throughout the country, and to enjoin confusingly similar uses of trademarks and trade names. In fact, the rights of registrants are beefed up in Bill C-31, and also in Bill C-8, which also contains new criminal code provisions for combatting infringing use. If, as Bill C-31 proposes, registrations can be obtained merely based on proposed use, then those registrants have considerable advantages in enforcement of rights against others, without ever having used their marks. This poses some obvious issues:

- A registered owner can sue others for infringing use when it has no use itself. It seems preposterous to describe someone as a registered trademark owner, when no "trademark" has ever been used. At most, the person is a registration owner with no real underlying rights to support the trademark claim.
- Good faith common law rights acquired by use in certain circumstances could be challenged by a registrant with no use, whatsoever.
- Registrants could conceivably sue for depreciation of goodwill (under s. 22 of the Act, which applies only to registered mark owners) with no demonstration of goodwill in Canada, since obviously goodwill arises only with use.

Registrants will be able to access the new Customs "request for assistance" anti-counterfeiting measures proposed in Bill C-8, without ever having any use in Canada, or maybe anywhere else. How one might engage in counterfeiting a mark that has never been used in Canada, or become liable to criminal sanctions for such activity is an interesting conundrum, but a possibility under Bill C-31.

Registrants are entitled to have a presumption of validity of their registration, long recognized in Canadian jurisprudence, and are also generally entitled to use their registrations as a defence to a challenge of passing off. Those offer considerable advantages in litigation, which do not seem to be justified if the registration was granted merely on proposed use, and not even a *bona fide* intention to use.

The potential of a battle between an honest user and a registrant with no use whatsoever is one the courts would likely view with scepticism, but judges will be faced with the clear language of the *Trademarks Act* outlining the rights of a registered trademark owner and may have no alternative except to enjoin the allegedly infringing use. Most Canadians would claim that this is simply not fair – and it brings both the *Trade-marks Act* and Canada's judicial system into disrepute.

### **Possible checks and balances?**

Admittedly, there are a few factors that might limit the most egregious of the implications above. A new ground of opposition will permit a challenge based on no use or proposed use in Canada. However, there is no case law on what "proposed use" under the Bill will actually mean in the context of an opposition or cancellation, and it is likely that the onus to show proposed use to support an application will be very low. Further, the challenger will have to prove a negative, namely *lack* of proposed use, and most relevant information will be in the possession of the applicant.

All registrations become vulnerable to a non-use challenge upon their third anniversary. The Bill will permit the Registrar and third parties to commence non-use proceedings. However, a clever registrant of a mark that issued based on proposed use can simply re-file, and get a new registration, also based on proposed use, unless blocked by an intervening right. The usefulness of non-use (s. 45) proceedings to clear "deadwood" from the Register becomes much less certain if registrations can be easily re-registered without use.

While registrants must renew their marks (in the new term of 10, versus 15 years), evidence of use is not required. Thus, there is the prospect of registrations on the Register for decades, without any use in Canada.

Ultimately, the whole onus of policing the Register, to prevent it from becoming a depository for hopes and wishes, versus actual

trademarks, is now on third parties. The Registrar will no longer exercise control on over-reaching. As a result, the supposed checks and balances may have little real impact.

Some might claim that the fact that some European countries have adopted a simplified registration system suggests Canada should do the same. However, there are many reasons to question the benefit of European systems in Canada. To start, Canada has a centuries-old system of common law, trademark law and jurisprudence that puts “use” at the centre of the trademark system. Second, it is likely that few of those countries operate in a constitutional venue with split control between a federal government with control over “trade and commerce”, compared to provinces, with control over “property and civil rights”. Third, the size of Canada and the difficulty of doing investigations for use in such a geographically vast country requires that the Register be, as much as possible, an accurate reflection of genuine rights. Finally, in Canada, a large percentage of marks are owned by foreign companies or their subsidiaries, who already invest significantly in trademark protection, and are used to filing in multiple classes or with long lists of goods/services despite having a business interest in only a few. Requiring use, somewhere, will help to level the playing field for Canadian businesses, and will eliminate the possibility of registrations being issued with coverage for goods and services never made or sold anywhere.

### **Is it really such a good thing to make it easier to get registrations?**

Many now argue that registration should be simplified – and that is a laudatory goal. Of course, it goes without saying that making it easier for one company to register marks means that others too will find it easier, and a Register that does not require any use will quickly become crowded with marks that do not reflect any business activity. Instead of simplifying steps for businesses, the Bill proposes a much less useful Register, higher investigation costs, and shifts the onus to police over-reaching to businesses, as opposed to the Trademarks Office. When the added statutory rights of registrants, above, are also considered, there is more potential for mischief by companies who can afford to collect marks for broad lists of goods and services, and no use – in other words, trademark trolls – who will not only block others from using/registering marks validly used, but could assert such rights in litigation primarily for the aim of revenue-generation.

### **Suggestions for changes to Bill C-31**

The changes proposed by Bill C-31 are so significant that the proposed *Trademarks Act* amendments should be removed from the Bill and only re-introduced after a more careful study by experts and business of the full implications of the amendments.

The Government should carefully reconsider the implications of throwing out a use-based system that has withstood the test of time, and which does not contain the numerous inequities certain to occur with Bill C-31. Keeping use as a basic element of trademark rights is critical. That would suggest that at filing, all applicants be required to either state that their marks are in use in Canada and provide a date of first use, or have a *bona fide* intent to use their marks in Canada. Foreign applicants who have a registration in their home country should be permitted to register in Canada only to the extent that they have used the mark on specific goods and services somewhere before filing in Canada. All applicants, domestic or foreign, who file in Canada based on *bona fide* intention to use should be required to eventually file a declaration of use in Canada. The very considerable advantages of registration justify changing the system to put a positive onus on registrants to prove use, for example during the third to fifth years after registration, and upon renewal, rather than shifting the onus to prove non-use to others.