

How Not to Treat a Trade-Mark

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A recent decision of the Federal Court illustrates the problems that can occur concerning trade-marks when the individuals involved do not understand how trade-marks work and the relevant legal requirements.

The Facts

Two individuals had been in the business of marketing valves in the oilfield industry for a number of years. In 2001, they agreed to join forces and to operate what was essentially a partnership through a corporation focusing on the sale of valves.

The Supplier

The individuals contacted a supplier in China (the “Supplier”) concerning the supply of valves. A letter of intent was signed which set out the basis of the relationship.

- The Supplier acquired a 30% interest in the corporation.
- The individuals would provide technical and marketing support to the Supplier in order to improve the existing value product line as well as to create a new product line targeting the oilfield industry.
- The Supplier did not have capacity or capability to manufacture ball valves, but agreed to work with the individuals to source these products from other manufacturers and to create a FORTUNE branded product line. The Supplier granted the individuals and their company an exclusive marketing relationship for all current and future industrial valves in Canada.
- The valves supplied by the Supplier were to be marketed under the FORTUNE trade-mark.
- The Supplier was to consign valves to the individuals’ corporation on specified terms.

Shortly after signing the letter, it became apparent that the trade-mark FORTUNE was not acceptable since it was associated with quality problems in products originating from China.

A consignment agreement was entered into relating to the Supplier’s products. This agreement contained a provision which stated that all products, designs, patents, inventions, calculations and other intellectual property which arose as a consequence of the agreement would be deemed to be equally owned by the parties.

The FUSION Mark

The individuals came up with the trade-mark FUSION as an alternative to the FORTUNE trade-mark. The individuals also entered into a further agreement with another manufacturer relating to the supply of ball valves in Canada. Subsequently this resulted in

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an exclusive representation agreement. The ball valves were sold in association with the trade-mark FUSION.

There was no evidence that the Supplier exercised any control or had anything to do with respect to the ball valves. The individuals marketed FUSION valves in Canada, some of which were produced by the Supplier and some of which were produced by the second manufacturer.

The Deterioration of the Relationship

The relationship between the parties rapidly deteriorated. The individuals created a new corporate entity without advising the Supplier and transferred their business to that entity. The Supplier filed an application in Canada for the trade-mark FUSION without providing any notice to the individuals. Subsequently the individuals registered the trade-mark as a business name.

Litigation ensued between the parties in the Province of Alberta. All outstanding issues were resolved save for ownership of the trade-mark FUSION.

The Action

The individuals brought an action in the Federal Court seeking to expunge the registration for the trade-mark FUSION owned by the Supplier and other relief.

Expungement

Section 18 of the *Trade-marks Act* lists the grounds under which the validity of a registration of a trade-mark may be attacked. A registration of a trade-mark is invalid if:

- the trade-mark was not registrable at the date of registration;
- the trade-mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced; or
- the trade-mark has been abandoned; and
- the applicant for registration was not the person entitled to secure the registration.

The Trial Judge stated that the FUSION mark fell squarely within the terms of the consignment agreement. That agreement said that intellectual property was equally owned by the parties and neither of them could now assert that somehow they owned the trade-mark.

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Entitlement

The Supplier had alleged that it first used the trade-mark FUSION in September 12, 2002 when an order was placed by the corporation. Typically, in a dispute between a manufacturer and a distributor concerning entitlement to a trade-mark, the issue is whether the manufacturer or distributor, as the case may be, was the first to use the trade-mark in Canada. As a result, this date of first use is the criteria for determining entitlement. In order to show use, the Supplier was required to show that at the time of the transfer of the property or possession of the wares in the normal course of trade, the trade-mark was marked on the wares themselves or their packages.

The Trial Judge referred to the provisions of the consignment agreement between the parties which provided that all products remained the sole property of the Supplier pending sale by the individuals or the corporation. In light of this provision, transfer of the products to the individuals or their corporation could not constitute use in Canada since the property in the goods was not transferred.

Distinctiveness

The Trial Judge referred to the fact that there was a complete mixing of products supplied by the Supplier and the other manufacturer and an absence of any control over the character or quality of products supplied by the manufacturer and sold in association with the FUSION trade-mark. As a result, it was found that the trade-mark FUSION had not acquired, or if it had acquired had lost, the element of distinctiveness.

Misrepresentation

The Trial Judge referred to previous cases which establish that a registration may be invalidated by two types of mistakes:

- Fraudulent intentional misstatements, or
- Misstatements that may be innocent but are material in that they were fundamental to obtaining a registration.

Since neither party disclosed the existence of the terms relating to ownership of intellectual property in the consignment agreement, the mark was expunged on the grounds of material omission.

Conclusion

The essence of a trade-mark is its distinctiveness. In order to be protected, a trade-mark must be distinctive of the wares of the trade-mark owner. This fundamental rule must influence how ownership of a mark is structured as well as how the mark is used in practice.