

Torys on Intellectual Property

IP 2010-5

March 17, 2010

Canadian Court Clarifies Degree of Control Required in Trademark Licensing Arrangement

By [Ingrid VanderElst](#) and [Jonathan Tryansky](#)

In Canada, a trademark registrant risks having its mark expunged from the Trade-marks Register if it fails to use the mark in association with the wares and services set out in the registration.

Historically, the “use” requirement was problematic in the context of a licensing arrangement because the registered owner of the mark is not the entity actually selling wares or providing services associated with the trademark. As a result of legislative amendments in 1993, the *Trade-marks Act* permits trademark use through licensing and sublicensing, and provides that a licensee’s use of a trademark will be for the benefit of the licensor provided that the licensor maintains “direct or indirect control over the character or quality of the wares or services.”

Until recently, case law provided that sufficient control could be established if the sublicense was explicitly made subject to the terms and conditions of control contained in the master licensing agreement.¹ In *Tucumcari Aero, Inc. v. Cassels, Brock & Blackwell LLP* (March 9, 2010), the Federal Court of Canada appears to have relaxed, somewhat, the requirements to establish control.

Tucumcari involved an appeal of a Trade-marks Registrar decision to expunge Tucumcari’s trademark MOTO-MIRROR and design, on the basis of non-use. Tucumcari had licensed the mark under a master licence agreement and the licensee had, in turn, sublicensed the mark under a sublicense agreement. The evidence before the Registrar showed use of the trademark in Canada by the sublicensee, but was vague regarding the degree of control exercised through either the master licence agreement or the sublicense agreement. In the Registrar’s view, there was insufficient evidence to show the requisite degree of control over the sublicensee’s use of the trademark by Tucumcari and, on this basis, the trademark was expunged.

Tucumcari appealed the Registrar’s decision to the Federal Court. At trial, Tucumcari submitted additional evidence, including copies of the master trademark licensing agreement and sublicense agreement. The master licence agreement contemplated a right of inspection by Tucumcari and provided that the licensee could only apply the licensed trademark to products of a quality previously approved by Tucumcari. In turn, the sublicense agreement provided that the products manufactured by the sublicensee must be in accordance with the licensee’s approved design and manufacture.

¹ *Sara Lee Corp. v. Intellectual Property Holding Co.*, [1997] 76 C.P.R. (3d) 71, T.M.O.B. No. 95 (QL).

To discuss these issues, please contact the authors.

For permission to copy or distribute our publications, contact [Robyn Packard](#), Manager, Publishing.

To contact us, please email info@torys.com.

Torys’ bulletins can be accessed under Publications on our website at www.torys.com or through the Torys iPhone app.

This bulletin is a general discussion of certain legal and related developments and should not be relied upon as legal advice. If you require legal advice, we would be pleased to discuss the issues in this bulletin with you, in the context of your particular circumstances.

© 2010 by Torys LLP.
All rights reserved.

The Federal Court reasoned that if the sublicensee produced deficient products, Tucumcari could terminate the master licence agreement, which would effectively end the sublicense. On this basis, the Federal Court held that the agreements between Tucumcari and its licensee and between the licensee and its supplier (the sublicensee) were sufficient to establish Tucumcari's indirect control over the quality of the products bearing the licensed trademark. The Court further noted that a licensor is not required to continuously monitor the quality of the wares sold by a sublicensee in association with the licensed trademark.

Although the Court noted that “no special conditions or language” is required to establish continuity of quality control, trademark owners would be well-advised to ensure that appropriate provisions are included in their licence agreements to preserve the continued validity of their marks. In particular, trademark licence agreements should always set out the licensor's quality control rights vis-à-vis licensees and impose upon licensees an obligation to monitor product quality under any sublicense agreements. Rights of inspection and rights of termination should also be included. Further, trademark licence agreements should provide the trademark owner with a right to notice of, and power to approve or refuse, any sublicensing arrangement. **1**