

Federal Court
of Appeal



Cour d'appel
fédérale

Date: 20110811

Docket: A-254-10

Citation: 2011 FCA 235

**CORAM: SHARLOW J.A.
PELLETIER J.A.
STRATAS J.A.**

BETWEEN:

**ARCHMETAL INDUSTRIES CORPORATION, HENRY CHEN, JEROME CHEN and
FORTUNE MANUFACTURING CO. LTD.**

APPELLANTS/Defendants

and

JAG FLOCOMPONENTS N.A. and JAG FLOCOMPONENTS (NORTH AMERICA) INC.

RESPONDENTS/Plaintiffs

Heard at Edmonton, Alberta, on May 26, 2011.

Judgment delivered at Ottawa, Ontario, on August 11, 2011.

REASONS FOR JUDGMENT BY:

PELLETIER J.A.

CONCURRED IN BY:

SHARLOW J.A.
STRATAS J.A.

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REASONS FOR JUDGMENT

PELLETIER J.A.

INTRODUCTION

[1] Archmetal Industries Corporation (Archmetal), Henry Chen, Jerome Chen and Fortune Manufacturing Co. Ltd. (Fortune) appeal from the decision of Phelan J. of the Federal Court (the trial judge) ordering the expungement of Archmetal's registration of the trade-mark FUSION at the request of JAG Flocomponents N.A. (JAG) and JAG Flocomponents (North America) Inc. (JAG NA). The Federal Court's decision is reported as *JAG Flocomponents N.A. v. Archmetal Industries Corporation*, 2010 FC 627, 84 C.P.R. (4th) 323 [Reasons].

[2] The trial judge found that expungement was justified on several grounds: (1) that Archmetal was not the sole owner of the trade-mark; (2) that the transaction relied upon by Archmetal as constituting its first use of the mark in Canada did not constitute “use” within the meaning of the *Trade-Marks Act*, R.S.C. 1985 c. T-13 (the Act); (3) that the trade-mark lacked distinctiveness; and (4) that the application for registration was tainted by a material omission as to the ownership of the mark.

[3] I would dismiss the appeal on the ground that Archmetal was not entitled to registration of the mark and so its registration should be expunged as ordered by the trial judge. Since this is sufficient to dispose of the appeal, I do not propose to deal with the other reasons the trial judge identified as justifying expungement.

FACTS

[4] The trial judge described the corporate parties as follows (Reasons at paras. 3-4):

JAG Flocomponents N.A. Inc. is an Alberta general partnership and JAG Flocomponents (North America) Inc. is its majority partner. JAG Flocomponents (North America) Inc. is the successor to the original company JAG Flocomponents Inc. (JAG), which initiated the business arrangements and other material matters in this lawsuit.

Archmetal Industries Corporation (Archmetal) is a British Columbia corporation registered extra-provincially in Alberta. Archmetal is wholly owned by Fortune Manufacturing Co., Ltd. (Fortune Manufacturing), a Chinese company. Both companies are either directly or indirectly owned and controlled by the Defendant, Jerome Chen. Archmetal was a 30% shareholder in the original company, JAG. Archmetal was also Fortune Manufacturing's importer of valves into the North American market.

[5] JAG was owned jointly by John McCrae and Gary Williams, two individuals with experience in the oil patch who wished to go into the business of supplying high quality valves to the oil and gas industry. Mr. McCrae was largely responsible for the business aspects of the venture while Mr. Williams was responsible for the technical aspects, including valve design and testing.

[6] In order to fund the development of the high quality valves that it wished to bring to market, JAG needed a lower end, high volume product line to generate cash flow. Mr. McCrae was aware that Fortune produced a line of valves which would suit JAG's purposes.

[7] JAG and Fortune met and agreed to do business together. Both parties signed a Letter of Intent dated November 28, 2001, which largely governed their subsequent conduct. For present purposes, the material portion of the letter of intent provided that JAG was to be Fortune's exclusive Canadian distributor of its current and future industrial valves. Archmetal, who had previously functioned in this capacity, was to refer its current industrial valve customers to JAG and to concentrate its business on non-industrial markets. Archmetal introduced JAG to its existing industrial clients and designated it as its "Canadian Master Distributor".

[8] JAG and Archmetal also entered into a Consignment Agreement dated January 1, 2002, setting out the terms of their business arrangement. The parties proceeded by way of consignment because JAG did not have the capital to pay for the valves when they were delivered. Like most such agreements, the Consignment Agreement required JAG to pay for the product only after it was sold, and stipulated that all product would remain the property of Archmetal pending sale by JAG.

[9] In December 2001, within one month of signing the Letter of Intent, JAG identified market resistance to valves marketed under names indicating that the valves were manufactured in China and suggested that the high quality valves under development be marketed with the Fortune logo next to the JAG name (Appeal Book Vol. 1 at 244). Fortune rejected this suggestion as it wished to continue making and marketing these valves if its relationship with JAG should founder. At the end of January 2002, Mr. McCrae suggested to Fortune that FUSION would be a suitable name for the new valves (Appeal Book Vol. 1 at 340). The documentary record is not clear as to when Fortune agreed to use FUSION in connection with its valves but it is clear that it did and that Fortune eventually manufactured valves which carried the FUSION mark and the Fortune logo.

[10] In January 2003, at a time when there were obvious strains in the relationship between the parties, the question of the ownership of the FUSION trade-mark became an issue. Mr. McCrae undertook to consider JAG's position and to report back. Fortune was not content to wait, however, and on March 27, 2003 Archmetal (on Fortune's instructions) applied to register FUSION as its trade-mark based on its first use in Canada as early as September 2002. On April 24, 2003, JAG NA, the successor in interest to JAG, applied to register FUSION as its trade-mark, based on a first use in Canada of February 22, 2002. Prior to these trade-mark applications, on June 6, 2002, JAG registered FUSION as its trade name under the relevant Alberta legislation (Appeal Book Vol. 2 at 342).

[11] JAG NA did not file any material in opposition to Archmetal's trade-mark application though Archmetal did oppose JAG NA's application and filed the affidavit of Henry Chen in support of its opposition. One exhibit to that affidavit was an invoice purporting to establish a sale of FUSION valves to JAG by Archmetal on or about September 12, 2002. The Trade-marks Opposition Board allowed Archmetal's application for registration and dismissed JAG NA's application. The relationship between the parties ended acrimoniously and spawned extensive litigation, one aspect of which was JAG NA's application for expungement of Archmetal's registration of FUSION as its trade-mark.

[12] Finally, the evidence established that Archmetal's only role in the transactions in issue was to import the valves into Canada (see paragraph 4 above) and to serve as a conduit between Fortune, as the manufacturer of the valves, and JAG, as the intended marketer in Canada. Archmetal had no technical expertise, had no input into the design of the valves, and made no contribution to the selection of FUSION as a trade-mark. It did not market the valves in question in Canada beyond forwarding product it received from Fortune to JAG.

THE FEDERAL COURT'S DECISION

[13] After setting out the facts in some detail, the trial judge dealt with the issues arising from those facts. He dealt with the ownership of the trade-mark, first use, distinctiveness, misrepresentation to the Canadian Intellectual Property Office (CIPO), and unfair competition. In each case, he came to a conclusion which justified expungement of Archmetal's registration. As indicated earlier, I agree with the trial judge that Archmetal has failed to establish that it used the

trade-mark in Canada. However, I reach that conclusion for reasons other than those identified by the trial judge, which I explain below.

[14] In its application for registration, Archmetal claimed first use as of September 2002, relying upon an invoice issued by Archmetal to JAG dated September 12, 2002, which recorded a shipment of 13 kinds of FUSION valves to JAG (Appeal Book Vol. 3 at 458). The trial judge characterized this transaction (the September 2002 transaction) as a shipment from Fortune to JAG, presumably relying upon the letter of intent in which Fortune agreed that JAG would be its Canadian distributor. The trial judge then quoted *Manhattan Industries Inc. v. Princeton Management Ltd.* (1972), 4 C.P.R. (2d) 6 at para. 40 [*Manhattan Industries*], in support of the proposition that “a person may sell his goods through a distributor, retailer or wholesaler and still have the benefit of “use” in Canada” (Reasons at para. 82). As a result, JAG, in its capacity as importer, did not acquire the right to register the FUSION trade-mark in its own name.

[15] The trial judge then went on to find that the absence of Archmetal from the September 2002 transaction was not a bar to registration in its name, since Archmetal was clearly acting as agent for Fortune. On the basis of the Consignment Agreement, the trial judge found that the September 2002 transaction did not amount to use of the trade-mark in Canada, since there was no transfer of property in the valves, and no transfer of possession, in the normal course of trade. On his analysis, it followed that the September 2002 transaction did not constitute “use” as defined by the combined operations of section 2 and subsection 4(1) of the Act:

2. “use”, in relation to a trade-mark, 2. « *emploi* » ou « *usage* » À l’égard

means any use that by section 4 is deemed to be a use in association with wares or services;

d'une marque de commerce, tout emploi qui, selon l'article 4, est réputé un emploi en liaison avec des marchandises ou services.

4. (1) A trade-mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred.

4. (1) Une marque de commerce est réputée employée en liaison avec des marchandises si, lors du transfert de la propriété ou de la possession de ces marchandises, dans la pratique normale du commerce, elle est apposée sur les marchandises mêmes ou sur les colis dans lesquels ces marchandises sont distribuées, ou si elle est, de toute autre manière, liée aux marchandises à tel point qu'avis de liaison est alors donné à la personne à qui la propriété ou possession est transférée.

[16] The trial judge found that the transfer of the valves to JAG did not amount to a sale because, pursuant to the Consignment Agreement in effect between Archmetal and JAG, Archmetal (or Fortune) did not intend to transfer property in, or possession of, the goods to JAG until JAG had sold them to a third party (Reasons at para. 90). According to the trial judge, JAG held the goods only "as a trustee and not in its own right" (Reasons at para. 91). The heart of the trial judge's conclusion on this issue is found in the following two paragraphs (Reasons at paras. 92-93):

The parties did not contemplate that delivery of product to JAG meant anything close to "use in Canada" as that term is understood in the Act. The "use in Canada" would occur when JAG sold products to the next level of trade. The trade-mark benefits of that sale would inure to the benefit of the registrant.

Therefore, the use relied upon to support registrability was not "use in Canada" pursuant to s. 4 of the Act. There is no reliable evidence of further sales in September 2002 and therefore the date of first use cannot be sustained.

ANALYSIS

[17] As this is an appeal of a decision of a trial judge after a trial, the standard of review is dictated by the decision of the Supreme Court in *Housen v. Nikolaisen*, 2002 SCC 33, [2002] 2 S.C.R. 235 – correctness on questions of law and reasonableness on questions of fact or questions of mixed fact and law.

[18] The issue in this appeal is the validity of Archmetal’s registration of the trade-mark FUSION. JAG has not appealed the trial judge’s decision that the Federal Court does not have the jurisdiction to order the substitution of the registered owner of a trade-mark. As a result, the material facts are those dealing with the course of business between Fortune, the foreign entity which affixed the trade-mark to the goods which it manufactured, and Archmetal, the entity which claimed to be entitled to registration of the trade-mark.

[19] The trial judge based his decision on the issue of first use on a finding that, by virtue of the terms of the Consignment Agreement, Fortune and Archmetal never intended to treat the delivery of product as a sale or transfer to JAG (within the meaning of ss. 4(1) of the Act) so that there was no “use” of the trade-mark by Archmetal. In my view, it was not necessary for him to deal with the effect of the Consignment Agreement for the reasons set out below.

[20] The trial judge established early in his reasoning that an importer of goods to which a trade-mark has been affixed by the manufacturer does not acquire the right to register the trade-mark simply because it imported the goods and resold them in Canada. There is an abundant

jurisprudence in support of this proposition (see *Lin Trading Co. Ltd. v. CBM Kabushiki Kaisha*, [1989] 1 F.C. 620, 21 C.P.R. (3d) 417 (C.A.); *Manhattan Industries, supra*; *Citrus Grower's Assn. Ltd. v. William D. Branson Ltd.*, [1990] 1 F.C. 641, 36 C.P.R. (3rd) 434 (T.D.); *Canada Foundry Co. v. Bucyrus Co.* (1913), 47 S.C.R. 484; 10 D.L.R. 513 (S.C.C.); *United States Steel Products Co. v. Pittsburgh Perfect Fence Co.* (1917), 19 Ex. C.R. 474 (Can. Ex. Ct.); *Continental Oil Co. v. Consumers Oil Co.* (1932), [1932] Ex. C.R. 136 (Can. Ex. Ct.); *Jaczynski v. Lemieux* (1951), 12 Fox Pat. C. 109, 15 C.P.R. 57 (Can. Ex. Ct.); *Wilkinson Sword (Canada) Ltd. v. Juda* (1966), [1968] 2 Ex. C.R. 137; 51 C.P.R. 55 (Can. Ex. Ct.)).

[21] On the basis that JAG was the importer of Fortune's FUSION valves, the trial judge properly concluded that JAG did not have the right to registration of the FUSION trade-mark.

[22] By the same logic, if Archmetal were the importer of the goods, then the September 2002 transaction did not give it the right to registration of the FUSION trade-mark either.

[23] In the end, whoever imported Fortune's FUSION valves gained no right to registration since any subsequent use of the FUSION trade-mark was to the credit of Fortune and not the importer.

[24] On the basis of this analysis, Archmetal was not the person entitled to registration of the trade-mark as the person who had first used or made known the trade-mark in Canada. It follows that Archmetal's registration is invalid since it was not the person entitled to secure the registration.

16. (1) Any applicant who has filed an application in accordance with section 30 for registration of a trade-mark that is registrable and that he or his predecessor in title has used in Canada or made known in Canada in association with wares or services is entitled, subject to section 38, to secure its registration in respect of those wares or services unless

...

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

(a) the trade-mark was not registrable at the date of registration,

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

(c) the trade-mark has been abandoned,

and subject to section 17, it is invalid if the applicant for registration was not the person entitled to secure the registration

16. (1) Tout requérant qui a produit une demande selon l'article 30 en vue de l'enregistrement d'une marque de commerce qui est enregistrable et que le requérant ou son prédécesseur en titre a employée ou fait connaître au Canada en liaison avec des marchandises ou services, a droit, sous réserve de l'article 38, d'en obtenir l'enregistrement à l'égard de ces marchandises ou services, à moins que...

[...]

18. (1) L'enregistrement d'une marque de commerce est invalide dans les cas suivants :

a) la marque de commerce n'était pas enregistrable à la date de l'enregistrement;

b) la marque de commerce n'est pas distinctive à l'époque où sont entamées les procédures contestant la validité de l'enregistrement;

c) la marque de commerce a été abandonnée.

Sous réserve de l'article 17, l'enregistrement est invalide si l'auteur de la demande n'était pas la personne ayant droit de l'obtenir.

CONCLUSION

[25] I would therefore dismiss the appeal with costs on the ground that Archmetal was not entitled to registration of the trade-mark FUSION. The registration of that trade-mark in its name was therefore invalid and subject to expungement.

“J.D. Denis Pelletier”

J.A.

“I agree
K. Sharlow J.A.”

“I agree
David Stratas J.A.”

FEDERAL COURT OF APPEAL

NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-254-10

**APPEAL FROM THE ORDER OF THE HONOURABLE MR. JUSTICE PHELAN,
DATED JUNE 10, 2010, DOCKET NUMBER T-1354-06**

STYLE OF CAUSE: *ARCHMETAL INDUSTRIES
CORPORATION, HENRY CHEN,
JEROME CHEN and FORTUNE
MANUFACTURING CO. LTD.
and JAG FLOCOMPONENTS
N.A. and JAG
FLOCOMPONENTS (NORTH
AMERICA) INC.*

PLACE OF HEARING: Edmonton, Alberta

DATE OF HEARING: May 26, 2011

REASONS FOR JUDGMENT BY: PELLETIER J.A.

CONCURRED IN BY: SHARLOW J.A.
STRATAS J.A.

DATED: August 11, 2011

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