Intellectual Property Institute of Canada (IPIC) Submission on Bill S-228, An Act to Amend the Food and Drugs Act (prohibiting food and beverage marketing directed at children)

Submission to:

Senate Committee on Social Affairs, Science and Technology

May, 2017
IPIC is providing initial comments to Bill S-228, an enactment to amend the Food and Drugs Act to prohibit food and beverage marketing directed at persons under 13 years of age. We have identified a number of issues, and would be pleased to discuss them with you.

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 Bill S-228 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.

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.

“Use” is a defined term under the Trade-marks Act, which is important in analyzing any limitations on advertising and labelling of food 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-228 will impact “use” of marks, which may have very important consequences for both trademark owners and consumers of food, and may put Canada off-side international treaty obligations.

A. IMPACT OF THE BILL ON TRADEMARKS

1. Loss of Existing Trademark Rights

Bill S-228 could result in an overly broad prohibition against the display of many word and design trademarks (brand elements, section 7.2 (4)) on any food (not just unhealthy food), its packaging, and in the context of its promotion and advertisement. For example, section 7.1 contains a broad prohibition against labelling or packaging of food in a manner that is “directly primarily” at children, and s. 7.2 prohibits advertising of foods “directed primarily at children. The concept of “directed primarily at children” is unclear, even with the clarification in s. 7.2(2), since that suggests that advertising in publications for persons more than 13 years old may still offend. To then go on to prohibit publishing of ads (s. 7.3(1), including ads outside of Canada (s.7.3(3)) effectively constrains the use of normal branding elements or trademarks on food products that may be not only “primarily” for children, but could be for all persons. Similarly, the provisions on testimonial or an endorsement (s. 7.4, and in particular the statement that the depiction of a person, character or animal, real or fictional, is considered an endorsement, would curtail the use of many famous trademarks.)
Although “promote” is not specifically defined, it would reasonably cover the display and sale of food. The concept of “directed primarily at children” is also unclear, but in today’s commerce, that could encompass all manner of display, advertising and sale.

The impact of the prohibitions are highlighted by s. 7.6, which broadly prohibit the sale of foods packaged, advertised or promoted contrary to the draft provisions of the Bill. This would result in a prohibition against the use and advertising of many well-known branding elements, or trademarks, many of which may have been used for decades, and are important and valuable trademarks.

2. Impact on Trademarks Used but Not 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 the use of trademarks, or branding elements, will mean that marks now used will no longer be used, and therefore can no longer be registered. Rights in such unregistered marks will effectively be destroyed, and will destroy the owner’s right to challenge unauthorized parties for infringement, passing off and depreciation of goodwill.

3. Validity of Trademarks

Prohibited trademarks will become vulnerable to summary non-use cancellation proceedings and to invalidity attacks for non-use and loss of distinctive character.

4. Enforcement of Valid Trademark Rights

Currently, a trademark owner cannot enforce a mark it does not use, and the Bill will likely prevent trademark owners from using some branding elements, effectively preventing it from challenging unauthorized uses, on the same or similar goods and services, and eliminating legal rights to prevent infringement, passing off or depreciation of goodwill.

5. 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 food. 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.

B. IMPACT OF THE BILL ON CANADA’ TREATY OBLIGATIONS

As indicated above, in considering legislation in relation to Bill S-228, the Government should be cognizant of Canada’s international treaty obligations. Requiring food companies to remove some of their trademarks from food 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 many trademarks that may now appear on food products, 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 food packaging, the proposed legislation will effectively prevent businesses from registering such marks for food 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 food 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 food 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.