



Posted on: April 15, 2024

A CAUTIONARY TALE FOR LICENSORS - THE IMPORTANCE OF CONTROL OVER TRADEMARK USE BY LICENSEES TO AVOID INVALIDATING TRADEMARK REGISTRATION RIGHTS

By: Trisha Doré

Although neither keeping a tidy trademark license regime nor chasing infringers sound appealing, the fruits of those actions will ensure that trademark registration rights are not lost. Licensing trademark rights allows others to use an owner's registered mark. This can be a powerful tool in expanding business activities, as use by a licensee inures to the benefit of the registered owner. While all good intentions go into trademark licensing, those agreements need to be reviewed annually, like an insurance policy. If proper control is not exercised, a trademark will lose its distinctiveness; simply put, the mark no longer identifies the goods or services of one entity and therefore cannot function as a trademark.

A cautionary tale for all trademark registrants is found in the 2023 decision of the Canadian Federal Court of Appeal in *Milano Pizza Ltd. v. 6034799 Canada Inc.* (2023 FCA 85), which affirmed the Federal Court's earlier decision (2022 FC 425). Uncontrolled use and poorly documented license agreements resulted in the loss of trademark registration rights.

A brief look back at the evolution of Section 50 of the Canadian *Trademarks Act* shows how the onus shifted from the Canadian Intellectual Property Office ('CIPO') maintaining a list of "Registered Users" to the current Section 50, which sets out the minimum requirements for proper controlled use by entities other than the registered owner. Until 1993, CIPO maintained a list of Registered Users whereby the owner of a registered mark formally filed notice with CIPO of all its authorized licensed users. In 1993, CIPO absolved its office of this administrative task and the language of Section 50 was replaced with the current quality or character regime. The current act provides:

50 (1) *For the purposes of this Act, if an entity is licensed by or with the authority of the owner of a trademark to use the trademark in a country and the owner has, under the license, **direct or indirect control of the character or quality of the goods or services**, then the use, advertisement or display of the trademark in that country as or in a trademark, trade name or otherwise by that entity has, and is deemed*





always to have had, the same effect as such a use, advertisement or display of the trademark in that country by the owner.

(2) For the purposes of this Act, to the extent that public notice is given of the fact that the use of a trademark is a licensed use and of the identity of the owner, it shall be presumed, unless the contrary is proven, that the use is licensed by the owner of the trademark and the character or quality of the goods or services is under the control of the owner.

Milano Pizza Ltd. ('Milano') was the owner of a Federal trademark registration issued in 2002 for the mark MILANO & Design, in association with "Take out restaurant services, with delivery;" ('Milano Trademark'). Milano owned and operated one corporate location in Ontario and also licensed the use of the Milano Trademark to over 30 other entities in Ontario and Quebec, each operating MILANO-branded restaurants. 6034799 Canada Inc. ('6034799') bought and took over a restaurant location at Baxter Road in Ontario, which was a licensed franchisee. The relationship between Milano and 6034799 went awry in June 2016, and Milano terminated their license. Notwithstanding, 6034799 continued to use the Milano Trademark in the operation of its restaurant on signs and menus, in addition to its advertising and social media. Milano brought an action for trademark infringement against 6034799. In response, 6034799 brought a counterclaim against Milano seeking to strike the Milano Trademark registration on the ground that it was no longer distinctive. An earlier 2018 decision between the parties had resulted in the dismissal of some of the claims and counterclaims, leaving only the issue of the validity of the Milano Trademark registration. The primary issue at hand was the counterclaim made by 6034799 that the Milano Trademark was in fact never properly licensed to the Milano franchisees. More particularly, 6034799 argued that the control over the character and quality of the goods and services that was necessary to ensure the distinctiveness of the mark was never exercised by Milano in a manner sufficient to satisfy the requirements of Section 50. It is of interest to note that in previous cases, in particular *College of Dietitians of Alberta v 3393291 Canada Inc.* (2015 FC 449), an **ongoing** control was also a prerequisite.

There were questions in this case as to the actual existence of a written license agreement, and the transfer of the license to 6034799 in the earlier sale of the Baxter street location. A written license agreement was never produced. Section 50 does not specifically detail the form that a license must take. It is understood that a license can be written, verbal, implied or otherwise. If a written license agreement cannot be produced there are significant issues in proving the agreement's terms and conditions necessary to satisfy Section 50 — in particular, whether or not Milano controlled "the character or quality of the goods or services". The proceedings largely turned on the analysis of whether or not Milano controlled the licensed





Milano Trademark to a sufficient degree to meet the threshold required under Section 50(1) of the *Trademarks Act*.

Milano argued that the necessary control of the their licensees was achieved through a requirement imposed on all of its licensees to purchase food products necessary in the running of the restaurants from designated suppliers, with the exception of vegetables. That group buying power provided Milano monetary credits which they claimed went to the building of the goodwill of the Milano brand, which benefited all licensees. Milano believed that these circumstances gave rise to an inference that they had control over the quality and character of their licensees' goods and services. The Federal Court in 2022, and the Federal Court of Appeal in its decision of 2023, held that Milano did not meet the threshold for control over its licensees' use of the trademark sufficient to satisfy the minimum requirements of Section 50. The Court found that supervision was necessary not only of the ingredients, but also the final product. Milano did not exercise the necessary control over the quality of the finished product; in particular, it did not inspect the premises or the goods being served. In the circumstances, the widespread third-party uses of the Milano Trademark were not considered to be proper *licensed* uses under the *Act*, with the effect that the mark had lost the distinctiveness that is essential to a proper trademark. As a result, the Milano Trademark was expunged from the register.

It is also important and worth noting that there was an unrelated Milano Pizzeria in the Province of Quebec which was not affiliated with Milano Pizza Ltd., nor any of its franchisees. This pizzeria had operated in Quebec for over 40 years. Milano Pizza Ltd. took no action to police its registration and prevent this unrelated entity from using a confusingly similar mark in a similar line of business. Along with the failure on the part of Milano to meet the threshold of Section 50 with its franchisees, this single unrelated entity in Quebec factored into the Courts' decision to find the registration had lost its distinctiveness and to strike the Milano Trademark from the register.

Key points for Trademark owners to take away:

- Regardless of the relationship between the registered owner of a trademark and the user of that trademark, prepare a written license agreement which details the specific terms, conditions, quality control and right of inspection. A license agreement should include detailed standards for the goods and services with which the licensed mark may be used, and the rights of the owner over the control and inspection of those goods and services. These can be achieved through such things as branding guidelines or training manuals. This avoids any ambiguity if the distinctiveness of the registration is ever challenged by the licensee or another third party attacking the validity of the registration;
- Give public notice of the licensed use by any party that is not the registered owner. The licensee's





use should not be misleading or ambiguous as to the source of the goods or services.

- Policing of registered trademarks is essential in maintaining the distinctiveness of the mark, which in turn prevents the loss of those rights. While a registration grants significant benefits key to enforcement, the onus still resides on the back of the trademark holder to undertake the necessary steps in preventing others from infringing that mark and potentially leading to the loss of distinctiveness of a registration when one source for those goods/services cannot be identified.

Key Benefits to Trademark Registration:

- Registration provides a trademark owner with the **exclusive right** to use the mark throughout Canada.
- Without registration, a trademark owner relies solely on common law rights which generally are restricted to the territory or province where the mark has been used. For example, if a trademark owner learns that a third party recently adopted the same or similar trademark in another area of Canada, and the trademark owner did not register its mark, it very well may be impossible to have that third party cease use of the mark.
- Registration provides a trademark owner with the **freedom** to advertise in and/or expand its business into other provinces in the future. For example, registration avoids a trademark owner from later being disentitled to use its mark or circulate advertisements displaying the mark in another province if a competitor has since adopted the same or similar mark.
- If a business displays its corporate name or trade name on products or promotional materials as a trademark, the **business name** can be registered as a trademark in Canada. For example, the incorporation of a company and the registration of a sole proprietorship or partnership provides little protection of a trade name. To obtain the exclusive right to the name throughout Canada, and to prevent others from using a similar corporate or business name, it should be registered as a trademark.
- The Trademarks Office will act as a **guardian** to the trademark and will refuse any application for a confusing mark filed by a third party.
- Registration will **discourage** potential infringers from using the same or similar trademark.
- After a trademark has been registered for five years, and used continuously by the trademark owner in that period of time, it becomes "**incontestable**" which limits the grounds a third party may use to attack the registration. For example, a third party could not seek to have the registration cancelled based on prior use of the same or similar mark in Canada.
- A trademark is considered an asset. Registration will **increase the value** of a company/business, will assist in securing investors/financing and can be used as security in financial transactions.





RICHARDS
BUELL
SUTTON^{LLP}
Established in 1871

- A Certificate of Registration can be deposited with Canada and US **customs** in order to prevent the importation/exportation of goods bearing an infringing trademark.
- Registration of a mark in Canada can be used as a basis to obtain registration for the same mark in **foreign**
- Registration provides the ability to initiate legal action in the Federal Court which decisions are **enforceable** throughout Canada.



VANCOUVER OFFICE:
700 - 401 W GEORGIA STREET
VANCOUVER, BC CANADA V6B 5A1
TEL: 604.682.3664 FAX: 604.688.3830

SURREY OFFICE:
310 - 15117 101 AVENUE
SURREY, BC CANADA V3R 8P7
TEL: 604.582.7743 FAX: 604.582.7753

RBS.CA