



March 11, 2018

By On-Line Submission to: ic.cipo-consultations-opic.ic@canada.ca

Mr. Mesmin Pierre,
Director General,
Trade-marks Branch
Department of Industry
Place du Portage Phase 1
50 Victoria St. Rm C236-10
Gatineau, Quebec

Dear Madam:

RE: Consultation on Trade-marks Regulations Canada Gazette, Part 1 dated February 10, 2018

This communication is in response to the call for comment on the proposed text of the Trade-mark regulations and the Regulatory Impact Analysis Statement.

Our Federation, the Fédération Internationale des Conseils en Propriété Intellectuelle (FICPI) has a total membership of over 5000 intellectual property attorneys in private practice in over 86 countries around the world.

FICPI Canada is a self-governing national association of FICPI International. FICPI Canada represents the interests of Canadian patent and trade-mark professionals as well as the wide variety of clients our members represent. Our membership counts amongst it senior professionals at most major intellectual property firms responsible for filing the vast majority of patent and trade-mark applications that are submitted to the Canadian IP Office each year. It is significant that our members' clients represent all types and sizes of businesses, including multinational corporations but also small and medium size enterprises, individuals and entities such as Universities. We therefore must always seek a balanced approach that looks to the welfare of the Intellectual Property system overall and the needs of each of these types of users. As an organization we have found, of late, that it is the voice of SMEs most frequently left unheard. We therefore work diligently to ensure that our positions include the interests of this valuable and important component of our Canadian economy.

The stated primary objective of the proposed Regulations is to allow accession to the treaties, carrying out the regime set out in the Trademarks Act currently awaiting coming into force. The proposed regulatory changes will meet this stated objective. However, the Regulations fail to deliver on other objectives such as lowering cost and increasing certainty for users of the system. Furthermore, while the Madrid filing system will be of benefit to larger Canadian business who file in multiple countries the Regulations as currently drafted do not balance the needs of Canadian small business against other users of the system. The Regulations have also failed to address what has been a significant problem in other countries – abusive registrations.

Cost-benefit Statement

We believe that the costs of the proposed regulations to users will be greater than was estimated and will discuss this in greater detail below. However, perhaps more significantly, it is Canadian small businesses that will be called upon to absorb the costs disproportionately. In the view of FICPI, more should be done to balance the benefits and costs so that no one user group is disadvantaged.

Canadian small businesses are far more likely than other types of applicants to delay protecting their marks through registration until well after use of a mark commences when the company reaches more solid financial footing. Sometimes for a start-up, needs other than intellectual property are prioritized at first.

The common law system, which accords rights in trade marks through use, provides something of a safety net in respect of this practice as, at least local, rights may be acquired through use without the need for registration. The benefits of filing years after first use of a mark into a system that acknowledges and reflects prior use-based rights are significant for Canadian small businesses and start-ups.

A Declaration of Use, which is a formal legal document and not simply an “*unsworn and unverified statement*”, provides third parties with *prima facie* notification of when use based rights commenced - these rights are then transformed into registered rights with their greater enforcement and deterrence value. While any use claim can in due course be challenged, frequently they are not. As such, declarations of use are an effective defensive tool utilized by Canadian small business to avoid legal challenge and its associated cost that match remarkably well with the usual business evolution of a small business. Removing the right to transform use-based rights dating back in time and the right to obtain a registration reflecting early use based rights adversely affects Canadian small business and start-ups. Removing the availability of this defensive mechanism is unfair when viewed through the “small business lens”.

Classification

Classification serves no useful purpose other than affording a simple means of collecting filing fees. It does not, under the old Act or new, change how confusion is assessed. It

is an administratively advantageous approach and one that is internationally accepted, but unfortunately it is also one that causes disproportional harm to small business.

Canadian small businesses, like all applicants, will bear the cost of classification for administrative convenience and because classification is necessary under the Treaties. The difference between small Canadian businesses and large multinational corporations is that the former is very unlikely to derive any benefit from the availability of the Madrid system, whereas the latter enjoys an immediate and continuing benefit. Classification is a tax on small business to make available a tool useful only to larger entities with business interests in more than two or three different countries. While the Madrid system, as a tool, may be valuable to larger companies who might consider the cost of classification to be offset by the value of Madrid filings, viewed through the “small business lens” the proposed system is unbalanced. It is our position that it is beneficial for the Madrid system to be made available but greater effort must be made to ensure that the overall system does not advantage large entities at the expense of small ones. A few small changes would result in a system that affords large entities the possibility of Madrid filings but also contains checks and balances that ensure small businesses are not disproportionately disadvantaged.

Greater Complexity

It has been well recognized that the proposed regulatory system no longer requiring a statement of use when a mark has in fact been used, will result in increased costs for all users of the system in respect of trademark search, clearance and enforcement work. This is because, unlike the situation currently, the future register will tell a business nothing about whether there is use of a particular mark in Canada and therefore whether that mark might present a serious obstacle. An experienced trade mark professional can today make a reasonable assessment as to the level of significance of a potentially problematic mark by relying on the presence or absence of use information contained on the register. This will no longer be possible under the Regulations as drafted. Effective search and clearance will require looking beyond the register to other commercial sources. Because there is no requirement regarding use, there will be more unsupported claims that will have to be assessed during search and clearance. This will increase the cost to conduct all searches. The problem will not stop there. Once filed, there will be an enhanced likelihood of a confusion citation merely because Applicants able to pay the higher fees associated with a multiclass application can register and maintain indefinitely a registration covering classes well beyond those of genuine business interest. Once investigation suggests no legitimate rights some form of challenge is necessary. Therefore, the small business owner faced with a problematic third party registration with questionably valid claims will have two choices – abandon its chosen mark and re-brand, or challenge the entity who has claimed and maintained rights in spite of having no commercial interest in the mark. Both options involve increased cost for Canadian business. Viewed through the “small business lens” and mindful of the fact that the small business will not be benefitting from use of the Madrid system by filing in multiple countries and regions, the regulatory framework is unbalanced in favour of larger entities.

Restructuring of Fees

As noted previously during related consultations, the proposed restructuring of fees also disadvantages small business. A small Canadian business with a limited budget for IP protection might choose to use the domestic application process as a clearance tool. If a chosen mark is applied for and clears both examination and opposition stages, it will be formally adopted, used and will be registered. If substantial hurdles are encountered during examination or if the application is opposed, another mark can be chosen with the small Canadian business having paid only a portion of the cost of registration up-front. It is beneficial to small business that current fees are structured such that a portion of registration costs are payable on application with the remainder payable on registration. The bifurcated payment currently in effect works for Canadian small business. In front-loading the costs, the proposed structure disadvantages Canadian small business using the application process as a clearance tool with the intention of abandoning the application and the mark early in the process if difficulties are encountered. When viewed through the “small business lens” this proposed change disproportionately affects small business, and in particular Canadian small businesses who do not have the resources to perform exhaustive clearance searches and to “test” registrability through the application process.

Abusive Registrations

Abusive registrations are those sought not because of a genuine interest on the part of the applicant in using the mark to brand its goods or services but for the sole purpose of being sold back to a trademark owner who has a true and legitimate commercial interest in the mark. This might happen when the true owner has registered in some, but not all, jurisdictions and the abusive registrant capitalizes on the availability of the mark to grab it and sell it back to the owner. It might also happen when an owner has used but is simply late registering. This practice is nothing more than trafficking in trademarks. The losers are the businesses who are faced with the choice of paying what can be exorbitant sums, litigating, or otherwise challenging the abusive registrant - or re-branding. This is true in spite of the business having a genuine interest in the mark and facing an adversary whose sole motivation is to sell the registration for profit.

Abusive registration is a significant problem in some jurisdictions such as China. Canadian business owners are increasingly attempting to register in these squatter-friendly countries, only to find their marks already registered. These entities registering often large numbers of marks have no intention of using the mark commercially but rather operate under a business model that simply requires them to be first to register marks and to sell them to interested entities who usually do have legitimate rights or interests in the mark. The cost to buy such a registration can be tens of thousands of dollars or more. While China has introduced initiatives aimed at improving the situation, the practice remains so common that it is not just possible but probable that this will be encountered when a good faith applicant seeks registration.

The problem of bad faith applications and the problems these cause for legitimate trademark owners is so significant that one of the main tasks of the TM 5 Working Group (comprising the US, China, Japan, Korea and the EU) over the past 5 years has been to study and analyze abusive or bad faith applications with a view to sharing ideas for limiting the practice in these five main trademarks offices. Korea and Japan now have policies such as extra fees when listing large numbers of goods/services or examining an application to determine if there is bad faith. The European Union has recently made bad faith a formal ground of administrative challenge. On the other hand, the US, with its requirements to prove use at various points in the process, is relatively unaffected by bad faith registrations.

There are currently hurdles built into the Canadian system which discourage abusive registrations. Like the US, Canada's current system, requiring use in Canada or abroad and/or an intention to use, prevents many instances of abusive registrations. When abusive registration has been attempted, the Opposition Board has relied upon the current provisions of the act in finding bad faith.

Under the new system Canada will lose the two main deterrents to prevent bad faith applications. There is, under the new Act and Regulations, no requirement relating to use that might stop or limit unsubstantiated claims. Second, there will no longer be provisions available to challenge a bad faith applicant through Opposition – the grounds currently relied upon have been revised out of the Act.

While all trademark owners suffer when a system is rife with abusive registrants attempting to sell an owner rights to his own mark, the harm is disproportionately borne by those who do not seek to protect their rights prior to using the mark. This means small business will be particularly susceptible to having their marks registered by a third party and being held to ransom as they are more likely to delay registration. Trademark trafficking will be burdensome and inconvenient for larger entities – it will be devastating for many small businesses. There is absolutely nothing in the newly proposed framework that prevents or reduces the likelihood of widespread abusive registrations. Indeed, as other countries are increasingly taking measures to prevent this practice, it is possible Canada will become one of the only major industrialized countries whose system invites such abuses. Viewed through the “small business lens” this failure to address abusive registrations stands to harm Canadian small business disproportionately.

Bad Faith Ground of Opposition

Abusive registration practice will continue and indeed thrive without adequate means for those with legitimate interests in a mark to stop trademark squatters. It is not clear under the proposed Act and Regulations how this can be done. FICPI urges reconsideration of means of ensuring that bad faith can be relied upon to successfully oppose an application.

Solution

The concerns raised above could have been mitigated with a few simple revisions to the proposed rules as suggested previously by FICPI and other organizations. Mechanisms that reward clarification regarding use and hinder claims not supported by use would bring better balance to the system.

Voluntary Declarations of Use

As suggested previously, a modification that would help small business would be the ability to file formal statements as to use that would be recognized, for example in Opposition, as *prima facie* proof of use as of the date claimed. This would of course be a rebuttable presumption and anyone claiming it would have to prove use if challenged, ideally with ramifications for invalid claims. The voluntary statements of use could be used as a mechanism relied upon by small business to pre-empt or reduce the likelihood of costly challenges from others. All that would be required would be for CIPO to accept such statements and to ensure the information was reflected on the database and visible to third parties.

This voluntary nature of the declaration makes it entirely consistent with the *Act* and the process could easily be adopted through regulatory revision or even through procedural modifications. What is essential is the ability to voluntarily make a formal declaration and for that statement to be considered *prima facie* valid, if rebuttable, in Opposition. This small change would better balance the system supporting the needs of SMEs who must avoid or reduce the cost and likelihood of contentious proceedings.

A secondary benefit associated with voluntary statements of use is that they would simplify search and clearance work, at least to some extent. Search results for the portion of marks having declarations would notify that a particular mark was in use, at least as of a particular date. This stands to reduce the cost of searching and also the amount and therefore cost of providing external analysis.

Reliance on voluntary statements of use solves the difficulty of the rights of Canadian small businesses being challenged more frequently simply because third parties have no idea whether a mark is in use or not. However, such statements do not address the problem of bad faith applications or applications covering goods and services completely unrelated to the those actually offered by the business. In the interest of addressing these issues FICPI continues to advocate for a post registration proof of use requirement. If regulators are unwilling to revise the system to incorporate proof of use requirements for all registrants at certain points in time, then we suggest that CIPO, as a matter of procedure, issue S. 45 cancellation notices between the third anniversary of registration and renewal in respect of all registrations for which a voluntary declaration of use was not filed. This will clear the register of deadwood and abusive registrations thereby making it easier and less expensive for small business to search, clear, adopt and register marks in Canada.

We continue to support the proposals of the International Trademark Association, an organization of more than 6,800 trademark owners and professional firms representing these owners, dated July 21, 2017. INTA called for Registrar-initiated cancellation if a registration, for example, contained more than a certain number of classes. We also note that INTA's suggestion of voluntary declarations used to forestall registrar-initiated cancellation is consistent with FICPI's stated position.

One-for-One Rule

We respectfully advise that at least some of the assumptions relied upon when calculating annualized administrative cost of the regulations are incorrect.

By way of example, CIPO has estimated that removing the requirement to file Statements of Opposition in duplicate will "save opposition parties 0.3 hours of an agent's time". This is a vast over-estimate and in fact no client would accept agency rates for a clerical function such as copying. The charges associated with this, if any, would be in the form of a disbursement relating to copying and would be negligible. Similarly, the estimate of a saving of 2 hours of agent time through the facility of electronic submission of evidence is a gross over-estimation. While these changes are welcomed and will reduce administrative burden, the burden is very much a clerical one, billed accordingly and at a fraction of what CIPO has estimated.

It is also problematic that CIPO has considered "agent" costs without differentiating between foreign and Canadian agents. It has been stated that allowing applicants to take certain actions without using appointed agents will save 0.05 hours of agent time thereby allowing an applicant to use their own clerical staff to pay a fee. However Canadian business are free to do this now and need not rely on an Agent. Furthermore, a clerical cost remains whether it is an Agents clerk or a clerk of the Applicant company who deals with this task. Therefore, it is difficult to see how there are any cost savings to Canadian business associated with this change. If there are cost savings, these are to foreign owners or companies handling clerical matters who are required to use a Canadian agent. As with Canadian applicants, the tasks still have an administrative cost - it is just being shifted off-shore. Furthermore, while CIPO presumes that these routine tasks will be handled by an applicant itself, it is more likely they will be assigned to a commercial service provider not located in Canada. Again, the calculated cost does not change - what changes is that a Canadian based service provider in the form of a trademark agent is not offering the service, rather someone outside of Canada very probably will be.

The proposed regulatory regime represents a profound change to virtually every aspect of Canadian trademarks practice. The estimated average of 16 hours of training time required to become familiar with the new practice is woefully inadequate. Our members believe that the actual time spent learning the system and adapting to it as it evolves will be initially 10 times the projected value in the first year and will continue to require time until the new system comes to relative equilibrium.

The accounting also did not factor in the considerable cost associated with the legal uncertainty that the unprecedented number and degree of changes will bring. Furthermore, all clients will have to be advised as to how the new legislation and regulations affect their marks, how new filings should be dealt with and how the courts are interpreting the legislation and regulations once this starts to occur. Clients will not always be willing to bear this cost and it is expected this will be at least partially shared by the Agent community and our clients – but it is a very real and very significant cost that does not appear to have been accounted for.

Finally, it is not clear that the calculated administrative costs took into account the increased frequency of enforcement that the new system would lead to or the increased cost of enforcement, search, clearance and examination. No professional organization or group of IP owners commenting thus far has suggested that the changes will lower the cost of enforcement, search, clearance and prosecution and many have raised the alarm that costs could increase significantly. In other countries Opposition rates increased following Madrid. At the time the legislation was adopted CIPO advised it expected an increase. Yet a figure for significantly increased enforcement does not appear to have been accounted for in the reckoning of administrative costs of the changes.

1. Conclusion

We thank you sincerely for including FICPI in the consultative process to date and for accepting these submissions made in response to the Canada Gazette publication of the proposed regulatory text and Regulatory Impact Analysis Statement of February 10, 2018. We remain, as always, available for continued discussion. Please contact the undersigned if you have any question or wish to discuss any of our positions further.

Respectfully submitted,

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On behalf of
John W. Knox,
President, FICPI-CANADA and
FICPI Canada