

Top 10 tips for effective licensing of Canadian trade-marks

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Under Canadian law, a trade-mark is generally valid only as long as it is distinctive of its owner – that is, where the mark designates a single source to the consumer. However, it is common in business for trade-mark owners to capitalize on the goodwill that has been built in their trade-marks by licensing the trade-marks to third parties. In such circumstances, it is important that trade-mark owners know how to mitigate the potential risk that a license may pose to valid and existing trade-mark rights in Canada.

The law. The possibility of eroding the distinctiveness of a trade-mark upon granting a license for a third party to use the mark results from the application of section 50 of the *Trade-marks Act* (“section 50”). Section 50 provides that the use of a trade-mark by a licensee is deemed to have the same effect as use by the owner of the trade-mark where the owner *maintains and exercises* direct or indirect control over the character or quality of the wares or services at issue. If public notice is given both of the fact that the use of a trade-mark is a licensed use and of the identity of the owner, it is presumed, unless the contrary is proven, that the use is licensed by the owner of the trade-mark and the character or quality of the wares or services is under the control of the owner.

Section 50 therefore preserves the distinctiveness of a licensed mark by attributing any use of the mark to only one source, namely, to the owner of the licensed mark. The protection afforded by section 50 is provided only where the owner of the licensed mark complies with the requirements of the provision. What follows are some practice tips on how owners may comply with section 50 in order to safely license their trade-marks in Canada.

1. **Set down a written licensing agreement:** Section 50 does not require the licence to be in writing nor does it specify a particular form for such agreements. However, a written licence will avoid the trouble of proving its existence if invalidity proceedings arise, as is often necessary with oral and implied agreements.
2. **Give public notice of the licence:** The Canadian *Trade-Marks Act* creates a presumption that the use is licensed and that quality control is exercised under the licence if “public notice” is given (a) that the use of the trade-mark is licensed, and (b) to identify the owner. A practical way to provide the required notice is to display this information on packages or labels of the licensed goods.
3. **Specify standards of use in the licensing agreement:** For a licence to comply with section 50, the owner must have, “under the licence, direct or indirect control of the character or quality of the wares or services.” One way to establish the required control is to stipulate in the licensing agreement that the wares or services offered by the licensee must conform to the standards, specifications and/or instructions approved by the owner.

4. **Set out inspection rights in the licensing agreement:** Another way to establish control in the licensing agreement is to provide the owner with the right to inspect the licensee's premises or samples of the product sold in order to ensure their compliance with the agreement's quality requirements. The owner should also exercise its right to inspect the licensee's operations on a regular basis.
5. **Provide training and operations manuals to licensees:** If a trade-mark is licensed for use in association with services, the requisite control under section 50 may also be established by controlling the licensee's operations. This can be done by instituting mandatory training programs for employees under the licence and/or providing regularly updated reference manuals.
6. **Maintain the right to terminate the licensing agreement:** Granting an irrevocable licence tacitly relinquishes the owner's right to exercise control over the character or quality of the wares or services associated with the trade-mark. To avoid this result, an owner should include a provision in any licensing agreement specifying that the owner maintains the right to terminate the licence if the licensee fails to abide by the agreed-upon quality standards or to respect the owner's inspection rights.
7. **Exercise caution in allowing sub-licensing:** If a licensee sub-licenses the trade-mark, the sub-licensee's use may reduce the distinctiveness of the mark – thus invalidating the owner's rights to it – if the sub-licensee's use is not within the owner's control. To avoid this consequence, the owner can prohibit sub-licensing or include in the licensing agreement a provision specifying that any sub-licence would be subject to the same terms and conditions as the original agreement between the owner and the licensee.
8. **Establish common leadership among the owner and licensee:** The fact that a licensee of a trade-mark is related to the owner – for example, a wholly owned subsidiary – is insufficient, without additional factors, to demonstrate the required control under section 50. That said, evidence of common leadership between the entities, which may take the form of overlap in the companies' presidents, directors or officers, may assist in establishing control.
9. **Control licensees' manufacturing:** Control under section 50 may be further established by supplying licensees with a component, such as a piece of computer code in the case of software manufacturing, necessary to the proper manufacture of the goods bearing the trade-mark.
10. **Contract distributors, not licensees:** Section 50 does not apply to mere distributors, wholesalers or retailers contracted by the trade-mark owner. Accordingly, a licence is not required for those relationships.

Conclusion. Trade-mark owners who are considering granting a license to use their mark must take care to ensure that any license granted complies with the requirements of section 50. Attacks on the validity of existing trade-marks based on the alleged loss of a trade-mark's distinctiveness because of non-compliance with section 50 are extremely common in Canada. It is always recommended that trade-mark owners consult with a trade-mark licensing expert before consenting to the use of their mark to ensure proper protection of the distinctiveness of their own mark in Canada.

For more information please contact:



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If you have any questions regarding the above, please do not hesitate to contact Ms Kroetch or a member of [our firm's Trade-marks group](#).

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