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"Trafficking" in a Trade Mark

GEORGE ROLSTON *

"Traffic's thy god: and thy god confound thee."
(William Shakespeare, Taming of the Shrew, Act 1, Sc. 1, l. 12)

The law of trade marks is generally understood to deal with the buying and selling of goods in association with a trade mark. However, there is an important though somewhat obscure branch of trade mark law dealing with buying and selling the trade mark itself, which is frequently of far greater significance than the main body of the law, particularly under modern business conditions in Canada. These latter transactions are known (and sometimes stigmatised) as "trafficking" in a trade mark, and can often result in such disastrous results to businessmen as to make the above quotation peculiarly apposite.

This article does not set out to deal with every case, British and Canadian, on the topic, nor are all such cases cited in the footnotes. On the contrary, this article will attempt to suggest a different approach to the leading cases from that which has been made in the past. Furthermore, the word "trafficking" is generally taken to imply some kind of illegal or improper dealings but this article will deal both with such improper dealings in trade marks and will also attempt to indicate what dealings in a trade mark are regarded as proper by law.

It should be noted at the outset that the old common law rules were radically changed by the Trade Marks Act of 1953 when changes were made, similar to those made in the British Trade Marks Act of 1938, and these provisions will be dealt with later. For convenience this article will therefore be divided into three parts. The first part deals with the common law prior to 1953 which is still of importance in considering this topic. The second part will touch briefly on the various exceptions to the common law, and the third part will discuss the changes made in 1953. The reason for this somewhat elaborate discussion lies in the fact that in order to take advantage of the 1953 provisions, the Statute must be complied with from the very beginning of any arrangement, and in many cases it is ignored until trouble looms on the horizon, at which point it is too late to put matters right.

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1 The Canadian Trade Marks Act, 1953, 1-2 Eliz. II, c. 49.
On the question of improper dealings or "trafficking" in trade marks, it has been said, for example, that:³

The object of the (trade marks) law is to preserve for a trader the reputation he has made for himself, not to help him in disposing of that reputation as of itself a marketable commodity, independent of his goodwill, to some other trader.

Indeed in earlier times it was thought that a man's trade mark or trade name could not be used even by his direct successors in business, since his custom and goodwill depended on his personal skill. However, at least since 1863 it has been the law both in England and in Canada, that a trade mark could be treated as a constituent part of the property of a business and that it could be leased (licensed) and sold (assigned) with the business, subject to certain very important limitations which will be discussed. This general principle was recognized in the leading case of Leather Cloth Co. v. The American Leather Cloth Co.⁴ where Lord Cranworth stated:

The right to a trade mark may in general treating it as property or an accessory of property be sold and transferred upon the sale or transfer of the manufactory of the goods on which the mark has been used to be affixed and may lawfully be used by the purchaser.

The limitations placed upon this general proposition were in fact much more important than the proposition itself and in turn subject to certain exceptions. The general basis of such limitations lies in the fundamental principle that a trade mark must not be allowed to confuse or mislead the public. If a trader permitted his trade mark to be used in a confusing manner the penalty imposed by the Courts was simply to refuse to prevent other traders from copying or "infringing" his mark (and thus indirectly giving their blessing to almost unlimited passing off—but that is another story).

This rule can be stated conversely in the terms that a trade mark can have existence only insofar as it is distinctive of the goods (or services) of a particular trader or of a particular "brand" of goods, etc., where the trader is undisclosed. When a trade mark ceases to be distinctive it is no longer a trade mark. If registered it becomes liable to be expunged from the Register as an "invalid" trade mark. If unregistered the effect will be to render an action for passing off useless. Prior to 1953 a trade mark could lose distinctiveness in a number of different ways.⁵ Of these, two are of

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² The British Trade Marks Act, 1938, 1 & 2 Geo. VI, c. 22.
⁴ (1863), 4 De G., J. & S. 137; 32 L.J. Ch. 721; 33 L.J. Ch. 199; 35 L.J. Ch. 53; 1 H. & M. 271; (1865), 11 H.L.C. 523; 11 Jure. N.S. 513.
⁵ Kerly on Trade Marks and Trade Names, 7th ed., chapter 14.
importance here. They are in fact the improper licensing of the trade mark and the improper assignment of it, resulting in use of the trade mark in a confusing manner. Under the common law an assignment of a trade mark was regarded as improper if it did not also assign the whole of the goodwill in the business in which the trade mark was used and of which it formed a constituent and valuable portion. Similarly, a licence to use a trade mark was regarded as improper if it did not also, in effect, licence the goodwill in the business, the reason being that a trader should not be permitted to carve up his reputation and sell portions of it to different persons, or to sell part and keep the remainder.

This is by no means the whole story, however. In many cases an improper licence or assignment was made which was in fact never acted upon with the result that the trade mark never lost its distinctiveness or became confusing in any way.

The cases are not always easy to follow. For example, in a number of cases the Courts have been able to settle the matter before them by merely holding that the assignment (or licence) was improper or "invalid" and therefore ineffective to transfer the trade mark, with the result that the assignee or licencsee was divested of his title and therefore lost the action. In these cases there may or may not have been evidence of substantial use of the mark by the assignee or licensee, but the Court has frequently been able to escape the question of whether the trade mark itself was no longer distinctive and hence invalid by merely deciding the question of title.

For the sake of illustration a list of some cases in which the court has taken this approach has been prepared though it is not suggested that this is exhaustive. Furthermore, it is of interest to note when reading through the cases on assignments and licences that in fact only a fraction have resulted in a finding of invalidity, and a sample list of such cases is also offered for comparison.

Some of the difficulties of the cases undoubtedly arise from the terminology. Thus it is common to find statements that "a trade mark cannot be assigned in gross", i.e., without the good will in the business. A corresponding statement concerning licences is that "licensing invalidates a trade mark".

Taken at face value these isolated phrases do appear to offer support for the proposition that the mere existence of an improper licence or assignment whether acted on or not is sufficient to invalidate a trade mark. Criticism has been directed against the harshness of such a rule, and it is difficult to see any logical basis


for its application. The writer is in complete agreement with such criticism but goes further and submits with respect that in fact no case has been decided in which such a rule has been enforced. Indeed, from the few cases which deal squarely with the issue of invalidity it appears that they are consistent in requiring that the licence or assignment must have been acted upon so as to result in actual confusion or deception by use before it will render the trade mark invalid.

On the point of licensing probably the best known case is that of Bowden Wire Limited v. Bowden Brake Co. Limited, which went to the House of Lords, in which all four Law Lords held that the trade mark had lost its distinctiveness. The facts in this case were briefly that the Bowden Wire Company was the “parent” company and the Bowden Brake Company was its “subsidiary”. The Wire Company had a number of patents and had two registered trade marks. The Wire Company licensed the Brake Company under the patents to manufacture certain components for use solely on pedal cycles and at the same time licensed the Brake Company to use the two trade marks in association with these goods. The Wire Company continued to trade on its own behalf in the field of motor cycle components and used the same two trade marks in association with its goods. After some years of trading on this basis a dispute arose between the two companies which led to this litigation with the result that the two trade marks of the Wire Company were held to have lost their distinctiveness and were ordered to be struck off the Register of Trade Marks. The opinions of their Lordships are of commendable brevity, that of Earl Loreburn being as follows:

I have had the advantage of seeing in print the opinion of Lord Dunedin. I agree with his conclusions and accordingly need say very little.

The Appellants have misconceived, or at all events misused, the protection which the law gives to a Trade Mark. The object of the law is to preserve for a trader the reputation he has made for himself, not to help him in disposing that reputation as of itself a marketable commodity, independent of his goodwill, to some other trader. If that were allowed, the public would be misled, because they might buy something in the belief that it was the make of a man whose reputation they knew, whereas it was the make of someone else. All this is elementary, and I only state it because a long argument was addressed to us in support of the proposition that the registration of a Trade Mark implies no representation to the public at all.

In this case the Appellants parcelled out the right to use their Trade Mark as if they had been dealing with a Patent. The particulars of the distribution are not important. It is enough that they enabled or allowed people, who were not registered for it, to use the Trade Mark on a substantial scale for their make of a description of goods dealt with habitually in the same class of business. I think the appeal should be dismissed.

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8 H. G. Fox, Trade Mark Assignments and Licenses in Canada, 35 T.M.R. 7; C. Robinson, Use of Trade Marks in Canada by Canadian Subsidiaries of Foreign Companies, 5 C.P.R. 86.
9 Kerly on Trade Marks, 6th ed., 425.
10 Bowden case, supra, footnote 3.
11 Ibid., at p. 392.
An example of a case on the question of an improper assignment is that of *Lacteosote Ltd. v. Alberman.* In this case a French manufacturer made a cough mixture in France, to which he applied a distinctive trade mark, part of which was the name "Sirop Famel". He registered the trade mark in England and sold large quantities of the mixture both in France and in England. After about 17 years the French manufacturer assigned the whole of the English business in his cough mixture to the plaintiff, Lacteosote Ltd. Lacteosote did not manufacture the cough mixture but merely imported the product from France, and about a year later Lacteosote registered virtually the same trade mark with the descriptive written matter translated into English. Soon afterwards Alberman bought the French manufacturer's cough mixture in France and sold it in England under the French version of the Trade Mark. Lacteosote sued Alberman for infringement of its trade mark, and Alberman pleaded by way of defence that the trade mark was "invalid" because the assignment was improper and the subsequent use under the assignment rendered the trade mark deceptive. It was held by Clauson J. that the assignment from the French manufacturer to Lacteosote was improper because it did not assign the whole of the French manufacturer's business in England but only assigned the importing and selling part of the business. The assignment did not therefore pass the whole of the goodwill in the business but only a portion of it, leaving the remainder in the French manufacturer and under the then existing doctrine this was regarded as improper. The subsequent use made by Lacteosote of the trade mark was held to be deceptive and accordingly the trade mark was ordered to be struck off the Register.

In both cases the judgments referred specifically to two basic constituents, namely:

(a) The existence of rights to use the trade mark in two persons (in the case of the Licence), and the severance of the rights in the goodwill from the rights in the trade mark between two persons (in the case of the Assignment).

(b) The exercise by both persons of their respective rights on a substantial scale.

The Canadian cases on this topic have in fact followed the same logical principle and thus for example in *Moyer v. Holland* the Court held that in order to invalidate a trade mark the assignment must have been acted upon. Similarly, in *Peggy Sage Inc. v. Siegel Kahn Co. of Canada Ltd.*, McLean J. summarized the effect of the Bowden Wire decision in the following words:

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12 *Lacteosote case, supra, footnote 7.*

13 This particular principle is probably no longer good law in view of the changes introduced in the Trade Marks Act, *supra, footnote 1, secs. 47 and 48,* but at that time it was a necessary result of the application of the common law.


The principle deducible from the decision of the House of Lords, applicable to the controversy here, is, in my opinion, that a licensing of a trade mark in gross, as the phrase goes, and the use of that mark by an unregistered licencee, on goods manufactured and marketed by such licencee as his goods, and not those of the registered owner of the mark, vitiates the registered mark, in the Bowden case, the first registered mark.

Again, in Battle Creek, etc. v. Kellogg, etc., Ferguson J. A. said:

I find as a fact that the contract of sale was not intended or calculated to, and its (the trade mark's) use by the Plaintiffs in Canada did not deceive or mislead the public as to the origin or manufacture of the goods offered for sale by the Plaintiffs. . . . There is no evidence that they thereby deceived their customers or the public. . . .

The issue does not appear to have been dealt with directly in the more recent English cases, perhaps because the British Trade Marks Act has been in force since 1938 and the advantages available under its provisions are more familiar and more widely used.

It is therefore of considerable interest to compare the latest pronouncements on this subject by the House of Lords on the one hand and the Exchequer Court of Canada on the other, both in 1959. The Canadian case is that of Siscoe Vermiculite Mines Ltd. v. Munn and Steele Inc., the facts of which were that the Respondent, Munn and Steele, was a United States corporation and had a Canadian trade mark registration "Mificafil" which at some time in the past it had licensed to the Petitioner, Siscoe Vermiculite. By this action the Petitioner sought to expunge the registration of the Respondent from the Trade Mark Register on the grounds, inter alia, that the mark had become publici juris by reason of the licence granted by the Respondent to the Petitioner. On the question of licensing, it was held by Thurlow J. that there had been a licensing of the trade mark by the Respondent to the Petitioner and furthermore that the Petitioner had made use of the trade mark to a limited extent. However, he declined to hold that the trade mark had thereby become liable to be expunged on the ground that there was no evidence before him that the use by the Petitioner had resulted in public confusion. This case is therefore authority for the proposition that it is the use of the trade mark which invalidates it and not the mere licensing of it.

The English case is that of T. Oertli AG. v. E. J. Bowman (London) Ltd. et al., the facts of which were that the Plaintiff company manufactured mixers in Sweden and sold them in Great Britain under the name "Turmix". In 1948 the Plaintiff licensed the Defendants under certain British patents to manufacture the mixers in Great Britain and to sell them under the name "Turmix", which was in fact registered as a trade mark in the name of the Plaintiff company. The Defendant carried on under this arrangement until about 1952 when a dispute arose, shortly after which the Defen-

dant made certain changes in the mixers and changed the name from “Turmix” to “Magimix”. The Plaintiff sued the Defendant for passing off its mixers as and for those of the Plaintiff, alleging as part of their case that the name “Magimix” was confusing with the name “Turmix”. The Plaintiff did not attempt to sue for infringement of its registered trade mark, nor did the Defendant attempt to invalidate the trade mark or prove loss of distinctiveness, by reason of the licensing agreement. It was held by the House of Lords that the Defendant had not passed off its mixers for those of the Plaintiff and accordingly the Plaintiff lost the action. However, in the course of his judgment, Viscount Simmonds commented on the issue of licensing when he made certain observations as to the failure of the Plaintiff to sue for infringement of its registered trade mark, and concluded that such failure was due to the fact that the trade mark had become invalid by reason of the licence. He then went on to deal at length with the issue of passing off, and the question of whether the mark was in fact distinctive of the Plaintiff’s mixers. It is noteworthy that in order to establish a case of passing off it is necessary for a Plaintiff to prove that the trade mark he uses on his goods is in fact well known to the public and is distinctive of his goods, i.e., identifies them and sets them apart from similar goods of other traders. This is unnecessary in the statutory action for infringement of a registered trade mark and the statutory remedy is therefore preferable, involving as it does a lower burden of proof. It is clear, however, that the licensing of a trade mark so that it actually loses distinctiveness is equally fatal both to the statutory right and to the common law right, since the effect is the same in either case. In the light of these considerations it is therefore difficult to understand what persuaded the Plaintiff to waive its rights under the statute and merely to rely on the common law passing off action, though possibly the Plaintiff may have had further reasons for doubting the validity of its trade mark registration, quite apart from the issue of licensing. Such problems, however, lead to some further difficulties in following the opinions of their Lordships. For example, Viscount Simmonds, when dealing with this issue observed that the trade mark registration was not relied upon presumably because it had become invalid by reason of the licensing. He then examined the evidence offered in support of the passing off case, and eventually concluded that the Plaintiff had failed to prove distinctiveness. However, if Viscount Simmonds was right in his presumption that the trade mark registration was invalid for licensing, then a fortiori, the passing off action failed since it involved attempting to prove distinctiveness affirmatively, and in fact distinctiveness had been lost by reason of the licensing of the trade mark. From the report of the case, however, it is clear that the issue of licensing was not raised, and so the question of whether the trade mark, registered or unregistered, had lost its distinctiveness for this reason was not in fact squarely before the Court. The remarks of His Lordship on the invalidity of the regis-
tered trade mark must therefore be treated as *obiter* and as of no authority for the proposition that mere licensing of a trade mark, without more, results in invalidity.

In conclusion, therefore, it would seem that the rule is well established, at least in Canada, that when an assignment or licence of a trade mark, whether registered or unregistered, has been made, which in fact has resulted in public confusion or deception, then that trade mark loses distinctiveness and becomes unenforceable either under the statute or at common law.

Conversely, where an assignment or a licence has been executed, but the trade mark has not been used by virtue thereof so as to cause confusion or deception then the trade mark does not lose its distinctiveness, whether in fact the assignment or licence was one which the law regards as improper or not.

**PART B**

*Exceptions to the General Rules—Prior to 1953*

Exhaustive discussions of the various exceptions made by the Courts to the general rules relating to assignments and licences of trade marks will be found elsewhere, and it is not for the writer to attempt to improve on them here. Rather, I will merely comment on some of the cases to see whether they support the general principle set out under Part A above or whether in fact they are true exceptions to it.

The exceptions are generally said to be found in cases where there is an agency relationship, and also where the arrangement is between either related or associated companies.

1. *Agency*

In a true case of an agency relationship between say, a manufacturer-owner of a trade mark and a retailer, there is no difficulty. The retailer may in fact enter into an agency agreement with the manufacturer which may include a licence of the trade mark which, by itself, the law would regard as improper. It is well established, however, that whether with or without such licence the retailer-agent has every right to sell the goods of the manufacturer-principal, in the normal course of trade, under the manufacturer's trade mark. Such use by the retailer involves no misrepresentation to the public since the retailer is neither selling his own goods as those of some other person nor is he selling some other person's goods as his own. The existence of a licence of the trade mark does not alter this position. This much is clear.

It is, however, important to make the distinction between the validity of the licence and the validity of the trade mark. While

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19 Kerly on Trade Marks, 7th ed.; H. G. Fox, Canadian Law of Trade Marks and Unfair Competition, 2nd ed.
there is no doubt that such use by the retailer-agent does not invalidate the trade mark, it would seem to follow that if the licence is itself improper, the retailer-agent acquires no title to the trade mark and no right to enforce the mark himself.

This exception will therefore be seen to be in accord with the basic principle I have examined under Part A. The leading Canadian case in which it is relied upon, is that of *Seigel Kahn v. Peggy Sage*21 where McLean J., after summarizing the effect of the *Bowden Wire* case, went on to examine the facts of the case before him. Briefly, Peggy Sage Inc., a United States company, had registered the trade mark "Peggy Sage" in the United States and in Canada. Peggy Sage Inc. entered into an agreement with N.W. Limited, a Canadian company, making it the exclusive manufacturing and selling agent in Canada of Peggy Sage Inc., and giving it the right to use the trade mark "Peggy Sage" on such goods. Seigel Kahn then registered the trade mark "Peggy Royal" in respect of similar goods, and later sought to have the trade mark "Peggy Sage" expunged from the Register on the grounds that (a) by the agreement the Respondent, Peggy Sage Inc., had parted with its rights to such trade mark in Canada and the same had thereby become vitiated, and (b) that dealers and users were led to believe that the goods made and sold by N.W. Limited were the goods of Peggy Sage Inc. On these facts McLean J. held that N.W. Limited manufactured the goods in Canada as agent for Peggy Sage Inc. and applied the trade mark "Peggy Sage" to such goods on its behalf. Accordingly, in McLean J.'s judgment there was no confusion or deception, since the public was not led to believe that the goods were any other than those of Peggy Sage Inc.

It is not entirely clear why McLean J. thought that this arrangement did not give rise to deception and confusion. In fact it would seem to be equally confusing whether the public connects the goods with the owner of the trade mark, or whether it connects them with the licencee of the mark, provided a possibility of confusion does exist by reason of the use of the mark by two different people. In fact it would be hard to distinguish this case from that of the *Bowden Wire* case, were it not for this very factor. In the *Bowden Wire* case the two companies were located in the same country, Great Britain, and both sold goods in that country under the same mark. In *Seigel Kahn v. Peggy Sage* the two companies were located in different countries, namely, Peggy Sage Inc. in the United States and N.W. Limited in Canada, and they sold their goods in their respective countries. In the result, in the *Bowden Wire* case, the public in Great Britain had similar goods offered to them, bearing identical marks and manufactured by two different persons, and were thereby confused. In *Seigel Kahn* the Canadian public had the goods of N.W. Limited offered to it exclusively, without the possibility of confusing them with the goods of Peggy Sage Inc., and

21 *Supra*, footnote 15.
were therefore not confused. It would therefore seem reasonable to suggest that this case is authority for the proposition that even where Company A is licensed by Company B to use B's trade mark, and A does so use it, the trade mark will not lose distinctiveness as long as all the goods available bearing that mark in that country in fact emanate from the one company, A.

However, it is suggested that the case of agency is nonetheless an eminently reasonable exception to make, and should be equally applicable to a situation where a principal appoints a number of agents to manufacture its goods and sell them under its mark, all within the same jurisdiction, provided a true agency relationship exists.

A special case of agency may exist in the case of a patent licence agreement. It quite frequently occurs that where a company grants a licence under a patent to another company a term of the licence agreement is that the licensee will sell the goods it manufactures under the patent licence under the registered trade mark of the owner of the patent. This is what in fact occurred in the case of A. Manus v. R. J. Fullwood and Bland Ltd., 22 the facts of which were somewhat similar to the case already mentioned of T. Oertli AG v. Bowman, and were briefly that the Plaintiff was a Swedish company manufacturing milking machines and it sold its machines in Great Britain under the name “Manus”. On the outbreak of hostilities in September, 1939, it became impossible for the Swedish company to continue to export its goods to Great Britain and accordingly it sought to make alternative arrangements. Such arrangements included the licensing of its importing agent, the Defendant in this case, to manufacture the milking machines under the Plaintiff’s British patents, and to sell them in Britain under the trade mark “Manus”, this last provision of the agreement being mandatory on the Defendant. The Defendant continued to manufacture throughout the period of the war. After the war the Swedish manufacturer sought to re-enter the British market with its own machine, and therefore terminated the arrangements with the Defendants. However, the Defendants continued to manufacture and sell and accordingly the Plaintiff brought this action to restrain them from selling milking machines under the trade mark “Manus”. The Defendants resisted this action on the grounds, *inter alia*, that the term in the patent licence requiring it to place the name “Manus” on all milking machines manufactured by it and sold in Great Britain in fact amounted to a licensing of the registered trade mark, which therefore lost distinctiveness and became unenforceable. However, the Court did not accept this defence and held that the arrangement did not amount to licensing of the trade mark so as to cause it to lose distinctiveness, but was merely an arrangement made by the Plaintiff to keep its name before the public during the war, when it could no longer do so on its own behalf. This arrangement will be

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22 (1948), 65 R.P.C. 329.
seen to be in fact very similar to that in the *Bowden Wire* case noted above, and indeed, as Dr. Fox put it:23

It is somewhat difficult to see wherein an obligation to use a trade mark, which does not invalidate it, differs from a permission to use a trade mark, which carries invalidity with it.

It is suggested, however, that the reason that the trade mark was not invalid by reason of the licensing in this case is similar to that obtaining in the *Seigel Kahn* case, namely, that there was in fact no possibility of confusion in the minds of the general public because, at no time, were there two persons using the same mark on similar goods in the same country.

2. *Related Companies*

The exception under this heading is by no means so easy to support as that under the heading of Agency. It is said that where Company A owns a trade mark and licenses it to subsidiary or related companies, A1, A2, etc., over which it exercises substantial control, and such trade mark is in fact used, then the licence is not objectionable since the companies are related and therefore are all one organization. The case in which this proposition was put forward is that of *Good Humour Corporation of America v. Good Humour Food Products Ltd. et al.*24 The facts were, briefly, that the Plaintiff, Good Humour Corporation of America, owned many subsidiary companies in the United States, and it owned the registered trade mark "Good Humour" in the United States and in Canada. Under a franchise agreement it leased its rights under the trade mark in the United States to its subsidiary companies, which were in fact located exclusively in the United States. The company did not apparently do business in Canada at all. The Defendant, Good Humour Food Products Ltd., was a Canadian company and subsequently registered the trade mark "Good Humour" in Canada for a somewhat different classification of goods. The Plaintiff sued the Defendant for infringement of its registered trade mark in Canada, and the Defendant relied, *inter alia*, on the fact that the Plaintiff had licensed its trade mark to a number of other companies and that it had therefore lost distinctiveness. It was held by Anger J. that the licensing of the trade mark "Good Humour" by the Plaintiff to its subsidiaries did not affect the validity of the mark because the Plaintiff and its subsidiaries constituted one organization and that in the result the public was not confused.

It is not clear whether the learned Judge thought that the fact that the companies were related to one another in some way deprived them of their independent legal personality, or whether the "one organization" had some kind of independent legal personality of its own, either of which propositions would appear to offer interesting possibilities for research to students of Company Law.

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It is submitted, however, that it was unnecessary to put forward any such proposition in this case. The Good Humour Corporation of America and its subsidiaries traded exclusively in the U.S.A. The operation of a franchise agreement of this type in that country is the accepted practice and is apparently free from objection under U.S. law. No business was ever done in Canada in this manner, though the trade mark “Good Humour” was apparently registered in Canada. It therefore follows that nothing was ever done in Canada in the way, either of licensing the trade mark, or of using the trade mark under a licence, and therefore the trade mark would not have lost whatever distinctiveness it may have had.

Further doubt is cast upon this decision by the earlier case in the Supreme Court of Canada, of Crean v. Dobbs, the facts of which were, briefly, that the Petitioner, Dobbs and Company, was a retailer of hats and was a subsidiary company of another U.S. corporation which manufactured hats. Dobbs and Company registered the trade mark “Dobbs” for hats which were manufactured for it by the manufacturing company. The manufacturing company also sold hats under the name “Dobbs” in various other parts of the United States, and exported them into Canada through an agent. About ten years later the Respondent, Robert Crean and Company Ltd., a Canadian company, registered the trade mark “Dan Dobbs” for hats in Canada and some time later this petition was brought by Dobbs and Company to expunge the registration. It was held by the Supreme Court of Canada that the prior user of the mark “Dobbs” by the U.S. manufacturing company on hats sold in Canada, prevented the Respondent, Crean, from registering the trade mark “Dan Dobbs” for hats, and accordingly its registration was ordered to be expunged. However, the Supreme Court of Canada also held that the arrangement between Dobbs and Company and its parent manufacturing corporation amounted to licensing of its trade mark which accordingly lost distinctiveness. In particular, it is of interest that the Supreme Court of Canada held that the use in Canada by the parent corporation was not the same as use by the subsidiary and that the two companies were separate and distinct legal entities, in spite of the fact that one was the subsidiary of the other.

In view of this decision of the Supreme Court of Canada, it is submitted that little reliance can in fact be placed upon the Good Humour case, and that if it is desired to license a trade mark between parent and subsidiary companies in Canada this should be done in the manner provided for by the statute.

PART C

The Trade Marks Act, 1953

By sections 47, 49 and 50 the Canadian Trade Marks Act of 1953 has virtually abolished the restrictions on assignments of trade

25 Supra, footnote 7.
marks, and has introduced a form of statutory license by means of which the use of a trade mark may be licensed to another person or persons without becoming invalid, and this part of my Article will be divided accordingly.

1. Assignments

Section 47(1)—A trade mark, whether registered or unregistered, is transferable, and deemed always to have been transferable, either in connection with or separately from the good will of the business and in respect of either all or some of the wares or services in association with which it has been used.

Section 47(2)—Nothing in subsection (1) prevents a trade mark from being held not to be distinctive if as a result of a transfer thereof there subsisted rights in two or more persons to the use of confusing trade marks and such rights were exercised by such persons.

There have been as yet no decisions on this section and accordingly its precise effect is a matter of conjecture. However, the writer suggests that as far as the question of the validity of the trade mark assigned is concerned, it has effected little change in the law. Prior to 1953 the trade mark was invalid only if the assignment had been acted upon. This is in fact what subsection (2) of section 47 says.

As far as the effect of the assignment is concerned, it is clear that since 1953 mere failure to assign the good will does not prevent title from passing to the assignee, a provision that has been welcomed as freeing businessmen from the obstructive provisions of outmoded rules, and its effect can only be beneficial.

A comparison with the equivalent provisions in the British Trade Marks Act 1938 is instructive. Section 22 of the Trade Marks Act 1938 deals exclusively with the form and effect of the assignment, and only in subsection (4) is there any reference to the effect of the use of the trade mark under the assignment, and even here the reference is to the “existence of rights in two persons” rather than the “exercise of rights by two persons” as in the Canadian Act.

Section 22(1)—Notwithstanding any rule of law or equity to the contrary, a registered trade mark shall be, and shall be deemed always to have been, assignable and transmissible either in connection with the goodwill of a business or not.

Section 22(4)—A trade mark shall not be assignable if, as a result of the assignment, there would subsist exclusive rights in more than one of the persons concerned to the use of trade marks which would be likely to deceive or cause confusion.

In particular, it is to be observed that section 22 neither re-states nor abolishes the common law rule relating to the validity of the trade mark assigned, which accordingly is still applicable, in fact in much the same terms as those of section 47(2) of the Canadian Trade Marks Act.
Other differences between the equivalent Canadian and British provisions are also of interest. Thus the Canadian provisions apply both to registered and unregistered or "common law" trade marks, whereas the British Act applies only to registered trade marks (except in the special circumstances of subsection (3)), thus leaving the situation unchanged as regards the majority of unregistered trade marks. The British Act also provides for registration of the assignment on the Trade Marks Register after approval by the Registrar of Trade Marks (section 22(5)), whereas the Canadian Act contains no effective provision for approval, or refusal, by a Registrar beyond the formal requirements of section 47(3).

In conclusion, it is submitted that the Canadian provisions as to assignments are probably of much greater benefit to the business community than the corresponding British provisions, while yet retaining safeguards against abuse which are at least as effective as those contained in the British Act.

2. Licensing

The statutory licence was first brought into being by the British Trade Marks Act of 1938, and, when the British draftsmen sought to relieve the restrictive rules of the common law, one of their happier inspirations was to change the name "licensee" to "registered user", and thus remove much of the odium attached to this type of transaction in the earlier English cases. The general effect of the provisions in the British Act was to enable an owner of a trade mark to grant a statutory licence to use his mark to another person without turning over the goodwill of his business, subject to certain safeguards, while leaving untouched the common law restrictions on licensing of trade marks where confusion or deception actually occurs. The Trade Marks Act 1938 provides:

Section 28(1)—Subject to the provisions of this section, a person other than the proprietor of a trade mark may be registered as a registered user thereof in respect of all or any of the goods in respect of which it is registered (otherwise than as a defensive trade mark) and either with or without conditions or restrictions.

Section 28(2)—The permitted use of a trade mark shall be deemed to be use by the proprietor thereof, and shall be deemed not to be use by a person other than the proprietor, for the purposes of section twenty-six of this Act and for any other purpose for which such use is material under this Act or at common law.

The section also provides for the application for registration as a registered user and for the specific requirement that, before registering a person as a "registered user" the Registrar shall be satisfied that the use of the trade mark . . . by the registered user . . . would not be contrary to the public interest." The Act further provides that the Registrar shall refuse the application where it appears to tend to facilitate trafficking in a trade mark (subsection (6)). The Act significantly provides that the registra-
It will be seen therefore that provided the owner and the registered user stay within the section the licensing of the registered (though not of an unregistered) trade mark is now possible in Britain. Any use made by the registered user is deemed to be use by the owner and thus everything done by the registered user to promote and publicize the trade mark operates to benefit the owner, and all goodwill and reputation connected with the trade mark vest in the owner. However, the Act enables the registered user to preserve his rights, under the contract between him and the owner, against infringement by permitting him to call upon the owner to sue infringers and if he defaults for two months, to commence suit in his own name, joining the owner as defendant. The effect of this provision is not clear. It appears that the section does not intend the registered user to acquire rights in the trade mark. Yet the registered user is permitted to sue as if he had such rights. In strict principle his only right would be in contract, against the owner of the trade mark, and by permitting the registered user to sue infringers the Act is enabling him to enforce his contractual right against a third party. However, it seems an eminently sound and practical provision and avoids some awkward points as to the quantum of damages which might be raised were a registered user to attempt to sue the owner on the contract under these circumstances.

Turning now to the Canadian Trade Marks Act, section 49 contains provisions for a similar type of statutory licence. However, it is of interest that section 49 contains no provision for the rejection of the application by the Registrar if it would facilitate trafficking in the trade mark. Section 50 of the 1953 Act also deals with the question of licensing of trade marks.

Section 50—The use of a trade mark by a licensee before the coming into force of this Act and within one year thereafter shall not be held to invalidate such trade mark if,

(a) the licensing was between related companies; . . .

(Section 50 in fact contains two further subsections.)

It will be seen that section 50 is stated negatively and refers to use of the trade mark by the licensee, and not merely to the existence of rights, as in the British Trade Marks Act. This difference of approach is thus exhibited both by the assignment provisions and by the registered user provisions and seems to indicate that the British draftsmen were more concerned with the existence of rights in a trade mark, whereas the Canadian draftsmen were concerned with what use was actually made of the trade mark, and this latter approach would seem to have much to commend it.
In two respects the Canadian provisions are somewhat less strict than the British provisions. By section 28(2) of the British Trade Marks Act, use by the registered user is "deemed to be use by the owner for all purposes", and is further "deemed not to be use by any other person". By section 49(3) of the Canadian Act, "use by the registered user has the same effect as use by the owner for all purposes".

It is perhaps unfortunate that the Canadian draftsmen chose to reword the British section which appears to leave no room for doubt as to its purport. In fact this difference in wording may leave room for argument that in Canada the registered user is not entirely precluded from acquiring rights in the trade mark itself by use quite apart from the contract, whereas the British provision clearly excludes this possibility. Furthermore, an application for registration of a registered user in Britain must state whether it is to be a sole registered user or whether there may be a number of such persons. No such requirement is made in the Canadian Act. This factor may be important in assisting the Registrar to come to his decision under the public interest provisions, and if the information is not given he may even be under a misunderstanding as to the relationship, at least until a second application is made for a second registered user, at which point he can, of course, refuse registration.26

Two further questions arise in connection with registered user agreements. A registered user agreement can only be made in respect of a registered trade mark. A registered trade mark is itself liable to be expunged from the register for a number of reasons, which may have nothing to do with its distinctiveness in relation to goods. What then is the position of an owner of a registered trade mark who grants a registered user to another person and that other person then proceeds to use the trade mark in the manner provided for a considerable period. At some point an infringer appears, and the owner sues him for infringement of his registered trade mark. The infringer succeeds in having the trade mark registration expunged from the register for some technical reason and the owner is left to seek his remedy at common law for "passing off". Is it at that point, open to the infringer to say, "The owner has licensed his unregistered trade mark to another person, and that other person has used the trade mark, and the unregistered mark therefore lost its distinctiveness." No answer is offered by either the British or the Canadian Act. There is one possible approach, however, namely that the Registrar of Trade Marks would never consent, under the public interest provisions, to permit a registered user arrangement which in fact could result in confusion or deception of the public, and therefore, merely because the trade mark registration is expunged because of some technicality, that by itself does not render the use of the mark by the registered user deceptive.

26 Actomin Products Ltd.'s Application (1953), 70 R.P.C. 201.
or confusing. Indeed, if such an argument were put forward, there is no doubt at all that the defendant would have to prove affirmatively that the public confusion or deception had occurred on a substantial scale.

The second point arises out of section 50(a) of the Canadian Act which mentions licensing of a mark between related companies. This section merely provides that use of a trade mark in exercise of such a licence before the Act and for one year after the coming into force of the Act will not invalidate the mark. The inevitable conclusion is, however, that if such use is continued more than one year after the Act comes into force then it will be open to the Court to declare that it has invalidated the trade mark.

This would appear to offer considerable support to the writer's contention that the purported exception to the common law rule against licensing, in the case of related or associated companies, is not good law.

One final word on the registered user provisions, in the Canadian Act, is that they should be used only with caution. Any attempt to set up a registered user arrangement should be made only after the whole association has been examined from the viewpoint of section 49(10) (c). It must always be remembered that these provisions do not abrogate the common law, either expressly or impliedly, as far as the validity of the trade mark itself is concerned. The traditional common law sanction is always available to any trade mark litigant, namely, that the trade mark in question has been so used by virtue of the licence, as to create confusion or deception in the public. This is the very abuse which the early cases were seeking to prevent, namely trafficking in a trade mark, and there is nothing in the Act to suggest that the Legislature has now given its approval to this practice.

27 Sec. 49(10) (c) (i) provides:
The registration of a person as a registered user of a trade mark may be cancelled . . . by the Exchequer Court of Canada . . . (where) . . . the registered user has used the trade mark otherwise than by way of the permitted use, or in such a way as to cause, or be likely to cause, deception or confusion.