

**DEEMING CLAUSES IN *TRADE-MARKS ACT* CONFIRMED AS INTERPRETATION
TOOLS ONLY IN PASSING OFF ACTION,
FEDERAL COURT RULES**

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In a recent decision, the Federal Court of Appeal has ruled that "deeming" clauses found in Canada's *Trade-marks Act* (1985 R.S.C., c. T-13) do not prescribe substantive rules but are simply to be referred to in interpreting sections of the *Act* (*Enterprise Car and Truck Rentals Ltd. et al. vs. Enterprise Rent-A-Car Company et al.*, A-240-96 F.C.A., February 11, 1998 (Pratte, Robertson and Gray)).

The decision of the Federal Court of Appeal confirmed a judgment rendered in 1996 by the Trial Division which disposed of two actions for "passing off" under paragraph 7(b) of the *Trade-marks Act* concerning the use of the unregistered trade-mark ENTERPRISE for car and truck rental and leasing services. The first action was brought by Enterprise Rent-A-Car Company, an American corporation and its Canadian subsidiary against a group of related Canadian companies which had started to use the mark ENTERPRISE in Canada in association with similar services. In the second action, it was the group of Canadian companies which sued Enterprise Rent-A-Car Company, claiming that the latter had infringed paragraph 7(b) of the *Act* by using the mark ENTERPRISE in Canada. The Canadian companies further alleged that Enterprise Rent-A-Car Company had violated the provisions of paragraph 7(a) of the *Act* by making misleading statements tending to discredit its business.

Paragraph 7(b) of Canada's *Trade-marks Act* provides that no person shall direct public attention to his wares, services or business in such a way as to cause or to be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or businesses of another. Paragraph 7(a) provides for its part that no person shall make a false or misleading statement tending to discredit the business, wares or services of a competitor.

Did Enterprise Rent-A-Car Company enjoy goodwill in Canada? The trial judge

wrote that goodwill could be created as a result of the use of a trade-mark in Canada and the use of a trade-mark in another country where the trade-mark comes to the attention of Canadians, either through use or through advertising which reaches Canadians. Moreover, while Enterprise Rent-A-Car's reputation in Canada was limited, in the trial judge's view, it was not necessary for that company to be famous in order for it to enjoy the protection of its goodwill: "They may not be famous but they are known to some members of the public" (*Levitz Furniture Corp. and Levitz Furniture Co. of Washington Inc. v. Levitz Furniture Ltd., Value Industries Ltd. and Silver*, (1972) 3 W.W.R. 65 (B.C.S.C.)).

The trial judge concluded that the mark ENTERPRISE was already known by many Canadians as the mark used by Enterprise Rent-A-Car Company in association with its leasing services when the group of Canadian companies started using the mark ENTERPRISE in Canada; he also found that Enterprise Rent-A-Car Company enjoyed a sufficient reputation in Canada to succeed in its action even though that company had never actively engaged in any business in Canada. In an additional finding, the trial judge concluded that the group of Canadian companies had not yet used the mark ENTERPRISE to an extent that would have generated a significant amount of goodwill at the time when Enterprise Rent-A-Car Company initiated its use of the mark in Canada. Consequently, in both actions, the trial judge ruled in favour of Enterprise Rent-A-Car Company.

In its appeals, the group of Canadian companies put forward arguments based on sections 3, 4 and 5 of the *Trade-marks Act*. Section 3 deems when a trade-mark is to have been adopted in Canada; section 4 deems when a trade-mark is to have been used in Canada while section 5 deems when a trade-mark is to have been made known in Canada. The group of Canadian companies argued before the Court of appeal that in an action brought before the Federal Court under paragraph 7(b) of the *Act*, a plaintiff cannot succeed in his action unless he establishes that, before defendant commenced to use a similar mark, he himself had adopted it in accordance with sections 3, 4 and 5. From the Canadian companies' point of view, since Enterprise Rent-A-Car Company did not meet that preliminary condition, it should not have succeeded in its action. As an additional argument, the Canadian companies pleaded that under paragraph 7(b), a plaintiff must establish that he "owned" a trade-mark in need of protection and that such trade-mark can only be "acquired by adoption and use". In order to succeed in a "passing off" action under paragraph 7(b) of the *Act*, a plaintiff must necessarily prove that he is deemed by section 3 to have adopted the trade-mark in question: according to the group of Canadian companies, Enterprise Rent-A-Car Company had not met that test.

These arguments were not favourably received by the Federal Court of Appeal: in the Court's opinion, sections 3, 4 and 5 of the *Act* did not prescribe substantive

rules governing the acquisition and use of trade-marks; according to the Court, "these sections are grouped with sections 2 and 6 under the heading "interpretation". Section 2 contains definitions. Sections 3, 4 and 5 are "deeming" clauses which simply describe a special meaning to certain phrases. These three sections must be applied in interpreting the sections of the *Act* where those phrases are used. Otherwise, they have no role to play". The Court reminded the parties that a "deeming" clause is to impose a meaning, to cause something to be taken to be different from that which it might have been in the absence of the clause.

The Court's decision is an important reminder that sections 3, 4 and 5 of the *Act* do not create "rights" or impose "obligations" to parties in a "passing off" action; they are simply to be referred to when interpreting the *Trade-marks Act*. In the Court's view, these sections do not establish preconditions regarding "use" or "adoption" of a trade-mark before deciding the merits of a "passing off" action intended to protect the goodwill attached to a trade-mark.

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