Intellectual Property Institute of Canada (IPIC) Submission on Bill S-5, An Act to Amend the Tobacco Act, Non-smokers Health Act, and Consequential amendments to others

Submission to the Senate Standing Committee on Social Affairs, Science and Technology

April 6, 2017
INTRODUCTION

The Intellectual Property Institute of Canada (IPIC) is the professional association of trademark agents, patent agents and lawyers practicing in all areas of intellectual property law.

Our membership totals over 1,700 individuals, consisting of practitioners in law firms and patent and trademark agencies of all sizes. Our members also include sole practitioners, in-house corporate intellectual property professionals, government personnel, and academics.

Our members’ clients include virtually all Canadian businesses, universities and other institutions that have an interest in intellectual property (e.g. trademarks, patents, copyright and industrial designs) in Canada or elsewhere, and also foreign companies who hold intellectual property rights in Canada. On behalf of those entities, IPIC’s members take steps to clear, register and enforce intellectual property rights, including trademarks, in Canada and abroad.

EXECUTIVE SUMMARY

The Intellectual Property Institute of Canada (IPIC) is responding to Bill S-5 (“the Bill”), which introduces new tobacco and vaping products legislation. Specifically, we note that Bill S-5 renames the Tobacco Act to Tobacco and Vaping Products Act. It also includes “provisions to protect youth from nicotine addiction and tobacco use; allow adults to access vaping products as likely less harmful alternatives to tobacco use; and protect the health and safety of Canadians through a variety of means.”

IPIC views the changes as primarily a health policy matter and is not expressing an opinion on health policy. Rather, the purpose of this submission is to ensure that the Government is aware of how the proposed amendments would affect trademark rights for brand owners in Canada, impact consumer confusion, particularly related to possible counterfeit goods and affect Canada’s International Treaty obligations related to trademarks. In addition, we wish to bring to the Government’s attention the fact that the new legislation may expose the Government of Canada to an increased risk of liability for damage claims from some brand owners.

OVERVIEW OF CANADIAN TRADEMARKS AND BRANDING PROTECTION

A trademark is used to identify a particular company’s product or service. It can be a word, design, phrase, symbol, sound, smell and/or a combination of these elements. It can include both packaging and the shaping of goods. A trademark points clearly to the origin of the goods and services with which it is associated. It is legally reserved for use only by the owner of the trademark.

Trade names are words that are used to identify a business, and are often a short-form for full corporate name. For example, a business name may be XWZ Canada Inc., whereas that company’s tradename could be merely XWZ, or could be something completely different such as Sail Canada.
Trade dress is a term used to refer to the general appearance of goods and packages that are distinctive of a particular company, and contribute to the consumer impression of the source of goods.

Trademarks, trade names and trade dress can be protected in Canada, with rights arising from both use and registration. For the purpose of this submission, the term “trademarks” is used to apply to all features of branding, including trademarks, trade names and trade dress.

Trademarks are protected under the law for two purposes: first, they provide an important aid for the consumer in differentiating among competing companies, products and services, and second, they are critical in attracting and maintaining the loyalty of consumers, who use the marks as visual clues to quickly, easily and reliably select their preferred goods and services. For these reasons, trademarks often become valuable property for the producers of those goods and services. The business investments made to obtain, maintain, and protect trademarks can be substantial, and are often very valuable business assets.

Trademark rights in Canada are currently acquired through use. Specifically, a trademark used in Canada acquires “common law” rights, and can also be registered. Marks used and registered in other countries may also be registered and enforced in Canada. The ability to control and enforce rights in a mark also depends upon use, and trademark rights in Canada may be lost through extended periods of non-use. In addition, if a trademark registration is obtained, but the owner cannot subsequently show recent use of its mark, then the registration is not only subject to cancellation, but the owner may not be able to enforce its rights against unauthorized users.

[The Trade-marks Act has been amended to eliminate the need to declare “use” as a registration requirement. These amendments are not yet in place. Implementation of the amendments do not impact IPIC’s comments on the Bill.]

“Use” is a defined term under the Trade-marks Act, which is important in analyzing any limitations on marking of tobacco and vaping products. Section 4 of the Trade-marks Act provides that, for goods:

“a trade-mark is deemed to be used in association with goods if, at the time of the transfer of the property in or possession of the goods, in the normal course of trade it is marked on the goods themselves, or on the packages in which they are distributed or it is in any other manner so associated with the goods that notice of the association is then given to the person whom the property or possession is transferred.”

In summary, the essence of “use” of a trademark is marking on the goods themselves. Bill S-5, without specifying what limitations on use will be set, leaving those to regulations, will impact “use” of marks, which may have very important consequences for both trademark owners and consumers of tobacco and vaping products, and may put Canada off-side international treaty obligations.
IMPACT OF THE BILL ON TRADEMARKS

The Bill, as drafted, leaves the specifics of any limitations on the use of trademarks on tobacco and vaping products to the regulations, upon which IPIC will, when appropriate, provide its comments. However, the Bill’s intent, as noted in Government announcements, is to legislate “plain packaging” for tobacco and vaping products, and thus limit the nature of trademarks that may appear on such goods and their packages. For word marks, that may mean restrictions on the specific words that may appear, as well as the placement, colour, font, and size of such words. For design marks and other trade dress features, that may mean total prohibitions against use. All such trademarks are now used by manufacturers, sellers and consumers to identify and distinguish the goods of one trader from others. Such limitations will impact trademark owners, affect consumers, and expose the Canadian Government to liability relating to international treaty obligations.

1. Enforcement of Valid Trademark Rights

The Bill clarifies that in a summary non-use proceeding, trademark registration rights may not necessarily be lost due to compliance with the amendments. However, what is not addressed is the impact of non-use of both registered and unregistered marks on enforcement of rights in the event of infringement, passing off or depreciation of goodwill. Currently, a trademark owner cannot enforce a mark it does not use, and the regulations under the Bill will likely prevent trademark owners from using some or all branding elements. This will apply not only with respect to unauthorized use by other tobacco product manufacturers, but by others using infringing or confusingly similar marks on unrelated goods, that would otherwise be actionable under the current law.

Recommendation: That the Bill also address enforcement of marks that cannot be used to the likely restrictions on use of various types of branding elements.

2. Potential Loss of Rights if Marks Not Already Registered

Trademark owners have the choice of when to apply to register their marks - before or after use in Canada. However, once a mark is abandoned, or no longer used, the applicant ceases to be able to register it. Any change in the regulatory framework that will prohibit use will mean that many marks now used, including words and designs, will no longer be used, and therefore can no longer be registered. Rights in certain word marks and presumably all unregistered design or other prohibited marks will effectively be lost. Inability to register such marks, which would now be registrable, will destroy the owner’s right to challenge unauthorized parties for infringement, passing off and depreciation of goodwill, whether such use relates to tobacco or other products.
3. Issues with Counterfeiting

Owners of many well-known and successful brands, covering various industries, are the victims of counterfeiting. Counterfeiting occurs when an unauthorized third party manufactures, imports/exports, distributes, sells or otherwise deals in goods under trademarks that, on their face, are indistinguishable from the goods and trademarks of the genuine goods manufacturer. Any branded product can be counterfeited and this includes cigarettes and other tobacco products. Any steps that remove distinctive trade dress elements from goods and packaging may make it easier for counterfeiters to copy genuine brands. This impacts not only genuine goods manufacturers, but also consumers, who may not acquire the intended goods, and may also be exposed to health and safety issues associated with counterfeit merchandise.

In addition, the Government loses when counterfeit goods are sold. At present, it is our understanding that counterfeiting is a practice commonly carried out by organized crime and that counterfeit goods may be sold through the black market. This has potential adverse implications on taxes, as well as enforcement costs.

4. Potential to Affect Rights of Those with Similar Names

There are blanket prohibitions in the Bill regarding the use of trademarks used to identify tobacco brands. These prohibitions could inadvertently affect individuals who incidentally have the same name or surname as a former trademark used to identify a tobacco brand. By way of example, a Mr. DuMaurier may inadvertently be prohibited from using the mark DUMAURIER for clothing. Similarly, there may be marks that are not only registered and used for tobacco products, but also used/registered by other parties for other goods and services.

Recommendation: The new legislation should clarify that the restrictions only apply to use of branding elements that will, if used for other goods and services, be only associated with existing tobacco and/or vaping products.

IMPACT OF THE BILL ON CANADA’S TREATY OBLIGATIONS

As indicated above, in considering legislation in relation to Bill S-5, the Government should be cognizant of Canada’s international treaty obligations. Requiring tobacco companies to remove their trademarks from packaging could potentially conflict with the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the North American Free Trade Agreement (NAFTA).
a. TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights)

Article 20 of TRIPS, to which Canada is a signatory member, states “the use of a trade-mark in the course of trade shall not be unjustifiably encumbered by special requirements, such as use with another trade-mark, use in a special form, or use in a manner detrimental to its capability to distinguish the goods or services of one undertaking from those of other undertakings.”

Article 15 states “the nature of the goods or services to which a trade-mark is to be applied shall in no case form an obstacle to registration of the trade-mark.”

By prohibiting use of the full range of trademarks that may now appear on tobacco products, including word marks, in letters of different sizes, colours and fonts, as well as other design marks and features of trade dress, the Government may be imposing special requirements that encumber the use of such trademarks without justification contrary to Article 20 of TRIPS.

Article 15 may also be violated. As noted above, in Canada, trademark rights are acquired through use. A valid trademark registration cannot be obtained without use in Canada prior to its registration. In prohibiting the use of word and particularly design marks on tobacco packaging, the proposed legislation will effectively prevent businesses from registering such marks for tobacco products in Canada.

b. NAFTA (North American Free Trade Agreement)

Chapter 11 of NAFTA relates to the protection of investment interests between Canada, Mexico and the United States.

Article 1708 states that “the nature of the goods or services to which a trade-mark is to be applied shall in no case form an obstacle to the registration of the trade-mark.”

As noted above, by limiting the use of certain marks on tobacco/vaping products, the Bill will form an obstacle to registration of such marks.

Article 1110 states “no party may directly or indirectly nationalize or expropriate an investment of an investor of another party in its territory or take a measure tantamount to nationalize or expropriation of such an investment except:

a) for a public purpose;
b) on a non-discriminatory basis;
c) in accordance with due process of the law and Article 1105(1); and
d) on payment of compensation”
A trademark can be a valuable asset of a company worth billions of dollars. For example, as found on the Government of Canada’s website, the TD Bank trademark is estimated to be worth 10.8 billion dollars. (See: http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/wr00058.html)

Many tobacco trademarks, including design marks and trade dress, have been used and registered as trademarks for decades, have become very well known, and have very valuable goodwill. In effectively preventing brand owners from using valuable trademarks, the legislation may operate to expropriate not only such marks, but also the investment in these trademarks and goodwill, all of which are valuable business assets. It is expected that businesses affected by the new legislation, many of whom are located in Canada, may seek compensation for such loss. Unless the Canadian Government is prepared to fairly compensate trademark owners for the losses arising from the implementation of the Bill, it may conflict with NAFTA.

Recommendation: That the Government consider how it can, or will, be able to fully compensate trademark owners for the value of lost, or expropriated trademarks and goodwill, both of which are valuable business assets.