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APR 14 1981
Court No. T-882-74

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Federal Court of Canada
Trial Division

BETWEEN:

MOTEL 6, INC.

Plaintiff

- and -

NO. 6 MOTEL LIMITED and
JOHN VAN EDMOND BEACHCROFT HAWTHORNE

Defendants

REASONS FOR JUDGMENT

ADDY, J.:

GENERAL

The Plaintiff, incorporated in 1968 under the laws of the State of Delaware, U.S.A., operates a large chain of some 300 motels under the name of "Motel 6" throughout most of the United States with the greatest concentration of motels in the western portion of that country. Many of its customers are Canadian motorists. It operates no motel in Canada.

It is the owner by legal assignment in 1969 of a United States service mark covering the name "Motel 6" and a logo which is roughly in the shape of a four leaf clover with the word "Motel" and a larger figure "6", both placed in the centre of the clover leaf (refer to annex "A" for illustration). The mark was registered in the United States on the 17th of January, 1967 as number 822,563 for use in conjunction with motel services on the basis of use from the 1st of July, 1961.

The Plaintiff also claims that the logo shown in annex "A" is an artistic work, that it now is the owner of a valid copyright to the said artistic work and that the rights conferred by the copyright extend to and subsist in Canada by virtue of section 4 of the *Copyright Act*¹ and of a notice published in the *Canada Gazette*² which stipulates that the United States is to be treated as if it were a country to which the *Copyright Act* extends. The legal effect of these last-mentioned provisions was not contested by the Defendant at trial.

The corporate Defendant is a British Columbia company which, on the 4th of February, 1972, applied for and, on the 23rd of August, 1974, obtained, under registration number 201,351, a logo-type trade mark to be used in association with motel services. The application was based on intended use. The mark consists of a large circle with, in the centre, the word "Motel" and the larger figure "6" (refer annex "A" for illustration). It presently has an interest in three motels in Canada which operate under the mark. It actually owns one and has a half interest in another. The third one is being operated under franchise granted by the Defendant. It also had previously granted a Motel 6 franchise to two other motels, one in Hope and one in Summerland, B.C., and had been party to a form of agreement with another motel operator in Cambridge, north of Victoria, providing, among other things, for the use by the latter of the mark and name, subject to certain provisions and conditions. The three motels in which the corporate Defendant is presently interested, as well as the Hope Hotel, have for some years used the logo and the mark covered by trade mark registration 201,351. The Summerland and Cambridge motels did likewise but no longer do so.

¹ R.S.C. 1970, Chapter C-30

² Volume 57, No. 26 at page 2157 on December 29, 1923

The Plaintiff alleges that its mark and trade name were extensively used in the United States by it and its predecessor in title in connection with motel services, that they became well known in Canada by advertisements in printed publications circulated here among potential dealers and users of its motel services and that the name and mark were extensively and continuously used here in association with the making of reservations for its motels by individuals and travel agents since prior to November 1968.

The individual Defendant, Hawthorne, had obtained the registration in Canada in August 1970 of another trade mark involving Motel 6 with a hexagonal design under number 170,826. This last-mentioned trade mark had subsequently been assigned to the corporate Defendant. However, immediately before trial, a confession to judgment, covering the abandonment of this mark, was filed by the corporate Defendant. It was concurred in by the Defendant Hawthorne and accepted by the Plaintiff. Pursuant to this, and also by reason of a subsequent discontinuance of the action against the Defendant Hawthorne (subject to certain terms as to costs and as to the adherence by him to the terms of any injunction which might be granted against the corporate Defendant), an order will issue expunging that mark from the register. Neither it nor any claims against the individual Defendant are any longer in issue and the corporate Defendant shall hereafter be referred to as the Defendant.

The Plaintiff at trial elected to rely on its remedy by way of damages and abandoned any claim for an accounting.

CLAIMS

The claims now remaining to be tried might be summarized as follows:

1. An order that the entry of the Defendant's trade mark number 201,351 in the register for trade marks be struck out.

2. A declaration that the Plaintiff is the owner of a copyright in the artistic work consisting of its logo and the name Motel 6, as illustrated in annex "A", and that the corporate Defendant has infringed this copyright.
3. Injunctive relief:
 - (a) to prevent future copyright infringement by reproducing its logo and mark;
 - (b) to prevent future use of the mark or trade name in association with motel services;
 - (c) to restrain the Defendant from directing public attention to its services or business in such a way as to cause or be likely to cause confusion in Canada between its services or business and those of the Plaintiff, contrary to section 7(d) of the *Trade Marks Act*³.
4. The normal order for the delivery up of all offending signs, literature, labels and other such materials.
5. Damages pertaining to the alleged passing off contrary to section 7(b) of the *Trade Marks Act*.

The Defendant denies that the Plaintiff is entitled to any of the relief claimed and requests a declaration that the Plaintiff has no copyright to its mark and also denies the jurisdiction of this Court to hear any claim based on section 7(b) of the *Trade Marks Act* on the basis that this subsection is *ultra vires* the Parliament of Canada.

COPYRIGHT

I shall first deal with the claim of copyright infringement.

The name "Motel 6" was first used by a partnership or joint venture of two California private corporations: Todric Inc.

³ R.S.C. 1970, Chapter T-10

and Maranco Motels Inc., both incorporated in 1961. The joint venture operated under the name of Motel 6 of California. It was formed on the 1st of January, 1964.

Previous to the existence of the joint venture, one Richard E. Barnes, whilst in the employ of one Paul A. Greene of California, trading under the business name of Paul A. Greene Company, made the logo design which incorporated the name "Motel 6." Barnes had been instructed by Greene to create a design incorporating the words "Motel 6" for use in association with the latter's motel business that he intended to start under the name of "Motel 6 of California." There is no evidence of the existence of any assignment of the copyright by Barnes to Greene nor any direct evidence of a subsequent assignment from Greene to the joint venture Motel 6 of California in 1964 or subsequently.

In 1968, the Plaintiff company, which had been incorporated in that year, absorbed by merger ten California corporations including the two private companies forming the joint venture Motel 6 of California, thus acquiring all of their assets.

The Barnes design became the basis of and was embodied in the logo which was used in association with the first Motel 6, which opened in California in 1962, and has been used continuously since then in the United States by all motels operated by Motel 6 of California and its successor the Plaintiff corporation. This use included not only motel signs but use on a variety of materials and articles such as map guides, soap wrappers, match box covers, cards, forms for reservations and various advertisements. The logo itself was the subject of the previously mentioned U.S. trade mark No. 822,563 registered in 1967 which was assigned to the Plaintiff in 1968 by Motel 6 of California.

The title of the Plaintiff to the copyright has been put in issue by the Defendant. The following provisions of the

Copyright Act are relevant:

20. (j) In any action for infringement of copyright in any work, in which the defendant puts in issue either the existence of the copyright, or the title of the plaintiff thereto, then, in any such case,

(a) the work shall, unless the contrary is proved, be presumed to be a work in which copyright subsists; and

(b) the author of the work shall, unless the contrary is proved, be presumed to be the owner of the copyright;

and where any such question is at issue, and no grant of the copyright or of an interest in the copyright, either by assignment or licence, has been registered under this Act, then, in any such case,

(c) if a name purporting to be that of the author of the work is printed or otherwise indicated thereon in the usual manner, the person whose name is so printed or indicated shall, unless the contrary is proved, be presumed to be the author of the work; and

(d) if no name is so printed or indicated, or if the name so printed or indicated is not the author's true name or the name by which he is commonly known, and a name purporting to be that of the publisher or proprietor of the work is printed or otherwise indicated thereon in the usual manner, the person whose name is so printed, or indicated shall, unless the contrary is proved, be presumed to be the owner of the copyright in the work for the purpose of proceedings in respect of the infringement of copyright therein.

12. (1) Subject to this Act, the author of a work shall be the first owner of the copyright therein.

(3) Where the author was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright; but where the work is an article or other contribution to a newspaper, magazine, or similar periodical, there shall, in the absence of any agreement to the contrary, be deemed to be reserved to the author a right to restrain the publication of the work, otherwise than as part of a newspaper, magazine, or similar periodical.

The name of the Plaintiff is not printed or otherwise indicated in any way on the work as purporting to be its owner and it, therefore, in my view, cannot claim the benefit of the presumption of ownership arising out of section 20(3)(d) above. Although the words "Motel 6" form part of the mark, no name whatsoever of any person purporting to be either the owner or proprietor is used on the mark. One must, therefore, examine the evidence to see who was the original owner and determine whether a chain of title exists from the original owner to the Plaintiff.

Since the author Barnes was employed by Greene in 1961, and since it was in the course of that employment and as a result of Mr. Greene's specific request that the design was created and since there is no evidence to the contrary, it seems obvious that the employer Greene must, pursuant to the provisions of section 12(3), be considered as the first owner of the copyright: the presumption in section 20(3)(b), to the effect that the author of the work is the owner has clearly been rebutted, as the contrary has been fully proven.

The next step is to consider whether Motel 6 of California acquired a legal title of any kind to the design from Greene. "Motel 6" was first used by Greene and one William W. Becker. They felt that there was a need for good, simple but reliable motel accommodation available at a low nightly rate of \$6.00 per night, hence, the name "Motel 6." The first motel complex was opened in Santa Barbara in 1962. They had formed the two previously mentioned private corporations in 1961 and, in 1964, caused these companies to form the joint venture known as "Motel 6 of California" which took over all the motels operating under the name of "Motel 6" at that time. Motel 6 of California continued to use the design and mark exclusively until the two corporations, together with their joint venture, were absorbed by

the Plaintiff in 1968, at which time all assets were assigned to the Plaintiff. At least, three conclusions could be drawn from these facts: Greene, in 1964, either formally transferred by assignment his right in the design to the joint venture or simply allowed the latter to take over the use and benefit of the design without bothering with a formal assignment, assuming perhaps that it was not necessary, or, simply neglected or forgot to assign the right. There is no evidence whatsoever of any document of assignment having ever existed.

On the mere fact that Greene had an interest as a principal in the companies forming the joint venture, I cannot conclude, as I have been invited to do by counsel for the Plaintiff, that a formal assignment was executed by Greene either to the joint venture Motel 6 of California or to one or the other or both of the companies forming that venture. There would, in fact, be a greater likelihood of an assignment having been executed if Greene had been dealing at arms length with the joint venture and had retained no interest whatsoever in the companies forming the joint venture.

Section 12(4) of the *Copyright Act* reads as follows:

12. (4) The owner of the copyright in any work may assign the right, either wholly or partially, and either generally or subject to territorial limitations, and either for the whole term of the copyright or for any other part thereof, and may grant any interest in the right by licence, but no such assignment or grant is valid unless it is in writing signed by the owner of the right in respect of which the assignment or grant is made, or by his duly authorized agent.

(The underlining is mine.)

I quite accept the proposition of counsel for the Plaintiff that section 12(4) is a substantial legal requirement and not a rule of evidence. Therefore, the assignment itself need not necessarily be produced if the evidence establishes that it existed and conformed to that section. The evidence,

however, falls far short of establishing on a balance of probabilities that an assignment in writing ever existed, much less one that was signed by Greene or his agent or of establishing who the assignee might have been. It has merely established the possibility of at least the three equally consistent conclusions to which I have already referred. Evidence, which merely raises this type of speculation without weighting the scale in favour of the actual existence of an assignment conforming to the statute, is not sufficient to satisfy the requirements of section 12(4).

Had the Plaintiff established ownership as claimed, I would have had no difficulty in finding that the work was susceptible of protection under the *Copyright Act*: it is not by any means devoid of subject-matter as claimed by the Defendant. The latter has also completely failed to rebut the presumption raised by section 20(3)(a). I would also have concluded that the copying of that mark done by the Plaintiff, although not an exact replica, was sufficiently close to constitute an infringement. The mere fact that the cloverleaf design was avoided and replaced by a circle would not have been sufficient to avoid a finding of infringement. There is substantial similarity. This constitutes *prima facie* evidence of copying and no satisfactory evidence of independent creation was adduced. (See *King Features Syndicate Inc. v. O. and M. Kleemann, Ltd.*⁴ followed in *Collins et al. v. Rosenthal et al.*⁵.)

However, because it has failed to establish ownership of any right or licence to the work by means of a valid assignment, the Plaintiff's claim for copyright infringement will be dismissed.

⁴ [1941] 2 All E.R. 403 (H.L.) at 414

⁵ (1974) 14 C.P.R. (2d) 143 at 147

VALIDITY OF DEFENDANT'S MARK

General:

The Plaintiff attacks the validity of the registration of the Defendant's trade mark No. 201,351 on three grounds:

1. Alleged prior use in Canada by the Plaintiff of its own mark and trade name.
2. That the Plaintiff's name and mark was previously made known in Canada; and,
3. non-distinctiveness based on the usual evidence to that effect and, in addition, on alleged unregistered licensing of the mark to others.

A further ground of attack that a false affidavit was presented to the Trade Marks Office in order to obtain registration was abandoned at trial.

The following statutory provisions are particularly relevant to the question of validity of the Defendant's patent on grounds 1 and 2 above. Sections 4(2), 16(3) and 5 of the *Trade Marks Act* read as follows:

4. (2) A trade mark is deemed to be used in association with services if it is used or displayed in the performance or advertising of such services.

16. (3) Any applicant who has filed an application in accordance with section 29 for registration of a proposed trade mark that is registrable is entitled, subject to sections 37 and 39, to secure its registration in respect of the wares or services specified in the application, unless at the date of filing of the application it was confusing with

(a) a trade mark that had been previously used in Canada or made known in Canada by any other person;

(b) a trade mark in respect of which an application for registration had been previously filed in Canada by any other person; or

(c) a trade name that had been previously used in Canada by any other person.

5. A trade mark is deemed to be made known in Canada by a person only if it is used by such person in a country of the Union, other than Canada, in association with wares or services, and

(a) such wares are distributed in association with it in Canada, or

(b) such wares or services are advertised in association with it in

(i) any printed publication circulated in Canada in the ordinary course of commerce among potential dealers in or users of such wares or services, or

(ii) radio broadcasts, as defined in the *Radio Act*, ordinarily received in Canada by potential dealers in or users of such wares or services,

and it has become well known in Canada by reason of such distribution or advertising.

Previously Made Known:

A registration resulting from an application for proposed use is invalid if, at the date of the filing of the application, the mark was confusing with another that had been previously used in Canada or made known in Canada. The concepts of using and of making known in this context are subject to certain specific statutory limitations.

A U.S. service mark is made known in Canada by a person if it is used by that person in the United States in association with services and if such services are advertised in any printed publication circulated in Canada in the ordinary course of commerce or is made known in radio broadcasts, and if the mark has become well known in Canada as a result of such advertising. It is thus important that only the reputation acquired as a result of the advertising mentioned in section 5 can be considered and such reputation must result in the mark being "well known" in Canada.

There was no evidence of any radio broadcast. The only printed publications containing advertising were certain map guide brochures with information such as addresses and telephone numbers of the motels. These were sent from time to time to certain local offices of the DAA and the BCAA and to a limited number of travel agencies, in answer to specific requests from these associations and agencies for brochures. These requests were made because of certain enquiries by Canadian motorists, who, having travelled in the United States or having heard from friends of the existence of Motel 6's in the United States, were seeking information as to the location of the Motels, their rates, methods of reservations, etc. In some instances, the agency would only retain one copy of the brochure for information purposes.

It has been established to my satisfaction that by the late 1960's the Plaintiff's motels had become well known in British Columbia because of the number of Western Canadian motorists who travelled to the United States on a restricted budget and used its motels. That reputation apparently continued up to the date of trial. But it was as a result of such exposure of Canadian motorists to the Plaintiff's motels in the United States and the spreading of that reputation by word of mouth and the recommendations made by certain agencies and associations in Canada, that the Plaintiff's motels were known and not by reason of circulation of the brochures. Furthermore, the Plaintiff did not actively promote the sending of the brochures nor take any initiative in this respect in so far as Canadian customers were concerned but merely responded to requests from certain agencies or individuals.

A mark that becomes "well known in Canada" by word of mouth, by reason of its reputation and use in the United States, does not satisfy the requirement of section 5 of the *Trade Marks Act*. The requirement in that section to the effect that the mark

become well known by reason of "such distribution or advertising" is preremptory and is a matter of substantive law and not of evidence, as stated by my brother Marceau, J. in *Valle's Steak House v. Tessier et al.*⁶. The Plaintiff therefore fails on this ground of attack.

Previous Use:

As in the case of making known, when determining whether the mark of the Plaintiff has been previously used, the crucial date before which use is to be considered is the date of filing of the application of the trade mark in issue, in this case the 4th of February, 1972 (refer section 16(3) *supra*) and not any previous date as argued by the Defendant.

The evidence establishes that the mark was never used in Canada in association with motel services *per se*. It was used, however, in association with motel reservations. It was never used in Canada by the Plaintiff who had no agents or place of business in Canada nor any reservation facilities or services here. It did not in fact operate any central reservation service in the United States. One could phone or write to a particular Motel 6 from any point in Canada and reserve a room in that motel. The room would then be reserved until 6:00 P.M. on the day indicated. One had to arrive before that time or the reservation was liable to be cancelled unless the room had been prepaid. If the reservation was made by mail, or, if by phone and time permitted, a confirmation card would be returned to the prospective Canadian client bearing the Motel 6 mark and logo as well as the details of the reservation. Any cheques sent were made payable to Motel 6.

⁶ 49 C.P.R. (2d) 218 at page 225

In the case of two automobile association offices, at least, a phone call would be made by the association when the member requested it. No commissions of any kind were paid by the Plaintiff for the directing of any customers to its motels.

Correspondence or communication by phone with customers, prospective customers or their agents in Canada, for the sole purpose of receiving and confirming reservations for motel accommodation in the U.S.A. does not constitute use of the mark in Canada in association with motel services. This is all the more true where the contact was not initiated by the person or firm furnishing the motel services. There must, at the very least, be some business facility of some kind in Canada in such circumstances. (See *Porter v. Don The Beachcomber*⁷ and also *Marineland Inc. v. Marine Wonderland and Animal Park Ltd.*⁸.) The Plaintiff, therefore, cannot succeed on this ground of attack.

Lack of Distinctiveness:

The provisions affecting the issue of distinctiveness are the following (*Trade Marks Act*):

2. In this Act

"distinctive" in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted so to distinguish them;

. . . .

18. (1) The registration of a trade mark is invalid if

. . . .

(b) the trade mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced; or

. . . .

⁷ 48 C.P.R. 280

⁸ 16 C.P.R. (2d) 97 at page 109

The registration of a trade mark is invalid if the mark is not distinctive at the time the proceedings bringing the registration into question are commenced. In the case at Bar, this would be the 2nd of November, 1979. The definition of "distinctive" is to be found in section 2, *supra*. A trade mark can neither distinguish nor be adapted to distinguish the services of a person if another person has used the mark in a foreign country and it has become known in Canada as the latter's mark in respect of similar services. On the issue of lack of distinctiveness of a mark, although it must be shown that rival or opposing mark must be known to some extent at least, it is not necessary to show that it is well known or that it has been made known solely by the restricted means provided for in section 5, *supra*. It is sufficient to establish that the other mark has become known sufficiently to negate the distinctiveness of the mark under attack. Thurlow, J., as he then was, stated, when delivering the judgment of the Federal Court of Appeal in *Re Andres Wines Ltd. and E. & J. Gallo Winery*⁹ at page 130:

The question to be determined on this attack is, therefore, whether the mark, SPANADA was, at the material time, adapted to distinguish the wine of the respondent from that of others and as the mark appears to have an inherent distinctiveness the question, as I see it, becomes that of whether it has been established by the evidence that this inherently distinctive mark is not adapted to distinguish the wine of the respondent. The basis put forward for reaching a conclusion that the mark is not adapted to distinguish the respondent's wine is that it is already known as the trade mark of the appellant in respect of similar wares. But for this purpose it is not necessary, in my opinion, that the evidence should be sufficient to show that the mark is well known or has been made well known in Canada within the meaning of s.5, or by the methods referred to in that section. Such proof, coupled with use in the United States, would be sufficient to entitle the appellant to registration and to a monopoly of the use of the mark. But that is not what is at stake in this proceeding. Here the respondent is seeking to monopolize the use of the mark and the question is that of his right to do so, which depends not on whether someone else has a right to monopolize it, but simply on whether it is adapted to distinguish the respondent's wares in the marketplace.

⁹ 25 C.P.R. (2d) 126

Plainly, it would not be adapted to do so if there were already six or seven wine merchants using it on their labels and for the same reason it would not be adapted to distinguish the respondent's wares if it were known to be already in use by another trader in the same sort of wares. [The underlining is mine.]

He quoted also with approval the case of *Williamson Candy Co. v. W.J. Crothers Co.*¹⁰. Refer also *Moore Dry Kiln Co. of Canada Ltd. v. U.S. Natural Resources Inc.*¹¹.

The attack based on non-distinctiveness is not restricted to actual performance of services in Canada as in the case of a claim of prior use pursuant to section 4. It also may be founded on evidence of knowledge or reputation of the opposing mark spread by means of word of mouth and evidence of reputation and public acclaim and knowledge by means of newspaper or magazine articles as opposed to advertising. All relevant evidence may be considered which tends to establish non-distinctiveness.

There is a concentration of the Plaintiff's motels along the two main north-south highways used by Canadians travelling south from British Columbia and Alberta, namely, Interstate Highway No. 5 and Coastal Highway No. 101. Residents of British Columbia have for many years attended the Plaintiff's motels and have informed other residents of British Columbia about them. Many of these were members of the British Columbia and Canadian automobile associations and would make enquiries through the local offices of these organizations. Information pertaining to Plaintiff's motels was regularly disseminated by automobile associations and travel agencies dealing with the motoring public. Some of these agencies and associations, because of the enquiries made, would, from time to time, phone or write to the Plaintiff for supplies of their map guide brochures in order to have them on hand and available for those of their members or clients who would be enquiring about such matters as the location of the various motels of the Plaintiff, the rates, the conditions of reservations, etc.

¹⁰ [1924] Ex. C.R. 183, affirmed [1925] 2 D.L.R. 844, [1925] S.C.R. 37

¹¹ 30 C.P.R. (2d) 40 at page 49

The motels catered mostly to families and individual motorists who were interested in using good reliable accommodation available at a modest price. The Plaintiff's motels were undoubtedly very popular among that section of the Canadian motoring public since late 1960's. There was evidence which I accept that, at the height of the season, at some of these motels, approximately 50% of the guests were and are Canadian motorists.

Reservations were frequently made from Canada by phone or by letter by individuals and by the BCAA, the DAA or a travel agency on behalf of their members or clients. In these communications the trade name was used and in replies by Motel 6 the name and the mark were employed. Cheques were made payable to Motel 6.

There is also very convincing evidence that residents of British Columbia have been regularly deceived into believing that the Defendant's motels are those of the Plaintiff. There was evidence, which I accept, that managers of automobile association offices and travel agencies were themselves deceived. This is important evidence as one would naturally expect persons engaged in and, therefore, with some special knowledge of and with particular experience in the field of the motoring tourist business, to be much more likely to be aware of the differences between name and mark of the Plaintiff and of the Defendant and to be less likely to be deceived than members of the general public. Section 5 of the Act speaks of "potential dealers in or users of such wares or services." I fully agree with the statement of Ruttan, J. in the case of *Sund et al. v. Beachcombers Restaurant Ltd. et al.*¹² quoted at page 228 of the report:

In considering whether a deception is probable, account is to be taken not of the expert customer, but of the ordinary, ignorant and unwary member of the public: *Singer Mfg. Co. v. Loog* (1882), 8 App. Cas. 15 at p. 18 per Lord Selborne L.C. But the case must be much stronger if the expert also had been deceived.

There is also evidence which I accept that one of the Defendant's principal officers was fully aware of the existence of the Defendant's motels mark and logo because, when issuing instructions to the person who was to design the Defendant's logo, he cautioned him against using the same colours as those contained in the Plaintiff's logo.

Articles on the Plaintiff's motels were published in the following periodicals and newspapers:

1. Saskatoon Star-Phoenix - May 27, 1972
2. Winnipeg Free Press - May 20, 1972
3. Newsweek - October 9, 1967
and February 19, 1973
4. New York Times - January 15, 1967
5. Business Man's Week - August 27, 1965
6. Advertising Age - December 4, 1972
7. Wall Street Journal - December 26, 1972
8. Hospitality - February 1973
9. Advertising Age - February 11, 1971

The first two publications are, of course, Canadian newspapers. Although there is no specific evidence that the other publications are circulated in Canada, judicial notice can be taken that at least the New York Times, Newsweek and the Wall Street Journal enjoy a general circulation in Canada since they are to be found on practically every large newstand in the country.

I find that several years before the Defendant made application for registration of its mark in 1972, on the basis of intended use, the Plaintiff's motels had acquired substantial reputation and good will in British Columbia and that such reputation had been maintained throughout the whole period until the present time and that its signs bearing the name, mark and logo had become known throughout sections of the British Columbia motoring public.

The Defendant's design and mark is very similar to that of the Plaintiff with the words "Motel 6" being identical.

The Defendant raised the issue of local distinctiveness based mainly on the testimony of witnesses in the immediate vicinity of its motels who did not know of the existence of the Plaintiff's chain of motels. It is quite obvious that certain persons in the immediate vicinity of a motel of the Defendant might not know of the existence of Motel 6's in the United States. But the real question to be determined is whether the persons in British Columbia who, as travelling motorists, generally use motels of that type would be deceived into believing that they would belong to the Plaintiff rather than to the Defendant. This has been amply established to my satisfaction by witnesses on behalf of the Plaintiff.

The factual situation is quite distinguishable from that governing the decision of my brother Cattanach, J. in the case of *Great Lakes Hotels Limited v. The Noshery Limited*¹³. In that case, Cattanach, J. allowed a dining and catering restaurant called "The Penthouse" in Toronto to retain its mark on the basis of local distinctiveness notwithstanding an objection by The Penthouse Motor Inn also in the Toronto area. He held that on the facts, in the restricted area of the City, where The Penthouse restaurant operated, it was capable of acquiring, and did in fact acquire, distinctiveness.

Local distinctiveness obviously is capable of being acquired and recognized at law in certain cases. But the factual situation before me is quite different. We are not dealing with local customers but with the travelling public. The area from where the Plaintiff draws its market is the whole of British Columbia or, at least, the whole of the southern portion of that

¹³ [1968] 2 Ex. C.R. 622

Province and its mark was well known there. There is no room for distinctiveness within a restricted part of that whole area in respect of the Defendant's services which are identical to those of the Plaintiff and are addressed to the same category of Canadian motorist living there. The *Great Lakes* case is, thus, readily distinguishable on the facts. By a strange coincidence the following year I heard in the Supreme Court of Ontario a case of passing off under a section 7(b) of the *Trade Marks Act* between the same parties as in the *Great Lakes* case heard by my brother Cattanach, J., then of the Exchequer Court of Canada. Before me *The Noshery* was the Plaintiff. I found the Defendant *Great Lakes* liable for passing off. The case is cited as *The Noshery Ltd. v. The Penthouse Motor Inn Ltd. et al.*¹⁴.

On the basis of the above evidence and conclusions and on the basis of the additional referred to, in dealing with the allegations of previous use and of previous making known, I conclude that the Defendant's mark was not distinctive of its services either at the time when the present proceedings were instituted nor would it have been distinctive at any time from a period of several years before the date when the mark was applied for.

The Plaintiff also pleaded that the Defendant's mark had lost its distinctiveness by reason of the licensing of the mark to their users without any registration. Unregistered user results in the mark losing its distinctiveness. This is inherent to the entire scheme of our *Patent Act*¹⁵ which differs in this respect from the British Act.

¹⁴ 61 C.P.R. 207

¹⁵ R.C.S. 1970, Chapter P-4

The provisions as to registration must be strictly complied with. (Refer Fox, *The Canadian Law of Trade Marks and Unfair Competition*, Third Edition, 1972, at pages 283 and 284.) As Urie, J. stated in *Moore Dry Kiln Co. of Canada Ltd. v. U.S. Natural Resources Inc.*¹⁶ at page 49:

Since distinctiveness of a mark is, *inter alia*, related to source, when the trade mark is related to more than one source, it cannot be distinctive.

Section 49(2) and (3) of the *Trade Marks Act* read as follows:

(2) The use of a registered trade mark by a registered user thereof in accordance with the terms of his registration as such in association with wares or services manufactured, sold, leased, hired or performed by him, or the use of a proposed trade mark as provided in subsection 39(2) by a person approved as a registered user thereof, is in this section referred to as the "permitted use" of the trade mark.

(3) The permitted use of a trade mark has the same effect for all purposes of this Act as a use thereof by the registered owner.

The permitted use under section 49(3) of the *Trade Marks Act* is an exception to the former rule that a mark could only be used by its owner and the section therefore must be strictly construed both as to substantive law and as to the procedures laid down therein. (Refer the history of the concept of registered user detailed by Noël, J., as he then was, at pages 538 to 541 of the report of the case of *Samuel Dubiner v. Cheerio Toys and Games Ltd.*¹⁷.)

In view of my finding of non-distinctiveness of the mark on the other grounds with which I have just dealt, I shall refrain from commenting in any detail on the evidence on the issue of non-licensed users. However, certain findings of fact will be made which are applicable to the issue. The following motels, in addition to the three in which the Defendant has an

¹⁶ 30 C.P.R. (2d) 40

¹⁷ [1965] 1 Ex. C.R. 524

interest, operated under the name and mark of "Motel 6" during the periods indicated:

1. On the 30th of November, 1975, the Defendant sold one-half interest in its Courtnay Motel to four individuals and, since then, has continued to operate it for the owners under a management contract. Those four individuals and the Defendant were registered as users in April 1976 as carrying on business under the firm name of "Courtnay No. 6 Motel." There is no evidence that the users carried on business in that name or style.
2. A motel at Summerland, B.C., was operated by two individuals from the 28th of June, 1973 until the 6th of April, 1974 under the Motel 6 mark and name pursuant to a licence or franchise from the Defendant. They were never registered as users. However, an application for user was made in October 1973 and was abandoned when the Motel was sold in April 1974. The new owner was registered as a user in September of that year.
3. Three individuals have owned a motel in Hope, B.C., from November 1975 to the present day. It has been managed by the Defendant under a management contract and entered into with its owners. There has been no user registration.
4. From 1971 to 1976, one Maurice Laprise operated at Cambridge, B.C., a motel and used the mark and name "Motel 6," presumably under trade mark No. 170,826 which is now being abandoned. The Defendant permitted this use and from time to time inspected the motel.
5. All of the above uses were allowed with the full knowledge, consent and permission and, except for the Summerland Motel, with the participation of the Defendant in some supervisory or managerial capacity.

One cannot, of course, impute to the user or owner of a mark any delays caused by the Trade Marks Office in processing a request for registration, but, the application must be made forthwith after the owner and user have agreed upon the granting of a use.

My findings of fact, regarding at least the Hope Motel and the Cambridge Motel (refer paragraphs 3 and 4 above), fully support the contention that the Defendant's mark must be struck out as non-distinctive.

The question of whether the Defendant's mark should be struck out from the register, however, was made the subject of a procedural objection raised by the Defendant to the effect that the proceedings to have its trade mark expunged were not brought by the Plaintiff within the time limited by section 17(2) of the Act. That section reads as follows:

17. (2) In proceedings commenced after the expiry of five years from the date of registration of a trade mark or from the 1st day of July 1954, whichever is the later, no registration shall be expunged or amended or held invalid on the ground of the previous use or making known referred to in subsection (1), unless it is established that the person who adopted the registered trade mark in Canada did so with knowledge of such previous use or making known.

The present action was instituted on the 1st of March, 1974. The Defendant's trade mark had not yet been registered. As a result, proceedings to expunge the mark could not be commenced at the time. Registration was effected on the 23rd of August, 1974. The statement of claim was eventually amended to include a claim to have the mark struck out, but only on the 2nd of November, 1979, that is, more than five years after the registration of the mark. Up until that time, the action consisted only of the claim for breach of copyright and a claim of passing off under section 7(b) of the *Trade Marks Act*. Notwithstanding the fact that there existed an action between the parties previously,

the claim to have the mark expunged is an entirely different cause of action from either copyright or passing off and it can, therefore, be considered as having been instituted only at the time of the amendment of the statement of claim in November 1979.

Subject to the determination of the question of whether or not the Defendant, when it adopted its trade mark, had knowledge of the previous use or making known of the Plaintiff's mark, section 17(2) would be a bar to the validity of the mark being impugned on the grounds of previous use or making known. However, the mark is not being declared invalid on either of those two grounds but on the ground of lack of distinctiveness. Section 17(2) does not apply in such a case because of the very clear wording of the section which confines the limitation to cases of previous use and making known and also because in the case of lack of distinctiveness the relevant time is the time of institution of the proceedings (refer section 18(1)(b) above) and not the time of registration of the mark as provided for in the limitation period of section 17(2). Had I not found the section to be inapplicable for the above reason, I would have ruled against the Defendant on the merits in any event. The Defendant, through its Officer Harrison, did know of the existence of the Plaintiff's mark before adopting its own mark.

The Plaintiff will, therefore, be entitled to have the Defendant's trade mark No. 201,351 struck from the register on the grounds that it did not, at the relevant time, distinguish the Defendant's services from those of the Plaintiff's or from those of other non-registered users.

PASSING OFF

The Plaintiff claims that the Defendant, contrary to section 7(b) of the *Trade Marks Act*, has directed the public's attention to its services or business in such a way as to be likely to cause confusion in Canada between its services and those of the Plaintiff.

Constitutionality of 7(b):

The Defendant disputes this Court's jurisdiction to hear this portion of the action on the grounds that section 7(b) of the *Trade Marks Act* is unconstitutional. If 7(b) is, in fact, unconstitutional, it is evident that this Court would not have jurisdiction to try the issue of passing off since the common law tort of passing off is undoubtedly a matter of civil rights involving a dispute between private citizens and is not a cause of action founded on any federal statute law. It can only be tried in a provincial forum. The Attorneys General of Canada and of British Columbia were, at my direction, given notice that they might intervene and be heard on the constitutionality issue but they declined to do so.

Section 7 of the *Trade Marks Act* reads as follows:

7. No person shall

(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;

(b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

(c) pass off other wares or services as and of those ordered or requested;

(d) make use, in association with wares or services, of any description that is false in a material respect and likely to mislead the public as to

(i) the character, quality, quantity or composition,

(ii) the geographical origin, or

(iii) the mode of the manufacture, production or performance

of such wares or services; or

(e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

The leading case on the question, which consigned to oblivion several former decisions of lower courts, was the unanimous decision of the Supreme Court of Canada in *MacDonald et al. v. Vapour Canada Ltd. et al.*¹⁸. In that case section 7(e) of the *Trade Marks Act* was declared to be *ultra vires* the Parliament of Canada, at least in cases where it cannot be said to "round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names." In deciding that issue, however, the Court dealt to some extent with the whole section or, at least, commented on it rather extensively. Chief Justice Laskin's extensive reasons were concurred in by four other justices of that Court and since there remains some considerable difference of opinion as to whether the same fate would befall section 7(b), it might, as a starting point, be useful to quote, albeit at some length, from Chief Justice Laskin's reasons:

at page 14:

Section 7(b) is a statutory statement of the common law action of passing off, which is described in Fleming, *Law of Torts, supra*, at p. 626 as

another form of misrepresentation concerning the plaintiff's business . . . which differs from injurious falsehood in prejudicing the plaintiff's goodwill not by deprecatory remarks but quite to the contrary by taking a free ride on it in pretending that one's own goods or services are the plaintiff's or associated with or sponsored by him.

It differs from injurious falsehood in that "it is sufficient that the offensive practice was calculated or likely, rather than intended, to deceive".

at pages 21 and 22:

Over all, whether s.7(e) be taken alone or, more properly, as part of a limited scheme reflected by s. 7 as a whole, the net result is that the Parliament of Canada has, by statute, either overlaid or extended known civil causes of action, cognizable in the provincial Courts and reflecting issues falling within provincial legislative

18 22 C.P.R. (2d) 1

competence. In the absence of any regulatory administration to oversee the prescriptions of s. 7 (and without coming to any conclusion on whether such an administration would in itself be either sufficient or necessary to effect a change in constitutional result), I cannot find any basis in federal power to sustain the unqualified validity of s. 7 as a whole or s. 7(e) taken alone. It is not a sufficient peg on which to support the legislation that it applies throughout Canada when there is nothing more to give it validity.

The cases to which I have referred indicate some association of s. 7(a), (b) and (d) with federal jurisdiction in relation to patents and copyrights arising under specific head of legislative power, and with its jurisdiction in relation to trade marks and trade names, said to arise (as will appear later in these reasons) under s. 91(2) of the *British North America Act, 1867*. If, however, this be enough to give a limited valid application to those subparagraphs it would not sweep them into federal jurisdiction in respect of other issues that may arise thereunder not involving matters that are otherwise within exclusive federal authority. Certainly, it would not engage s. 7(e) which, as interpreted in the cases which have considered it, does not have any such connection with the enforcement of trade marks or trade names or patent rights or copyright as may be said to exist in s. 7(a), (b) and (d). Even if it be possible to give a limited application to s. 7, in respect of all its subparagraphs, to support existing regulation by the Parliament of Canada in the fields of patents, trade marks, trade names and copyright, the present case falls outside of those fields because it deals with breach of confidence by an employee and appropriation of confidential information.

at page 23:

No attack has been made on the *Trade Marks Act* as a whole, and the validity of its provisions in so far as they deal with trade marks is not in question. Since s. 7(e) is not a trade mark provision, its inclusion in the *Trade Marks Act* does not stamp it with validity merely because that Act in its main provisions is quantitatively unchallenged.

at pages 28 and 29:

One looks in vain for any regulatory scheme in s.7, let alone s. 7(e). Its enforcement is left to the chance of private redress without public monitoring by the continuing oversight of a regulatory agency which would at least lend some colour to the alleged national or Canada-wide sweep of s. 7(e). The provision is not directed to trade but to the ethical conduct of persons engaged in trade or in business, and, in my view, such a detached provision cannot survive alone unconnected to a general regulatory scheme to govern trading relations going beyond merely local concern. Even on the footing of being concerned with practices in the conduct of trade, its private enforcement by civil action gives it a local cast because it is as applicable in its terms to local or intraprovincial competitors as it is to competitors in interprovincial trade.

It is said, however, that s. 7, or s. 7(e), in particular, may be viewed as part of an overall scheme of regulation which is exemplified by the very Act of which it is a part and, also, by such related statutes in the industrial property field as the *Patent Act*, R.S.C. 1970, c. P-4, the *Copyright Act*, R.S.C. 1970, c. C-30 and the *Industrial Design Act*, R.S.C. 1970, C.1-8.

The *Trade Marks Act* and the *Patent Act*, as the keystones of the arch, are characterized by public registers and administrative controls which are not applied in any way to s. 7. This is also true of copyright legislation but, of course, both patents and copyrights are expressly included in the catalogue of enumerated federal powers and the exclusive federal control here excludes any provincial competence. That is not so in the case of unfair competition as it is dealt with in s. 7 of the *Trade Marks Act*. Trade mark legislation (and industrial design legislation, also providing for a registration system, would come under the same cover) has been attributed to the federal trade and commerce power in a cautious pronouncement on the matter by the Privy Council in *A.-G. Ont. v. A.-G. Can. et al.* [1937] 1 D.L.R. 702, 67 C.C.C. 342, [1937] A.C. 405.

at pages 29 and 30:

The Supreme Court of Canada, when the foregoing case was before it (*Reference re Dominion Trade and Industry Commission Act* [1936] 3 D.L.R. 607, 66 C.C.C. 177, [1936] S.C.R. 379) considered not only ss. 18 and 19 of the 1935 Act respecting the C.S. mark (which it held was *ultra vires* but on which it was reversed by the Privy Council), but also s. 14 which provided for Government approval of agreements between persons engaged in any specific industry, in which there was wasteful or demoralizing competition, for controlling and regulating prices.

This provision was held to be *ultra vires* because it contemplated application to individual agreements which might relate to trade which was entirely local. The Supreme Court of Canada added this (at p. 608 D.L.R., p. 382 S.C.R.):

If confined to external trade and interprovincial trade, the section might well be competent under head No. 2 of s. 91; and if the legislation were in substance concerned with such trade, incidental legislation in relation to local trade necessary in order to prevent the defeat of competent provisions might also be competent; but as it stands, we think this section is invalid.

No appeal was taken on this provision to the Privy Council, and, in my view, the Supreme Court did not consider that s. 14 could be saved on the basis of being part of a scheme of regulation.

I think that in the present case this is *a fortiori*, so when s. 7 has not only not been focused on interprovincial or external trade but has not been brought under a regulatory authority in association with the scheme of public control operating upon trade marks. To refer to trade mark regulation as a scheme for preventing unfair competition and to seek by such labelling to bring s. 7 within the area of federal competence is to substitute nomenclature for analysis.

at page 34:

The position which I reach in this case is this. Neither s. 7 as a whole, nor s.7(e), if either stood alone and in association only with s. 53, would be valid federal legislation in relation to the regulation of trade and commerce or in relation to any other head of federal legislative authority. There would, in such a situation, be a clear invasion of provincial legislative power. Section 7 is, however, nourished for federal legislative purposes in so far as it may be said to round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names. The subparagraphs of s. 7, if limited in this way, would be sustainable, and, certainly, if s. 7(e) whose validity is alone in question here, could be so limited, I would be prepared to uphold it to that extent. I am of opinion, however (and here I draw upon the exposition of s. 7 (e) in the *Eldon Industries case, Eldon Industries Inc. v. Reliable Toy Co. Ltd.* (1965), 48 C.P.R. 109, 54 D.L.R. (2d) 97, [1966] 1 O.R.

409), that there is no subject-matter left for s. 7(e) in relation to patents, copyright, trade marks and trade names when once these heads of legislative power are given an effect under the preceding paragraphs of s. 7. In any event, in the present case the facts do not bring into issue any question of patent, copyright or trade mark infringement or any tortious dealing with such matters or with trade names. There is here merely an alleged breach of contract by a former employee, a breach of confidence and a misappropriation of confidential information. It is outside of federal competence to make this the subject of a statutory cause of action.

[All the underlining in these passages is mine.]

On reading the above, it appears clear that not only has section 7(e) been struck down but the Court has held that section 7, when taken as a whole, cannot be given unqualified validity and that, if 7(b) is to be given any limited validity, it must have "some association with federal jurisdiction in relation to trade marks and trade names," arising under Head 2. of section 9 of the *BNA Act*, namely *The Regulations of Trade and Commerce*. There certainly can be no question of attempting to justify its validity solely by virtue of the power of the Federal Government to regulate trade and commerce without associating it, in some essential and fundamental manner, with trade mark legislation.

The matter of the constitutionality of section 7(b) has never been decided by the Federal Court of Appeal. The Trial Division is divided in its views on the subject.

In three separate decisions Walsh, J., with some hesitation held the section to be constitutional and within the jurisdiction of this Court. They are *Aluminum Co. of Canada Ltd. et al. v. Tisco Home Building Products (Ontario) Ltd. et al.*¹⁹; *Adidas (Canada) Ltd. v. Collins Inc.*²⁰; and *Imperial Dax Co., Inc. v. Mascoll Corp. Ltd. et al.*²¹. In the *Adidas* case, he stated at page 174 of the

¹⁹ 33 C.P.R. (2d) 145

²⁰ 38 C.P.R. (2d) 145

²¹ 42 C.P.R. (2d) 62

report:

I had occasion to analyse and comment on the *Vapour Canada* judgment in the case of *Aluminum Co. of Canada Ltd. et al. v. Tisco Home Building Products (Ontario) Ltd. et al.* (1977), 33 C.P.R. (2d) 145 and, with some hesitation, concluded that it does not remove the jurisdiction of this Court over a passing off action brought under the provisions of s. 7(b) of the *Trade Marks Act*. I therefore conclude that plaintiff's action for passing off with respect to the garments in question is well-founded and that an injunction lies with respect to the said garments.

In the *Imperial Dax* case, he stated at page 64:

Until the Supreme Court has pronounced itself again therefore on the other paragraphs of s. 7, I conclude that proceedings brought in this Court based on such paragraphs will not be dismissed for want of jurisdiction.

On the other hand, in the more recent case of *McCain Foods Ltd. v. C.M. McLean Ltd.*²², on a motion under Rule 474 to determine the matter as a preliminary point of law, he declined to decide the question and left it to be determined by the trial judge. This course, however, was adopted mainly on the ground that both parties preferred, apparently for their own reasons, to have the validity of the section upheld.

Dubé, J., in an interlocutory application to strike out a paragraph in a statement of claim made pursuant to section 7(e), refused the application on the grounds that there appeared to be some reservation as to the validity of that section expressed by Chief Justice Laskin in the *MacDonald et al. v. Vapour Canada Ltd. et al.* case, *supra*, where patents and trade marks are concerned. Dubé, J. preferred to leave the question to be decided at trial (see *Balinte et al. v. DeCloet Bros. Ltd. et al.*²³). The Court of Appeal upheld his decision stating that statements of claim should be struck on interlocutory motions only in plain

²² 45 C.P.R. (2d) 150

²³ 40 C.P.R. (2d) 157

and obvious cases (see *DeCloet Bros. Ltd. et al. v. Joe Balinte et al.*²⁴ for the report of appeal).

On the other hand, Mahoney, J. in the case of *Weider and Weider Sports Equipment Co. Ltd. v. Beco Industries Ltd. et al.*²⁵ struck out the portion of the Plaintiff's statement of claim based on section 7(b) on the grounds that it was *ultra vires* the Federal Government and, therefore, not within the jurisdiction of this Court. He stated at page 177 of the above report:

As applied to the facts alleged in the statement of claim, it cannot be said that s. 7(b) of the *Trade Marks Act* rounds out the regulatory scheme prescribed by Parliament in the exercise of its, power, under s. 91(22) of the *B.N.A. Act*, to legislate in respect of patents. The *Patent Act*, R.S.C. 1970, c. P-4, provides the plaintiffs with cause of action and remedies for the enforcement and protection of the rights granted them under it. It is entirely unnecessary to the scheme of the *Patent Act* for them to go outside it, to s. 7(b) of the *Trade Marks Act* for such a cause of action or to s. 53 for a remedy.

In the subsequent case of *Dominion Mail Order Products Corporation v. Benjamin Weider*²⁶, although he did not decide the point directly, he expressed his reservations regarding section 7(b) in the following term at page 142 of the report:

The Ontario action seeks damages for passing off which, in my view, in the light of the decision of the Supreme Court of Canada in *MacDonald v. Vapour Canada Ltd.*, would not likely be available in this Court.

My brother, Cattanach, J. also expressed some serious reservation as to section 7(b) in *S.C. Johnson & Son, Ltd. et al. v. Marketing International Ltd.*²⁶ where he stated at page 31:

²⁴ [1980] 2 F.C. 384

²⁵ 29 C.P.R. (2d) 175 at page 177

²⁶ 32 C.P.R. (2d) 15

In view of the remarks of the Chief Justice in *MacDonald and Vapour*, I have reservations if this Court has jurisdiction to entertain an action for passing off under s. 7(b) and (c). I have difficulty in following how a passing off action which is available at common law can be part of a regulatory scheme particularly when the remedy of infringement is available under the statute. However, this question and its implications were not argued before me. I do not decide the matter.

He then declined to grant injunction requested under section 7(b), although the plaintiff did succeed and an injunction was granted to restrain use of its mark.

In the case of *Valle's Steack House v. Tessier et al.*²⁷, my brother Marceau, J. allowed a claim under section 7(b) but the question of the constitutionality of that section was never raised before him at trial nor touched upon in his reasons. On the other hand, if one examines his decision in the case of *Rocois Construction Inc. v. Quebec Ready Mix Inc. et al.*²⁸, which was not a patent matter but an action based on section 51.1 of the *Combines Investigation Act*²⁹, he expresses the clear view that very strict limitations should be put on legislation founded on Head 2 of section 91 of the *BNA Act*.

Chief Justice Jockett, when sitting in the Federal Court of Appeal in the case of *Marketing International Ltd. v. S.C. Johnson & Son, Ltd. et al.*³⁰ is quoted as saying at pages 39 and 40 of the report:

With reference to s. 7(b), I do not think that it is necessary to discuss the evidence. It is largely of the kind that speaks for itself. I should say, however, that, if it were concluded that the evidence establishes a case that falls within the words of s. 7(b), I should have thought that, having regard to the reasoning on which the decision in *MacDonald et al. v. Vapour Canada Ltd. et al.* (1976), 22 C.P.R.

²⁷ 49 C.P.R. (2d) 218

²⁸ [1980] 1 F.C. 184

²⁹ R.S.C. 1970, Chapter C-23

³⁰ 41 C.P.R. (2d) 55

(2d) 1, 66 D.L.R. (3d) 1, [1977] 2 S.C.R. 134, is founded, the claim based thereon might have to be dismissed on the ground that s. 7(b) is *ultra vires*. As, however, we did not have full argument on that aspect of the matter, I should have been inclined, in that event, to offer the parties an opportunity of further argument with regard thereto before disposing of this branch of the case on that basis.

In the case of *Seiko Time Canada Ltd. v. Consumers Distributing Co. Ltd.*³¹, J. Holland, J. of the Supreme Court of Ontario, following a detailed review of the *MacDonald v. Vapour Canada* case, *supra*, was of the view that the Supreme Court of Canada had held the whole of section 7 to be completely *ultra vires*. However, as stated by the trial judge himself, his opinion on this point was clearly *obiter dictum* as he disposed of the matter on other grounds.

Not by reason of any application of the principle of *stare decisis*, but as a matter of sound judicial administration, I should follow the previous decision of members of the Trial Division of this Court, save in exceptional circumstances, which to a large extent have been carefully defined in jurisprudence dealing with the subject. I, therefore, agree with Wilson, J. in the case of *Re Hansard Spruce Mills Ltd.*³² and consider myself bound by the principles mentioned by Urie, J. in delivering judgment on behalf of our Court of Appeal in the case of *Armstrong Cork Canada Limited et al. v. Domco Industries Limited et al.*³³ in so far as they are applicable to a trial court. However, since there presently exists quite divergent publicly expressed views and contrary decisions of the Trial Division on the very point in issue before me, I feel at liberty to deal with the matter without being morally limited by those sound principles of judicial administration.

³¹ 29 O.R. (2d) 221

³² [1954] 4 D.L.R. 590

³³ Court No. A-239-80, judgment rendered at Ottawa on December 24, 1980

In order to decide whether the action of passing off is properly part of or attributable to trade mark legislation, it is of some use to examine to some extent the nature of that action and, more particularly, the principles on which it is founded as well as the rights which are being protected. After a careful and very interesting review of the history and development of passing off actions in the case of *Erven Warnink B. V. and Another v. J. Townend & Sons (Hull) Ltd. and Another*³⁴ Lord Diplock had this to say at page 92:

This was left to be provided by Lord Parker in *Spalding v. Gamage* (1915) 32 R.P.C. 273. In a speech which received the approval of the other members of this House, he identified the right the invasion of which is the subject of passing-off actions as being the "property in the business or goodwill likely to be injured by the misrepresentation". The concept of goodwill is in law a broad one which is perhaps expressed in words used by Lord MacNaghten in *C.I.R. v. Muller* [1901] A.C. 217, 223: "It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in custom".

In that same case Lord Fraser of Tullybelton had this to say at pages 102 and 103 of the same report:

As my noble and learned friend, Lord Diplock, said in *Star Industrial Co. Ltd. v. Yap Kwee Kor* [1976] F.S.R. 256 at 269.

"Whatever doubts there may have previously been as to the legal nature of the rights which were entitled to protection by an action for passing off in courts of law or equity, these were laid to rest more than 60 years ago by the speech of Lord Parker of Waddington in *A.G. Spalding & Bros. v. A.W. Gamage Ltd.* with which the other members of the House of Lords agreed. A passing-off action is a remedy for the invasion of a right of property not in the mark, name or get-up improperly used, but in the business or goodwill likely to be injured by the misrepresentation made by passing off one person's goods

³⁴ [1980] 2 R.P.C. 31

as the goods of another. Goodwill as the subject of proprietary right is incapable of subsisting by itself. It has no independent existence apart from the business to which it is attached. It is local in character and divisible; if the business is carried on in several countries a separate goodwill attaches to it in each. So when the business is abandoned in one country in which it has acquired a goodwill the goodwill in that country perishes with it although the business may continue to be carried on in other countries".

[The underlining is mine.]

The provisions of the common law have been given statutory effect by section 7(b) but those provisions have in fact been extended to some extent by the section and also by its predecessor section 11 of the late *Unfair Competition Act*³⁵. As stated in Fox, *The Canadian Law of Trade Marks and Unfair Competition*³⁶ at pages 504 and 505:

The Statutory Action: The cause of action under s. 7(b) and (c) of the Trade Marks Act, as in the case of s. 11(b) of the Unfair Competition Act, is the statutory substitute for the common law action for passing off. (*Canadian Converters Co. Ltd. v. Eastport Trading Co. Ltd.* (1968), 39 Fox Pat. C. 148 at 150.) The essential criterion of s. 7(b) is the directing of public attention to a person's wares, services or business in such a way as to cause or be likely to cause confusion between them and those of another. (*Old Dutch Foods Ltd. v. W.R. Malkin Ltd. et al.* (1969), 42 Fox Pat. C. 124 at 131.) Everything that would amount to a passing off in England would fall within the prohibitions of the section. Thorson P., in *Coca-Cola Co. of Canada Ltd. v. Bernard Beverages Ltd.*, 8 Fox Pat. C. 194 at 209, [1949] Ex. C.R. 119 at 135, 9 C.P.R. 121, thought that it might even be wider in scope. He pointed out that the cause of action under the section is wider than for infringement in that infringement is only one of the forms of unfair competition against which the section is directed. There may be other branches of it that do not involve infringement of trade mark at all. Consequently even if a plaintiff were to fail on an infringement issue he might succeed in an action under s. 7. Conversely, the fact that a defendant was guilty of infringement does not *ipso facto* make him liable under the section for he might be able to show that his conduct, notwithstanding the infringement, had been such as not to fall within the prohibition of the section.

³⁵ R.S.C. 1952, Chapter 274

³⁶ 1972, Third Edition

In this respect I quote from page 214 of my judgment in the case of *The Noshery Ltd. v. The Penthouse Motor Inn Ltd. et al.*, *supra*:

It is also important to bear in mind that actions of passing-off, which are brought under the statute today, differ from actions of passing-off formerly brought under the common law. The coincidence of the wares or services is not of such a critical importance in the statutory action as it was at common law. At common law the parties had to be considered as competitors. In the modern action under the *Trade Marks Act*, as it exists since 1953, the complaint is made in respect of the confusion between the wares and services of the plaintiff and the wares and services of *another*. In this respect the replacing of the words "of a competitor", which at one time were found in s.11(b) of the *Unfair Competition Act*, R.S.C. 1952, c.274, by the words "of another" in what is now s.7(b) of the *Trade Marks Act*, was a most important amendment. Confusion, leading to deception of the public, is the vital element to be considered; there is no longer a restrictive requirement of coincidence of wares or services. Such confusion leading to deception might at times occur even where the services are not of the same general class.

The above remarks are quite relevant to the issue. However, I have taken the rather unusual step of quoting from my own reasons because the Supreme Court of Canada, when commenting on the *Noshery* case in the *MacDonald v. Vapour Canada* case, *supra*, quite erroneously attributed to me a diametrically opposed view of the effect of section 7(b). Chief Justice Laskin, at page 18 in the 22 C.P.R. (2d) report of the case, made the following statement on the subject:

In *The Noshery Ltd. v. The Penthouse Motor Inn Ltd. et al.* (1969), 61 C.P.R. 207, Addy, J., then in the Ontario Supreme Court, differed from both of the foregoing cases* in the holding that s.7(b) applied only as between competitors.

(*NOTE: The two cases referred to were *Building Products Ltd. v. B.P. Canada Ltd.* (1961), 31 C.P.R. 29, 21 Fox Pat. C. 130 and *Greenglass v. Brown* (1962), 40 C.P.R. 145, 24 Fox Pat. C. 21.)

Nowhere in the *Noshery* case is it stated or implied that section 7(b) applies only as between competitors. I have read the *Greenglass* decision and, far from disagreeing with Keancy, J.'s view of section 7(b), I was in full accord with it in the *Noshery* case. I have also read the *Building Products* case. Cameron, J., in that case, was not dealing with a passing off action under section 7(b) but with a demand for an injunction to prohibit the use of a trade name and of a trade mark and to prohibit continued infringement of a registered mark. The action was not directed to the wares or services themselves, but, solely to the mark or name. There was no reference to section 7(b). The precise question being considered by the Court was whether a statement of evidence and a report, both pertaining to an entirely different proceeding under the *Combines Investigation Act* could be used as evidence in the action regarding the Plaintiff's trade mark and trade name.

It is not every day that the shoe is on the other foot and that a trial judge can enjoy the rare luxury of having the last word on any point. Although it might, at first glance, appear to be of comparatively minor importance, the change effected in 1953 by substituting "services of another" for "services of a competitor" might, if the section is ultimately found to be constitutional, prove to have a very direct bearing on the outcome of the present case, since all of the Plaintiff's motels are in the U.S.A. and all of the Defendant's are in Canada and, therefore, the parties could not, in my view, be considered as competitors.

Even though the wording of section 7(b) has to some limited extent broadened the scope of the common law action of passing off, it has not changed the nature of the action nor any of its other essential elements nor is any suggestion to that effect to be found in any reported case that I know of. The

right which is the subject-matter of the action is still the property in the business and goodwill likely to be injured. The action still concerns an invasion of a right in that property and not of a right in the mark or name improperly used. The fact that the statutory provision might be broader in its scope than the common law action would not tend to relate it more intimately to "the general regulatory scheme governing trade marks." On the contrary, the broader the brush the less suitable it would be to fill in the fine lines of the narrow and carefully circumscribed provisions of trade mark registration and control, even if used by a skillful artist.

Having dealt with the nature of an action under section 7(b), one must examine its place in the context of our constitution.

Patents and copyrights are specifically enumerated subjects of federal jurisdiction under Heads 22 and 23 of section 91 of the *BNA Act*. Trade marks, however, are in a completely different category. As previously stated, federal legislative power on this subject draws its constitutional validity from the general power of the federal authority to regulate trade and commerce in the areas of inter-provincial and external trades (Head 2 of section 91). Section 7(b) itself certainly does not, in any way, focus on inter-provincial or external trade or on the regulation of trade throughout Canada and, therefore, in the factual situation of the case at Bar, if it is to be considered as having any constitutional validity whatsoever that validity must be founded somehow on trade mark law.

In order for the federal authority, pursuant to Head 2 of section 91, to validly exercise its power on any subject which is also clearly within the field of property and civil rights normally reserved to provincial legislatures, the subject-matter must be necessarily incidental to the power to regulate trade and commerce.

It seems to follow that, in order for any supplementary legislation which does not directly deal with trade marks but which must find its validity in the area of trade mark legislation, must be essentially or fundamentally required for or, at the very least, be necessarily or intimately related to the regulation or control of trade marks. I feel that it is in this sense that the Supreme Court of Canada stated that the provision must be "connected with a general regulatory scheme to govern trade marks" or "support existing regulation by the Parliament of Canada in the fields of patents, trade marks, trade names and copyright . . ." or possess "some association with federal jurisdiction in relation to trade marks and trade names . . ." The connection must be intimate and important, the support, real and substantial and the association that of blood brothers for I dare, not in this day and age, qualify the association as that of intimate bedfellows. A mere incidental relationship or a matter which is nothing more than an accessory, adjunct, appendage or adornment will not meet the required test. Otherwise, the uniform would enjoy a more favourable legal status than the body it has been tailored to clothe.

As to the validity of the trade mark legislation itself, I believe that the remarks of Chief Justice Laskin in the *MacDonald v. Vapour Canada* case, *supra*, are of considerable help. After reviewing many of the Privy Council decisions, which followed the well-known *Parsons* case, and where the power to the Canadian Parliament to legislate for the regulation of trade and commerce appeared to be alternately extended and then truncated, he had this to say at page 28 of the 22 C.P.R. (2d):

The bearing they [the Privy Council decisions] do have, however, is in indicating that regulation by a public authority, taking the matter in question out of private hands, must still meet a requirement, if federal regulatory legislation is to be valid, of applying the regulation to the flow of interprovincial or foreign trade; or, if considered in the aspect of regulation of credit (to adopt views expressed by Duff, C.J.C., in *Re Alberta Legislation*, [1938] 2 D.L.R. 31, [1938] S.C.R. 100) it must be such as to involve a public regulation thereof applicable to the conduct of trading and commercial activities throughout Canada.

[The emphasis is mine.]

↑

In a passing off action, again to quote Chief Justice of Canada, the "enforcement is left to the chance of private redress without public monitoring by the continued oversight of a regulatory agency" and it is "unconnected with any general regulatory scheme to govern trade marks," while the *Trade Marks Act* is characterized by a public registry and administrative controls not applicable in any way to section 7(b).

In the case at Bar, the passing off action is taken by a party who is also attacking the Defendant's trade mark. Not only is the action unnecessary in order to invalidate the registration of the mark but it would be incapable of doing so if the evidence were restricted solely to the bare question of passing off of services. A mark can only be declared invalid on the specific grounds and subject to the specific nature of the evidence authorized in section of the Act dealing with the validity of marks and on no other grounds or evidence. It is also of some importance to note that the time to which the evidence is to be related is different. When the validity of a mark is attacked on the basis of prior use, or prior making known, the crucial time is the date of filing of the application of registration (see section 16(3) of the *Trade Marks Act, supra*), when it is attacked on the basis of lack of distinctiveness it is the time when the proceedings are commenced (see *Trade Marks Act, section 18(1)(b), supra*) while in the case of a passing off action it is the period dating from the time when the acts complained first took place.

The three main grounds on which a mark may be attacked were discussed in the earlier portions of these reasons. They are quite different from those on which an action of passing off under section 7(b) or at common law can be maintained. Similarly, even though a passing off action should fail on the merits, the mark could still be found to be invalid on any one or all of the three main grounds of attack provided for in the Act, and the registration ordered to be vacated.

The areas where there are substantial differences between a passing off action under section 7(b) and an action to invalidate a trade mark might be summed up as follows: the "chose" or right protected, the cause of action, the grounds on which the action is founded, the nature of the evidence to be adduced, and the time to which the evidence must be related. On the other hand, I cannot find any real common denominator of a passing off action under section 7 in any of the above-mentioned actions. I, therefore, fail to see how an action under section 7(b) nor how 7(b) itself can be said to "round off federal legislation regarding trade marks." Finally, when a trade mark is declared to be invalid, this constitutes a decision *in rem*. A judgment in a passing off action on the other hand, by its very nature, can never, under any circumstances, be considered an *in rem* decision.

I conclude that section 7(b) of the *Trade Marks Act* is *ultra vires* the federal legislative authority and this Court is without jurisdiction to try the issue either on the basis of that section or *a fortiori* on the basis of the common law action of passing off. That portion of the Plaintiff's claim will, accordingly, be dismissed.

FINDINGS OF FACT RE SECTION 7(b)

Counsel for both parties stated that whatever might be my decision on the issue of constitutionality of section 7(b), it would be appealed. For that reason, they requested that I make the findings of fact, which would allow a finding on the merits to be made in order to avoid a new trial, should it ultimately be found that the section is *intra vires*.

I have reviewed my reasons and I am of the view that with the exception of a few minor findings which I will now make, all of the findings of fact required to deal with the merits of an action of passing off under section 7(b) were made when I dealt with the various other issues in this action.

I find that the Defendant acted *scienter* throughout: the Defendant, through its officer Harrison, fully knew of the existence of the Plaintiff's mark, name and business before the decision to adopt its own name and mark was arrived at, and, on all of the evidence, I find on a balance of probabilities that it was precisely because of the existence of the Plaintiff's name, mark and reputation that the Defendant adopted the name "Motel 6" as part of its mark and that the mark chosen is so similar to that of the Plaintiff. One might well conclude that the Defendant's conduct approached reprehensible business practice, as I am satisfied that it intended to create the impression with the motoring public that the two companies were somehow connected. It wished to benefit from the good reputation developed by the Plaintiff in that market. From the 1st of June, 1973, being the date when the Defendant first opened its motel in Vernon, there existed a great likelihood that some members of the motoring public believed that the motel was part of the U.S. chain. There is some evidence of the existence of "Big 6 Motel" in Revelstoke, B.C., but, apparently no other evidence affecting the use of the figure "6" in relation to motels in Canada.

As to the issue of the Defendant's name and its intention to benefit by the Plaintiff's goodwill, the former attempted originally to obtain incorporation under exactly the same name as that of the Plaintiff. The name "No. 6 Motel Ltd." was adopted because the incorporating authorities of the Province refused to authorize Motel 6 Ltd. as a corporate name. I attach little importance and little credence for that matter, to the evidence that the public would not be deceived as to the identity of the Plaintiff because the Defendant's telephone operators were instructed to and do in fact identify its motels as "No. 6 Motel" and not as "Motel 6" when answering the telephone.

Finally, I am certainly not prepared to find that the Plaintiff's mark is a weak one. It was blatantly imitated by the Defendant.

The above findings together with those I have made in deciding the other issues in this matter are, I believe, all the pertinent ones required to try the issue of passing off. I am deliberately refraining from arriving at a finding on the merits, as there always remains the possibility of a common law action of passing off being taken by the Plaintiff before the Supreme Court of British Columbia should it ultimately be unsuccessful after appeals have been exhausted in the present action. If such action were taken there would, of course, arise the very important question of whether the common law action has evolved to the point where the parties need not be competitors and, should that issue be answered in the affirmative, the further question of whether the action would still lie when the Plaintiff has no physical presence, representation, organization or system whatsoever in Canada.

DAMAGES

The only damages claimed, or which in fact could be successfully claimed having regard to the factual situation of this action, are those related to the alleged tort of passing off.

No special damages have been established and there is no actual proof of any general damage to the Plaintiff's goodwill. There is no evidence for instance that the quality of the services and accommodation furnished by the Defendant is inferior to that of the Plaintiff and would thereby cause the former damage to its goodwill. Since they are operating in different markets, that is, different countries, there can be no question of the Plaintiff losing any customers to the Defendant. The Plaintiff company, when it acquired Motel 6 from the three individuals,

Hawthorne, Harrison and Mitchell, in 1973, set a value of \$75,000.00 on its goodwill in the prospectus issued for the sale of shares in the corporation. This figure, however, was a purely arbitrary one and the prospectus issued at the time bears the following notation:

These shares were issued at an arbitrary value of \$0.10 per share for a total of \$75,000.00, which amount does not necessarily bear any relation to the value of the trade mark originally acquired by the vendors at an estimated cost of \$5,000.00.

I also find that the Plaintiff filed an application to register its trade mark in Canada in November 1972. The application was neither based on actual use or intended use in Canada but was based upon use and registration in the U.S.A.

JUDGMENT

A judgment will issue ordering the corporate Defendant's trade mark registered on the 23rd of August, 1974 as No. 201,351 and also the Defendant Hawthorne's trade mark registered on the 28th of August, 1970, as No. 170,826 to be struck from the Register of Trade Marks. All other claims of the Plaintiff will be dismissed, with the claim under section 7(b) of the *Trade Marks Act*, however, being dismissed solely on the grounds of lack of jurisdiction. The Defendant's request for a declaration that the Plaintiff has no copyright to its mark will not be granted, as it would have been granted only as between the parties and would be redundant in view of the grounds on which the Plaintiff's claim against the Defendant for breach of copyright is being dismissed.

COSTS

Formal judgment will issue accordingly but I am nevertheless reserving my decision as to costs, as both counsel had requested the opportunity of speaking further to the matter of costs in the event of success being divided.

O T T A W A

April 3, 1981

George Addy

J.F.C.C.

FEDERAL COURT OF CANADA

Names of Counsel and
Solicitors of Record

COURT NO.: T-882-74

STYLE OF CAUSE: MOTEL 6, INC.,

v.

NO. 6 MOTEL LIMITED and
JOHN VAN EDMOND BEACHCROFT HAWTHORNE,

PLACE OF HEARING: VANCOUVER

DATES OF HEARING: February 17,18,19,20,23,
24, and 25th, 1981

REASONS FOR JUDGMENT OF ADDY, J.,

DATED: April 3, 1981

APPEARANCES:

D. Morrow for Plaintiff

R.H. Barrigar,
L. Turlock for Defendants

SOLICITORS OF RECORD:

Smart & Biggar
Ottawa for Plaintiff

Barrigar & Oyen
Vancouver for Defendants

In the Federal Court of Canada

TRIAL DIVISION

Court No. T-882-74

BETWEEN

MOTEL 6, INC.

Plaintiff

- and -

NO. 6 MOTEL LIMITED and
JOHN VAN EDMOND BEACHCROFT
HAWTHORNE

Defendants.

REASONS FOR JUDGMENT



MAY 28 1987

Federal Court of Canada
Trial Division

BETWEEN:

MOTEL '6, INC.

Plaintiff

- and -

NO. 6 MOTEL LIMITED and
JOHN VAN EGMOND BEACHCROFT HAWTHORNE

Defendants

REASONS RE COSTS

ADDY, J.:

Pursuant to paragraph 5 of my judgment in this case counsel were heard on the question of costs.

As to the Defendant Hawthorne:

One of the Plaintiff's main attacks on the mark was the alleged false declaration made by that Defendant at the time of registration. His status as a defendant in the action was therefore quite important. Furthermore, in order for his admissions on discovery to be taken as evidence in the action, it was necessary to sue him as a defendant.

He could have confessed to judgment at the outset and avoided costs, but this was delayed until immediately before the trial. I estimate that approximately one half of the costs of the proceedings, relating to him up to the time of confession of judgment immediately before trial, referred to that particular issue.

As to the corporate Defendant:

There is no doubt that the corporate Defendant knew of the Plaintiff's mark before adopting its own mark and I am satisfied that, in choosing its mark, it was deliberately attempting to reap a benefit from the good will built up by the Plaintiff among the motoring public. This is not by any means a case of an innocent or inadvertent adoption of a conflicting mark. That Defendant's conduct approaches the type of conduct which would justify costs being awarded against it on a solicitor-and-client basis.

The Plaintiff only succeeded in its claim against the mark and all other claims were dismissed. That claim, however, was a very basic and fundamental one on which the other remedies might well have depended. It could only be tried in this Court.

The Defendant was advised by its own legal advisors of the likelihood of its mark being expunged, yet, it chose to continue in its defence of the mark. It succeeded in opposing all of the other claims but the greater part of the evidence required to be adduced in the passing off action was also required to sustain the various grounds of attack on the mark.

In these circumstances, I consider that a fair award of costs would be to award the Plaintiff on a party-and-party basis one third of the total costs of the action against that Defendant.

Judgment for costs will, therefore, issue as follows:

1. As against the Defendant John V.E.B. Hawthorne, the Plaintiff shall recover one half of its costs arising from

proceedings in this action that related solely to that Defendant, to be taxed as between party and party, for the period from the commencement of this action until the discontinuance of this action as against that Defendant;

2. As against the Defendant No. 6 Motel Limited, the Plaintiff shall recover one third of its costs of this action, except costs arising from proceedings in this action that related solely to the Defendant, John V.E.B. Hawthorne, with costs to be taxed on a party-and-party basis;

3. All costs will be taxed on the basis of a Class III action;

4. The Defendants shall not be entitled to costs.

O T T A W A

May 14, 1981

George Addy

J.F.C.C.

Federal Court of Canada

TRIAL DIVISION

Court No. T-882-74

BETWEEN

MOTEL 6, INC.

Plaintiff

— and —

NO. 6 MOTEL LIMITED and JOHN VAN
EGMOND BEACHCROFT HAWTHORNE

Defendants

REASONS RE COSTS

FEDERAL COURT OF CANADA

NAMES OF COUNSEL AND SOLICITORS OF RECORD

COURT FILE NO.: T-822-74

STYLE OF CAUSE: Motel 6 Inc.
and
No. 6 Motel Limited et al

PLACE OF HEARING: Ottawa

DATE OF HEARING: May 7th, 1981

REASONS FOR COSTS OF Addy J.

DATED May 14th, 1981

APPEARANCES:

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