

LAWFUL USE OF A TRADE MARK

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On January 24, 1989, in *McCabe v. Yamamoto & Co. (America) Inc. & al.*, Court No T-443-85, Mr. Justice L. Marcel Joyal of the Federal Court of Canada, Trial Division, decided that under the Canadian *Trade Marks Act*, the word "use" had to be understood as meaning "lawful use". While this finding would seem to be somewhat obvious, it is the reasoning behind this finding which is, to say the least, surprising.

In this case, Terrill Ross McCabe had appealed to the Federal Court, Trial Division, from a decision of the Registrar of Trade Marks refusing his application for the registration in Canada of the trade mark "T-Line" in association with golf clubs and golf club head covers. This application was based on use in Canada since at least June, 1975 and also based on prior use and registration in the United States.

Two statements of opposition were filed against the application by Yamamoto & Co. (America) Inc. (hereafter: Yamamoto) and T-Line Golf Corporation (hereafter: T-Line Golf). Essentially, the opponents alleged that they had used the trade mark applied for in Canada and they denied that Mr. McCabe had used the mark in Canada.

To make a long story short, the evidence revealed that Mr. McCabe had developed a new design for a golf putter, obtained patent protection for it, created the name "T-Line" for it and began selling "T-Line" putters in the United States. At one point in time, Mr. McCabe licensed T-Line Golf to manufacture and sell "T-Line" golf clubs. In turn, T-Line Golf appointed Yamamoto as its distributor. The territory granted to the distributor did not include Canada.

Mr. McCabe applied in the United States for registration of his trade mark "T-Line" and the trade mark was registered on July 17, 1976. After a series of events, the agreements between Mr. McCabe and T-Line Golf as well as between T-Line Golf and Yamamoto were cancelled. Despite this, Yamamoto continued to market golf clubs under the "T-Line" mark until

following an infringement action in the United States it was found that Mr. McCabe's mark "T-Line" was a valid trade mark which had been infringed by Yamamoto.

The Registrar of Trade Marks found that the sales or use of the mark in Canada by Yamamoto accrued to the benefit of T-Line Golf but Mr. McCabe, being one step removed from those transactions, could not avail himself of such use to his benefit. On appeal, the Court was therefore faced with two critical issues. The first issue was that in his reasons the Registrar was dealing with "use in Canada" unqualified as to whether or not such use was lawful. The second issue relates to the Registrar's failure to deal with Mr. McCabe's claim for registration based on Mr. McCabe's prior registration of the mark "T-Line" in the United States. For the purposes of the present article, only the first issue will be dealt with.

The Question of Use. According to the evidence, T-Line Golf's license was to manufacture T-Line clubs for sale in the United States and other specified territories but not Canada. Similarly, Yamamoto was granted distribution rights for the United States and other designated countries but not Canada. On the face of these restrictive territorial provisions, both T-Line Golf and Yamamoto were in violation of their contractual obligations when the T-Line golf clubs were sold in Canada in association with Mr. McCabe's trade mark. In this light, the question asked by the Court was whether or not such an unlawful use of a trade mark can be good "use" of a trade mark in Canada under the provisions of the *Trade Marks Act* or may otherwise constitute a use which would defeat the rights of its ostensible owner.

The Court noted that in the background of the above question is the aberration which may be created by a purely technical application of section 29 of the Act, under which the emphasis may tend to be placed on who has used a mark in Canada and not enough on whose mark is being used. It seemed obvious to the Court that the trade mark being used in Canada by either Yamamoto or T-Line Golf was Mr. McCabe's mark and no else's.

The Court stated that what might be unlawful for some purposes, as in the breach of a license or distributorship agreement giving rise to ordinary civil remedies, would be beyond the ken of the Trade Marks Act unless such use was in violation of an express or implied provision of it. If such a violation occurs, the unlawful use of a trade mark could not be raised by an opponent to defeat its owner's rights. This is where the reasoning of the Court can be said to be questionable.

It would seem that the Court was not satisfied to find that the use which was alleged in support of the opposition was unlawful by virtue of either the license or distributorship agreement. This reasoning may result from the fact that the Federal Court is a court created by statute with a limited jurisdiction which would normally exclude contract law and civil remedies deriving therefrom. But these limits cannot go as far as precluding a party to an agreement from relying before this Court, in defense or in rebuttal, on the rights and obligations of the parties to such an agreement

In this case, as the Court was not satisfied to find the use unlawful because of non compliance with the conditions of the license and the distributorship agreements, it decided had to look for "unlawfulness" in the *Trade Marks Act*. And it is on section 7(e) that the Court rests its attention.

It seemed evident to the Court that the acts of both opponents in making unauthorized sales in Canada would violate subsection 7(e) as such conduct could be said to be contrary to honest industrial or commercial usage in Canada. The Court was mindful in this respect that the Supreme Court of Canada in *MacDonald & al. v. Vapor Canada Ltd.*, (1977) 2 S.C.R. 134, had ruled section 7(e) ultra vires of Parliament. Mr. Justice Joyal found that the reasoning of the Supreme Court in that case, however, might appear to allow continued limited application of that particular subsection. It is very difficult to support such a proposition.

When Mr. Justice Laskin of the Supreme Court of Canada wrote:

"Section 7(e) is, however nourished for legislative purposes in so far as it may be said to round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names. The subparagraphs of section 7, if limited in this way, would be sustainable, and, certainly, if s. 7(e) whose validity is alone in question here, could be so limited, I would be prepared to uphold it to that extent. I am of the opinion, however (and here I draw upon the exposition of s. 7(e) in the Eldon Industries case), that there is no subject matter left for s. 7(e) in relation to patents, copyright, trade marks and trade names when once these heads of legislative power are given an effect under the preceding subparagraphs of s. 7".

This should have put an end to the speculation as to whether or not s. 7(e) of the Trade Marks Act was ultra vires or intra vires of Parliament. If as stated by Justice Laskin "there is no subject matter left for s. 7(e) in relation to trade marks", it is very difficult to understand how in the present case, s. 7(e) could

have any *intra vires* application simply because the present case deals with a trade mark matter.

In conclusion, while the result in this case would appear to be correct, the reasoning would seem difficult to accept. Indeed, it is not at all evident that it was necessary for the Court to rely on s. 7(e) and thus add yet another nuance to the Supreme Court's finding of unconstitutionality.

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