



# Blaneys on Business

This newsletter is designed to bring news of changes to the law, new law, interesting deals and other matters of interest to our commercial clients and friends. We hope you will find it interesting, and welcome your comments.

Feel free to contact any of the lawyers who wrote or are quoted in these articles for more information, or call the head of our Corporate/Commercial group, Alex Mesbur at 416.593.3949 or [amesbur@blaney.com](mailto:amesbur@blaney.com).

*“The behaviour of directors and executives of corporations is under the most intense regulatory and public scrutiny in history.”*

## A CAUTIONARY TALE FOR CORPORATE DIRECTORS

Rodney L.K. Smith

The behaviour of directors and executives of corporations is under the most intense regulatory and public scrutiny in history.

What is the right thing for a director to do in a given situation? Does a director have to read and understand an agreement that comes before the board? What reliance can be placed on recommendations from a board committee? Does a director have to read a consultant's report? What is the director's potential legal exposure? Directors have been increasingly asking these kinds of questions.

Some enlightenment can be found in a court decision in a case involving a major Canadian-based paper company, Repap, and the way it went about awarding a new compensation package to its senior executive officer and Chairman-elect, a Mr. Berg.

Mr. Berg was most pleased with his package. In the space of thirty short minutes the Board of Directors had approved the whole thing – a generous salary with a lengthy term of employment, a substantial bonus structure, termination and change-of-control protection, and stock options amounting to 13.4 per cent of the public

company. It was a package Mr. Berg claimed was worth \$27 million.

Curiously, the board, for the most part, did not know Mr. Berg, had not recruited him and had just met him.

In a lawsuit that followed, the Court declared the agreement supporting the package invalid. The Court's assessment of the people and the process, and its reasons for setting aside the package, are compelling and should be required reading for directors and senior officers of both public and private companies.

For an account of this case and the lessons it teaches, please go to:

[www.blaney.com/cautionary.html](http://www.blaney.com/cautionary.html)

and read Rodney Smith's article,

*“A Cautionary Tale For Corporate Directors”.*

## TRADE-MARK REGISTRATION – SWORD AND SHIELD

Steven L. Nemetz

A recent decision of the Ontario Court of Appeal in favour of maritime brewer Oland Breweries Limited and its 1951 trade-mark registration for its Oland's "Export" beer label has confirmed the benefits of obtaining a trade-mark registration in Canada.

*“...a Canadian trade-mark registration may not only be used as a sword in trade-mark duels to protect one’s goodwill but can also be used as a shield in effectively fending off the thrust and parry of others.”*

Steven L. Nemetz is a member of Blaney McMurtry’s Corporate/commercial practice. He was called to the Bar of Ontario in 1983. A Master of Laws in intellectual property law from Osgoode Hall Law School, he is a registered Trade-mark agent, a member of the Intellectual Property Institute of Canada, the International Trademark Association, the Copyright Society of the U.S.A., and the Licensing Executives Society. Mr. Nemetz currently serves as Co-Chair of the Entertainment, Media & Communications Section of the Ontario Bar Association and as a member of the executive of the Information Technology and E-Commerce Section of the Ontario Bar Association.

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Molson Canada had brewed and sold its ale in Ontario under the brand name “Export” since 1955. Nonetheless, because of Oland’s trade-mark registration, Molson was unsuccessful in its legal challenge to Oland’s 1996 introduction into Ontario of “Oland Export Ale”, replete with a red, gold and white label, on the basis that Oland’s actions caused confusion with “Molson Export”, contrary to the law of passing off (in this case Molson alleged Oland was “passing off,” or creating a misrepresentation regarding, its export ale in relation to that of Molsons’).

The Court’s decision confirms that a Canadian trade-mark registration may not only be used as a sword in trade-mark duels to protect one’s goodwill but can also be used as a shield in effectively fending off the thrust and parry of others.

There is, of course, no requirement that a trade-mark be registered. Molson’s own attempts to register the brand name “Export” had, not surprisingly, been resisted over the years by its competitor Labatt. If an unregistered mark is sufficiently well known, there may be rights at common law in the context of a passing off action to protect a mark from someone who uses it without permission to trade upon the goodwill in a mark. However, if your trade-mark is not registered you will be at a disadvantage. It is generally easier to establish infringement of a registered trade-mark than to establish passing off at common law. In a passing off action, the person seeking to enforce its rights in an unregistered trade-mark must establish not only ownership of the mark but a sufficient degree of reputation in that mark. If successful, these rights will be limited to the geographic area where such reputation can be established.

However, there are significant benefits that flow from registering a trade-mark.

The principal benefits of registration are that section 19 of the *Trade-marks Act* (Canada), grants the owner of a registered trade-mark the exclusive right to the use throughout Canada of the trade-mark in respect of the wares or services covered by the registration. Accordingly, there is no need to prove your reputation in your trade-mark to stop others from using it. Moreover, by section 20 of the *Trade-marks Act*, your right in a registered trade-mark is deemed to be infringed by a person who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade name. Additionally, once a trade-mark has been registered for five years it achieves a measure of incontestability in that the registration cannot be invalidated on the basis of prior use unless it is established that the trade-mark owner adopted the registered mark with knowledge of such prior use – a difficult hurdle to overcome.

Registered trade-marks can be used deftly as swords in the protection of the goodwill encompassed by your trade-mark. It is generally easier to establish infringement of a registered trade-mark than passing off. As well, since a trade-mark infringement action may be brought in the Federal Court of Canada, the relief granted by that court is effective across Canada. Even at the earliest stage the impact of being able to wave a maple-leafed stamped certificate of registration in the face of an alleged infringer cannot be underestimated in encouraging early settlement in your favour.

In the above-mentioned decision, Molson, having no “Export” trade-mark registration upon which to rely, had to resort to an action for

*“I often advise my clients that a trade-mark registration is one of the best dollar value business insurance policies available, especially since it has no annual premium.”*

passing off based on its unregistered rights and had to bring its action in the provincial court.

But as the *Oland* decision demonstrates, a trade-mark registration is not just a sword, it is a shield as well. The Ontario Court of Appeal confirmed that a trade-mark registration will be a complete defence to any action that may be brought against one for passing off unless the trade-mark registration can found to be invalid.

In *Molson Canada v. Oland Breweries Limited*, the Ontario Court of Appeal found Oland’s 1951 trade-mark registration for its “Export” beer label a complete defence to Molson’s claim of passing off by Oland as a result of the commencement of sale in 1996 of “Oland Export Ale” in Ontario. Until this Court decision there had been conflicting views as to whether the mere fact of registration was a good defence to an action for passing off. The Ontario Court of Appeal found that section 19 of the *Trade-marks Act*, which grants the owner of a registered trade-mark the exclusive right to the use throughout Canada of the trade-mark in respect of the wares or services [read: “Export” label design for beer] covered by the registration means just that and if a competitor [read: Molson] takes exception to that use its sole recourse is to attack the validity of the registration.

I often advise my clients that a trade-mark registration is one of the best dollar value business insurance policies available, especially since it has no annual premium. When you weigh the value of the goodwill in your trade-mark against the typical cost of a Canadian trade-mark registration which doesn’t encounter problems in the registration process (\$2,000 inclusive of government fees), that would certainly seem to be good dollar value. The argument for registration is even more compelling when you consider, in

addition, that the value of your trade-marks will hopefully increase over time. A Canadian trade-mark registration need only be renewed once every 15 years, but it is renewable indefinitely. In the case of *Oland*, its 1951 trade-mark registration protected its 1996 entry into the Ontario market notwithstanding Molson’s claims of much earlier reputation for its “Export” ale in the Ontario market.

Now, given this recent clarification of the meaning of the “exclusive use in Canada” to which the owner of a trade-mark registration is entitled in its trade-mark, it seems that anyone concerned with protecting their valuable goodwill in an existing trade-mark or expected goodwill in a proposed trade-mark should not hesitate to give serious consideration to obtaining a registration of their trade-mark. ■

#### INTERNATIONAL LEGAL ADVICE AVAILABLE THROUGH BLANEYS

Joan H. Garson

Blaney McMurtry LLP has become a member of a global business law network and, as a result, the firm’s clients are now getting first class and highly responsive professional representation and service on the ground in Quebec, the West, the Atlantic, the United States and 68 other countries.

The name of our network is TAGLaw. Based in St. Petersburg, Florida, it connects 122 firms and 5,000 lawyers operating in 15 specialty groups from 245 locations on every continent. That makes it more than twice the size of all but the largest global law firms.

## BLANEYS ON BUSINESS

*“...when we refer a client to another TAGLaw firm, we have every confidence that their business will get immediate attention and that they will be provided excellent service.”*

Joan H. Garson is a partner in Blaney McMurtry's corporate/commercial group. She provides counsel to entrepreneurial businesses in respect of their ongoing operations, as well as secured transactions, shareholders' agreements, acquisitions and divestitures. She also dedicates a significant portion of her practice to advising family businesses on such key issues as managing growth and inter-generational change. She and Michael Penman, a senior Partner in Blaneys' litigation practice, serve as the firm's TAGLaw contacts.

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Several years ago we started examining ways to provide competent on-site counsel at reasonable prices throughout Canada and around the world because our clients were doing business in a number of places and needed the support.

We wanted to continue as a mid size firm – it's a great model for our clients and us – and we didn't want to merge with other law firms. A New York firm with which we have had a relationship for 15 years referred us to TAGLaw. We met with TAGLaw's CEO, Peter Appleton-Jones. We liked him and his values and the way he did due diligence on prospective members.

He was very strong in identifying like-minded firms. He was also very clear about the network's requirement that members deliver on their TAGLaw charter commitments (to provide excellent, timely and cost-effective legal services; to develop and maintain strong client relationships and personal service enhanced by the international resources shared among network members, and to communicate clearly with clients on terms of professional engagement and progress of business).

Our experience has been that TAGLaw files get immediate attention. If they don't, and if that turns out to be systemic, the firm in question is severed from the network.

So, when we refer a client to another TAGLaw firm, we have every confidence that their business will get immediate attention and that they will be provided excellent service.

Blaneys has connected TAGLaw partners with a number of clients during the eighteen months that we have been part of the network.

In one instance, a long-standing Toronto client wanted to set up an office in North Carolina

and needed to know the legal and regulatory requirements there. We contacted our Raleigh-based TAGLaw partner, Maupins Taylor P.A., which packaged and sent the relevant information – enough, in fact, so that our client's CFO was able to do the necessary work and save several thousand dollars in transaction fees in the process.

Another Toronto client, a distributor, wanted to have a product made in China and needed legal help structuring the appropriate agreement with the Chinese manufacturer. We put the client together with our Shanghai-based TAGLaw partner, Lehman, Lee & Xu. The arrangements were made expeditiously and a supply line vital to our client was established.

A third Toronto client group wanted to develop oil and natural gas reserves in the Gulf of Mexico and the Caribbean and wanted to incorporate a company in Texas for that purpose. We asked our Dallas-based TAGLaw partner, Munsch Hardt Kopf & Harr, P.C. to provide our clients with the incorporation and corporate structuring counsel and services they needed.

So far, our clients have expressed a high level of satisfaction with the counsel and service they have received from our TAGLaw partners and that's just great, because if it's working for our clients, it's obviously working for us. ■

EXPECT THE BEST

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We welcome your comments. Address changes, mailing instructions or requests for additional copies should be directed to Chris Jones at 416 593.7221 ext. 3030 or by email to