

CSU21 What's the Use? Exploring Recent Challenges and Changes to Common Law Unfair Competition and Trademark Use Requirements in the U.S. and Canada

Joel MacMull, Archer (United States)
Ronald Coleman, Archer (United States)
Lorraine M. Fleck, Fleck Innovation Law (Canada)

U.S Legal Framework

- In the U.S. federal and state statutes and common law ensures that a trademark serves to identify origin, assure quality, and protect goodwill.
- The Lanham Act of 1946, as amended, is the federal statute governing trademark rights.
- Under the common law, trademark rights are obtained via use. “Actual use” was integral to the twin aims of early trademark protections, i.e., protecting consumers from confusion and “palming off.”

U.S Legal Framework

- Intent-to-use is a basis for applying for U.S. federal registration, but the registration will not issue until and unless “use in commerce” occurs.
- Use in interstate or foreign commerce is required since the Lanham Act is a federal statute, which derives its authority from the Commerce Clause.

Purpose of the Lanham Act

15 U.S.C § 1227 of the Lanham Act states, in relevant part:

“The intent of this chapter is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of **marks in such commerce**; to protect registered marks used in such commerce from interference by State, or territorial legislation; **to protect persons engaged in such commerce against unfair competition**; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks; and to provide rights and remedies stipulated by treaties and conventions respecting trademarks, trade names, and unfair competition entered into between the United States and foreign nations.”

15 U.S.C. § 1127's Definition of “Use in Commerce”

- “The term ‘use in commerce’ means the **bona fide** use of a mark in the **ordinary course of trade**, and **not made merely to reserve a right in a mark.**”
- Public use is essential, although actual sales are not required.
- “The word ‘commerce’ means all commerce which may lawfully be regulated by Congress.”
- This means pretty much any commercial activity, whether it be interstate, intrastate or foreign.

Interpretations of “Use in Commerce” Federal Courts v. the PTO

- From the inception of the Lanham Act federal courts have taken an expansive view of Congress’ power to control intrastate acts which affect interstate commerce as it relates to infringement.
- While early cases appeared to apply federal regulation to state activities that **substantially** affected interstate commerce, any emphasis on the word “substantial” has all but fallen away.
- The concept that all commerce may be regulated by Congress has only grown in the Internet era.

Interpretations of “Use in Commerce” Federal Courts v. the PTO

- Localized acts by a defendant are unlikely to give rise to an intrastate infringement defense.
- Yet, the Patent and Trademark Office – at least until this past year – nevertheless adopted a higher standard of use in commerce for purposes of qualifying for registration in the first instance.

So what happened, you ask?

- In November 2016, the U.S. Court of Appeals for the Federal Circuit reversed the Patent and Trademark Office's decision in *adidas AG v. Christian Faith Fellowship Church*.
- The case involved a cancellation petition brought by adidas AG for “for failing to use the marks in commerce before registering them.” The Board held that the Church's documented sale of two marked hats to an out-of-state resident were *de minimis* and therefore did not constitute use of the marks in commerce under the Lanham Act.
- The Federal Circuit reversed, and the case was not appealed to the Supreme Court.

The Marks at Issue

The Church's ADD A ZERO mark



Adidas' ADIZERO mark



The Federal Circuit's Opinion

The term “use in commerce” means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this chapter, a mark shall be deemed to be in use in commerce

1) on goods when—

(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

(B) **the goods are sold** or transported **in commerce**

Id. § 1127 (emphases added).

The Federal Circuit's Opinion

- The Church's sale of two hats for the sum of \$38.34 to an out-of-state resident was held not to be *de minimus* because "[t]his transaction, taken in the aggregate, would cause a substantial effect on interstate commerce and thus it falls under Congress's Commerce Clause powers."
- "The Church did not need to present evidence of an actual and specific effect that its sale of hats to an out-of-state resident had on interstate commerce. Nor did it need to make a particularized showing that the hats themselves were destined to travel out of state."

The Decision's Impact

- *De minimus* use as a bar to registration is dead. Rather, it would seem that a single documented sale would support registration on a 1(a) basis.
- Pre-registration use needs to be distinguished from post-registration use, however, as abandonment remains a viable challenge to any registration (incontestable or otherwise).
- The location of the sale vis-à-vis the residency of the consumer is irrelevant because some aspect of the transaction will invariably touch upon interstate commerce, not the least of which may be the method of payment involved.

Section 1(a) of the Lanham Act

- “The owner of a trademark **used in commerce** may request registration of its trademark.”



Section 45 of the Lanham Act



- The term “use in commerce” means the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark. For purposes of this Act, a mark shall be deemed to be in use in commerce—
- (1) on goods when—
- (A) **it is placed** in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and

Section 45 of the Lanham Act

- (B) **the goods are sold or transported in commerce,** and



Section 45 of the Lanham Act



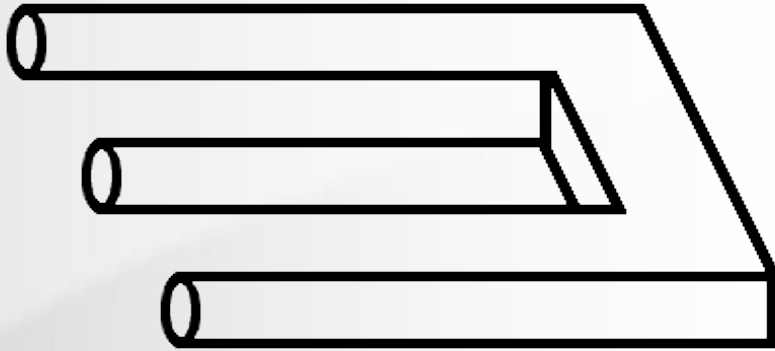
- (2) on services when it is used or displayed in the sale or advertising of services and the services are **rendered in commerce**, or the services are rendered in more than one State or in the United States and a foreign country and the person rendering the services **is engaged in commerce** in connection with the services.

What is commerce?

- If Congress can regulate it, it's commerce



What is use in interstate commerce?



- “Purely intrastate use does not provide a basis for federal registration” **except when it does**. See, TMEP Section 901.03
- If intrastate use directly affects a type of commerce that Congress may regulate, this constitutes use in commerce within the meaning of the Act

Intrastate use in commerce cases

- *Larry Harmon Pictures Corp. v. Williams Rest. Corp.*, 929 F.2d 662, 18 USPQ2d 1292 (Fed. Cir. 1991) (mark used to identify restaurant services rendered at a single-location restaurant serving interstate travelers is in “use in commerce”)
- *In re Silenus Wines, Inc.*, 557 F.2d 806, 194 USPQ 261 (C.C.P.A. 1977) (intrastate sale of imported wines by importer constitutes “use in commerce,” where goods bearing labels supplied by applicant were shipped to applicant in United States)
- *In re G.J. Sherrard Co.*, 150 USPQ 311 (TTAB 1966) (hotel located in only one state has valid use of its service mark in commerce because it has out-of-state guests, has offices in many states, and advertises in national magazines)
- *In re Gastown, Inc.*, 326 F.2d 780, 140 USPQ 216 (C.C.P.A. 1964) (automotive service station located in one state was rendering services “in commerce” because services were available to customers travelling interstate on federal highways)

The latest from the CAFC



- *Christian Faith Fellowship Church v. adidas AG*, Appeal No. 2016-1296 (Fed. Cir. November 14, 2016) [precedential]
- Sale of two “ADD A ZERO”-marked hats to an out-of-state resident is regulable by Congress under the Commerce Clause and, therefore, constitutes “use in commerce” under the Lanham Act.

The latest from the CAFC

- In *Larry Harmon*, we refused to adopt a *de minimis* test for the "use in commerce" requirement. We further held that the Lanham Act by its terms extends to all commerce which Congress may regulate. . . .



How we got here



- *Katzbach v. McClung* 379 U.S. 294 (1964):
- Commerce Clause
authorizes Congress to forbid racial discrimination in restaurants on the ground that Jim Crow laws burden interstate commerce

The “dormant Commerce Clause”



- The prohibition, **implicit** in the Commerce Clause, against states passing legislation that discriminates against or excessively **burdens** interstate commerce

What isn't use in commerce?

- “Following the court's reasoning, is there any ‘use’ of a trademark or service mark that does not satisfy the ‘use in commerce’ requirement? Is the old ‘interstate/intrastate’ dichotomy dead, as far as ‘use’ goes?”

“In other words, for application purposes are ‘first use’ and ‘first use in commerce’ now the same thing?”



Section 33 of the Lanham Act



- Any registration . . . of a mark registered on the principal register provided by this chapter and owned by a party to an action shall be admissible in evidence and **shall be prima facie evidence** of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the registration subject to any conditions or limitations stated therein

Section 33 of the Lanham Act



Josh Blackman ✓

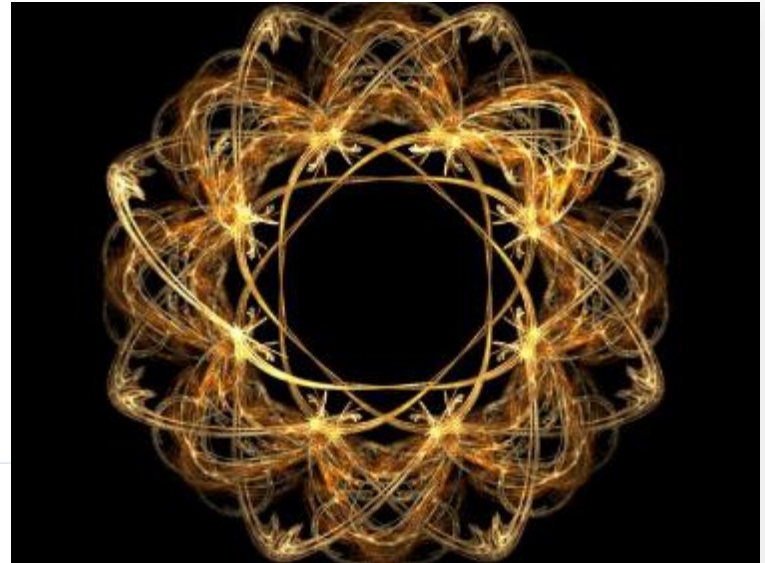
@JoshMBlackman

 Follow

Alito: If you are tweeting, liveblogging, you can be said to engage in interstate commerce—electrons flying all over the place. #FedSoc2016

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Canada: Elimination of the Use Requirement

Lorraine M. Fleck, Fleck Innovation Law
(Canada)

Use Prior to Registration Requirement

Use required for registration since first federal trademark legislation (*The Trade Mark and Designs Act of 1868*).

- Proposed use not a filing basis until 1954 (*Trade-marks Act*).
- Common law and statutory requirement.
 - *Masterpiece Inc. v. Alavida Lifestyles Inc.*, 2011 SCC 27 at para. 35.

Use Prior to Registration Requirement

- Common law and statutory requirement.
 - *Trade-marks Act* definitions of “use” (s.4)
 - Use 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 to whom the property or possession is transferred.
 - Use with services: if it is used or displayed in the performance or advertising of those services.
 - Use with exported goods: trade-mark that is marked in Canada on goods or on the packages in which they are contained is, when the goods are exported from Canada, deemed to be used in Canada in association with those goods.

Use Prior to Registration Requirement

- Foreign use clearly required even when filing based on foreign application and use.
 - *Allergan Inc. v Lancôme Parfums and Beauté & Cie.*, 2007 CanLII 80880 (CA TMOB) (opposition to MYOTOX).
 - *Thymes, LLC v. Reitmans Canada Limited*, 2013 FC 127 (CanLII) (appeal of opposition of THYMES).

Canadian Controversy

Use elimination amendments controversial in part because of how the changes were introduced.

- Amendments introduced by omnibus budget bill (*Economic Action Plan 2014, Act No. 1, aka Bill C-31*) which amended other Canadian federal legislation.
- No prior consultation of the profession.
- Lobbying efforts by various Canadian and international industry organizations have been unsuccessful to date.
- Eliminating use NOT required for *Madrid Protocol*, which is also enacted in Bill C-31.

What Is Known So Far

Timing

- Amendments now scheduled to be implemented in early 2019, after delayed implementations in 2016 and 2018.
- Awaiting draft regulations for consultation (as early as June 2017).

What Is Known So Far

Filing Bases to be Eliminated (Use Based)

- Use in Canada prior to registration.
- Foreign application and use.
- Foreign registration and use.

Impact on Brand Owners

Likely more difficult and expensive to clear, file and enforce trademarks in Canada without use acting as a “gate” to registration.

- Impact includes:
 - Trademark and corporate name clearance.
 - Assessing rights:
 - Between competing applications;
 - Between an application filed after a registration issued.
 - When considering opposition, summary cancellation or contentious proceedings.

Impact on Brand Owners

- Impact includes (continued):
 - Potential for brand hijacking/trademark trolls.
 - Increased opposition, summary cancellation and other litigation.
 - Potential impact on enforcement.

Recommendations

The below is based on currently available recommendations and may change once the amendments to the *Trademark Regulations* are finalized.

- Follow “first to file”: Filing Canadian trademark applications as soon as possible will become more important than before.
- Increased importance of searching outside the Canadian trademark register to more fulsomely assess trademark rights and associated risks.

Recommendations

The below is based on currently available recommendations and may change once the amendments to the *Trademark Regulations* are finalized (continued).

- Increased importance of watching services to monitor and possibly discourage troll applications prior to registration.
- Increased budgeting for clearance and use investigations, as well as contentious proceedings e.g. oppositions.



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