

TRADE-MARK REGISTRATION AS A VALID DEFENCE TO A PASSING-OFF ACTION

by

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It has become clear over the last few years that the registration of a trade-mark does not necessarily constitute a defence to a claim of passing-off in Canada. This has resulted in part due to the decision rendered by Justice Muldoon in *Wing (c.o.b. Wing Hing Electrical Engineers Co.) v. Golden Gold Enterprises Co.* (1996), 66 C.P.R.(3d) 62 (F.C.T.D.).

The evidence in the *Wing* case clearly established that the use of the registered trade-marks by the defendants was calculated to deceive and direct public attention to their wares and business in such a way as to cause or be likely to cause confusion. The judge in that case agreed with plaintiff's argument that even if the trade-marks were registered by or for the defendants, the latter could not use said trade-marks in a deceptive manner.

The Oland Case

The recent decision of the Ontario Court of Appeal in *Molson Canada v. Oland Breweries Ltd.* (2002), 19 C.P.R. (4th) 201 (C.A. Ont.; Carthy; Cronk; Gillese JJ. A.) (the "Oland case") has arguably changed the state of Canadian law on that particular point, because of the grounds on which the trial judge's ruling was reversed.

The litigation in the Oland case arose because in 1996 the respondent, *Oland Breweries Ltd.* ("Oland") introduced "Oland Export Ale" into the province of Ontario after having offered it for sale in certain other provinces for many years. The appellant, Molson Canada ("Molson"), had been selling ale in the province of Ontario under the name "Molson Export" since 1955. Molson held a Canadian registration for the trade-mark "Molson Export" for ale, but Oland

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also held a Canadian registered trade-mark for its "Oland Export Ale" since 1951.

Molson sought an injunction preventing Oland from selling its Oland Export Ale in Ontario based on the common law recourse of passing off and s. 7(b) of the Canadian *Trade-marks Act*, R.S.C. 1985, c. T-13 (the "Act"). Molson alleged that it caused or was likely to cause confusion with Molson Export ale. Molson's action also sought damages, but it did not challenge the validity of Oland's registered trade-mark.

Although Oland argued that the fact that it was using a registered trade-mark constituted a defence to Molson's claim, the trial judge found that section 19 of the Act only conferred the right to the registered owner to prevent others from using the mark in association with their own wares. Furthermore, a registered trade-mark does not confer a right to use same to deceive or confuse. However, the trial judge also ruled that Molson's action ought to have been dismissed because it lacked the necessary ingredients for a successful passing-off action.

On appeal, the Court considered that it was unnecessary to analyze Molson's grounds for appeal because it agreed with Oland's argument that the fact that "Oland Export Ale" was a registered trade-mark was a complete answer to Molson's claim.

The difference lies in the fact that the Court refused to follow the English authorities which stated that even if the owner of a registered trade-mark benefited from the exclusive use of its trade-mark within a given territory, this did not constitute a defence to a passing-off action.

In the Court's view, the English authorities could be distinguished because the Act does not have a provision analogous to section 45 of the *U.K. Trade Marks Act, 1905* which provides that nothing in the act shall be deemed to affect rights of action against any person for passing off goods as those of another person.

Instead, the Court cited the cases of *Chemicals Inc. and Overseas Commodities Ltd. v. Shanahan's Ltd.* (1951), 15 C.P.R. 1, *Building Products Ltd. v. B.P. Canada Ltd.* (1961), 36 C.P.R. 121 and *Mr Submarine Ltd. v. Amandista Investments Ltd.* (1987), 19 C.P.R. (3d) 3 (F.C.A.) as illustrations of the principle that the holder of a registered trade-mark has the exclusive right to use the mark throughout Canada unless shown to be invalid. On that basis, the Court found that Oland was entitled to use its trade-mark throughout Canada in association with its beer, without having to examine the merits of Molson's arguments based on passing-off.

According to the Court of Appeal, the sole recourse in such cases is to attack the validity of the mark. Since Molson did not attack the validity of Oland's trade-mark, the Court dismissed the appeal.

Comments on the Oland Case

In its decision, the Court appears to assume that section 45 of the English trade-mark statute creates an exception to the exclusive right granted to a registered trade-mark owner to use its mark. The Court also seems to assume that for such an "exception" to be found in Canada, it would have to be explicitly stated in the Act. However, it could be argued that the Court could have arrived at the same conclusion by relying exclusively on the existing provisions of the Act.

In particular, section 7 of the Act clearly states that "no person" shall direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada between his wares, services or business and those of another. Presumably, "no person" in section 7 of the Act can be interpreted to include owners of registered trade-marks.

Therefore, even if section 19 of the Act is construed as granting an exclusive right to use a trade-mark throughout Canada, one could argue that such use could still be contrary to section 7 of the Act that the owner of a registered trade-mark uses its mark to deceive. Section 7 of the Act makes no distinction between registered and unregistered trade-marks in that respect. In all likelihood, had the legislator's intention been to exclude registered trade-mark owners from the application of section 7 of the Act, an exception would have been expressly stated.

The *Chemicals Inc.*, *Building Products Ltd.* and *Mr. Submarine Ltd.* cases simply confirm the application of the principle found at section 19 of the Act that "a holder of a registered trade-mark has the exclusive right to use the mark throughout the country until such time as the mark is shown to be invalid." However, these cases do not address the issue raised by an application of section 7 of the Act in a case like the Oland case, or at least not in a manner which would support the Court's view.

The excerpt of the *Chemicals Inc.* case reviewed by the Court does not allude to the application of section 7 of the Act. It only states that in the opinion of the British Columbia Court of Appeal, the Act takes away the right to sue for passing-off at common law apart from the Act. The Court does not consider the possibility of a registered trade-mark owner using its mark for fraudulent misrepresentation, such as in the Wing case.

The excerpt of the *Building Products Ltd.* case cited by the Court essentially states that an action for passing off in relation to plaintiffs' trade-marks must fail in cases of trade-marks registered by defendants in absence of any evidence that such trade-marks have been used other than by way of the "permitted use". In other words, the Court in that case seemed to acknowledge that there could be instances where the use of a registered trade-mark may not be lawful. Before ruling that passing-off action must fail, the Court seemed to have taken into account the fact that there was no fraudulent misrepresentation by the defendant in relation to the use of its registered trade-marks, something the Court found unnecessary to do in the Oland case.

The excerpt of the *Mr. Submarine Ltd.* case cited states that the exclusive use of a registered trade-mark is not confined to a particular region of Canada, a particular method of selling the related wares, nor to a specific appearance of the mark; if any changes to these elements were to be made, the exclusive right to use the mark would apply just as it applied to its current use. While this may help to define the scope of the right to use, it does not address the question of whether an exclusive right to use means (1) the right to prevent others from using the mark or (2) the right to use the mark, even in a deceitful manner.

After reviewing the above-mentioned cases, the Court found that Oland was entitled to use its marks throughout Canada in association with its beer and that the sole recourse of a competitor in such a situation is to attack the validity of the registration. The Court's justification for such finding is that "(i)f it were otherwise, a plaintiff complaining of confusion caused by a competitor's registered mark would himself be infringing on the mark by establishing that confusion".

This seems to imply that the confusion between the registered trade-mark of a defendant and the trade-mark of a plaintiff can only arise by reason of use of the latter subsequent to the registration of the former. But it does not contemplate cases where the use of the registered trade-mark is calculated to deceive. In such cases, the registered trade-mark could be viewed as the confusing trade-mark, and its use could be considered as a means by which to direct the public's attention to wares, services or business in such a way as to cause or be likely to cause confusion with those of another, the whole contrary to section 7 of the Act.

In fact, one can imagine a situation where the owner of a registered word mark purposely makes such mark look like the registered design mark of a competitor subsequent to its registration. But following the reasoning of the Court in the Oland case, a tribunal could now refuse to examine the

competitor's claims of passing-off because the registered trade-mark would be a complete answer to such claims.

However, the Court could have discarded Molson's grounds of appeal on a different basis: rather than concluding that passing-off could not be committed through the use of a registered trade-mark, the Court could have concluded in favour of Oland through the proper application of passing-off principles.

The practical result deriving from the Court's decision is that the owner of a registered trade-mark may now possibly use the mark deceitfully, while sheltered from passing-off claims, regardless of whether there is misuse of such mark.

In the Oland case, there was no evidence at trial indicating that Oland attempted to imitate the get-up of the Molson's wares. The introduction of Oland Export Ale in Ontario was directed by *Labatt Brewing Company Ltd.* ("Labatt"), a Canadian competitor of Molson and the owner of Oland, with a view to confirming its right to trade in Ontario and to improving Labatt's position in its opposition proceedings against Molson's application for the registration of the trade-mark "EXPORT".

Conclusion

The Court arguably extended the scope of rights granted to a registered trade-mark owner by making a somewhat literal interpretation of section 19 of the Act and by failing to address why section 7 of the Act could not be construed to also apply to registered trade-mark owners. This, in turn, could be viewed as weakening a basic tenet of Canadian trade-mark law, namely that the rights in a trade-mark are derived from its use rather than from its registration.

As Justice MacGuigan of the Federal Court of Appeal put it in *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1987), 14 C.P.R. (3d) 314 at p. 327, there is no need for a business "to register its mark in order to protect its right to use the trade mark and prevent the misuse of its trade mark by other businesses. The passing-off action was the enforcement mechanism available for the protection of trade mark rights. Without the passing-off action, common law trade mark rights would have little value."

