

Federal Court



Cour fédérale

Date: 20100610

Docket: T-1354-06

Citation: 2010 FC 627

BETWEEN:

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

Plaintiffs

and

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

Defendants

REASONS FOR JUDGMENT

PHELAN J.

I. OVERVIEW

[1] This is an action by the Plaintiffs for expungement of the Canadian trade-mark FUSION, a declaration of breaches of s. 7(a) of the *Trade-marks Act* (Act) and for injurious falsehoods and slander of ownership of the trade-mark. The Plaintiffs also claimed various interlocutory relief in the nature of injunction, damages for past losses and future losses as well as punitive and exemplary damages. The issue of damages has been bifurcated from that of liability.

[2] The trade-mark in issue is Registration Number TMA 662,598, registered April 12, 2006. The Registrant is Archmetal Industries Corp. The trade-mark is FUSION, and the wares are “ball valves for industrial use”. The registration claims use in Canada “since at least as early as September 2002”.

[3] 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.

[4] 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. Archmetal was the holder of this particular trade-mark, FUSION.

[5] The Defendant Jerome Chen is a business man with manufacturing interests in China and distribution operations in Canada.

[6] The Defendant Henry Chen is the son of Jerome Chen and at various times relevant to this action was the Assistant to the President of both Archmetal and Fortune Manufacturing, being Jerome Chen.

[7] The principal issues in this case, as agreed by the parties, are:

1. Whether the Court should grant an Order expunging from the Register of Trade-marks the registration for TMA 662,598 which lists the Defendant Archmetal Industries Corporation as registrant.
2. Whether the Defendants or any one or more of them are liable for the infringement of trade-marks and a breach of section 7 of the *Trade-marks Act*.
3. Whether JAG Flocomponents N.A. ought to be registered as the owner of the trade-mark FUSION.

[8] This action arises out of the termination of a relationship between JAG and Archmetal where for a period of time the parties cooperated in the marketing and sale of valves manufactured in China, some by Fortune Manufacturing and some by an unrelated third party company.

II. WITNESSES

A. *Plaintiffs' Witness – John McCrae*

[9] McCrae was a former President and CEO of the Plaintiffs and was one of the founding shareholders of JAG. His evidence covered the background of the Plaintiffs and its business

relationships, particularly with respect to Archmetal, Fortune Manufacturing and Jerome Chen. He outlined the development of the company, their business model and their manner of ordering valves manufactured in China and imported through Archmetal. He also outlined the manner in which the trade-mark FUSION was created and used and the products with which it was associated. His evidence was critical as to the Plaintiffs' claim for expungement and its own claim for registration based on first use. His evidence also covered the events up to and including termination of the business relationship with Archmetal and Jerome Chen as well as some of the aspects of the post-termination phase of dealings.

[10] In general, McCrae's evidence is supported by documents and in that regard, can be relied upon. His memory of general events and the accuracy of that recounting is generally credible but his recollection of specific dates and the timing of some of the critical events was contradictory and vague. McCrae was somewhat careless in respect of the specifics of his evidence and although generally credible, the Court has approached his evidence with a degree of caution.

B. *Plaintiffs' Witness – Gary Williams*

[11] Williams was the other co-founder of JAG and although his evidence paralleled that of McCrae's in certain regards, his experience and expertise were more focused on the technical aspects of the valve business and the manufacture and quality issues respecting valves ordered by JAG. While there was considerable debate with respect to the times at which Williams was in China early in the relationship with Fortune Manufacturing and Archmetal (that evidence designed to undermine his credibility), I am prepared to accept Williams' evidence as truthful in respect of his

time in China and the events which occurred there. Williams, like many of the other witnesses testifying without contemporaneous notes, had some difficulty with respect to specifics; however, I found his evidence and the manner in which it was presented to be credible and deserving of considerable weight.

C. *Plaintiffs' Witness – Warren Williams*

[12] Warren Williams, one of the sons of Gary Williams, became an employee of JAG well after the relationship with Archmetal and Jerome Chen was up and running. His evidence generally related to those events following the dissolution of the business relationship and some aspects of the use of trade-marks and nature of the products associated therewith. Warren Williams was a generally credible witness subject to the vagaries of specific recollections and I am prepared to give weight to his evidence.

D. *Plaintiffs' Witness – Darren Williams*

[13] Darren Williams is the other son of Gary Williams and his evidence was very similar to that of Warren Williams and is deserving of the same weight for the same reasons.

E. *Plaintiffs' Witness - Grace Cheng*

[14] Ms. Cheng was a former employee of Archmetal. She played a support role in the establishment of the relationship between JAG and Archmetal. She was the translator in many circumstances for Jerome Chen and she acted as a general administrative assistant and key point of

contact with Jerome Chen and the operations of Archmetal. There were disturbing aspects of her evidence which, while not critical to the Court's final determination, deserve some comment.

[15] It was obvious during her testimony in Court, both in direct and in cross-examination, that she was extremely nervous and somewhat frightened. Her recollection, or claimed lack thereof, of events and activities for which she was responsible provided little assistance to the issues in this litigation. The claimed lack of knowledge or recollection seemed inconsistent with her role in the company and some of her other evidence.

[16] During a break in her cross-examination, Ms. Cheng was approached by the wife of Jerome Chen, the specific details of the conversation conducted in Mandarin are unknown to the Court but the end result was that the Defendants' counsel had to intervene between the two individuals. Ms. Cheng's state of agitation was clearly heightened. As a result of the inappropriate but necessary contact with the witness, counsel for the Defendants quite properly terminated his cross-examination. The Court issued specific orders with respect to non-contact between parties adverse. Ms. Cheng had to be escorted out of the building under the protection of Court security.

[17] The explanation tendered, that Mrs. Chen was merely expressing regrets for past events, is inconsistent with Ms. Cheng's reaction. The Court is concerned that she may have been intimidated before her Court appearance and at the adjournment.

[18] Ms. Cheng was in a position to confirm or deny a number of circumstances raised by the parties but she was unable to do so for either side and the Court can put little or no weight on her evidence with respect to these critical matters.

F. *Defendants' Witness – Jerome Chen*

[19] Jerome Chen was the controlling shareholder of all the Fortune Manufacturing related companies including Archmetal. He was the sole witness for the Defendants notwithstanding that his son Henry Chen attended most of the days of evidence in this case, was fluent in English and was involved in many of the critical matters in this litigation.

[20] Mr. Chen testified through an interpreter. Although he understood English, he felt less comfortable testifying in his second language particularly as to specific details and at times where nuance and technical terms were in issue. His evidence essentially covered all of the areas that were raised by the witnesses for the Plaintiffs including the background of the relationship between Archmetal and JAG, the creation and use of the trade-mark and associated products, the business of Fortune Manufacturing in China and the goals of Archmetal's business and its role. He also testified as to the circumstances leading to the break-up of the relationship with JAG and the post-termination events including Archmetal's actions with respect to the registration of the trade-mark FUSION.

[21] The Court has taken into consideration the fact that Mr. Chen was testifying in a foreign court proceeding, through an interpreter, and in a culturally different environment to that to which

he is generally used to. The Court is also aware that partial understanding of a second language sometimes makes matters even more difficult in terms of responses than when one is completely dependent on translation. Given all of these factors, Mr. Chen's evidence was unpersuasive, evasive and often unresponsive. Where in direct conflict with that of the evidence of the Plaintiffs, the Court generally accepts the evidence of the Plaintiffs. Whereas Mr. McCrae may have been careless with the facts, Mr. Chen exhibited an economy with the truth.

III. EVIDENTIARY BACKGROUND

[22] The wares in question in this litigation are valves used primarily in the oil field business. These valves are of two types; the first is the multi-turn valve which is commonly seen as the valves with a large wheel used to open and close the valve. The second is the ball valve, often referred to as a quarter-turn valve, which are considered more efficient and constitute 60-70% of the valves in the oil field business. These latter valves are of a more sophisticated nature and valves used in the oil field business tend to be of higher quality because of the pressures which the valves are required to take.

[23] McCrae had been in the business of marketing valves to the oil field industry for a number of years. Williams had been in the same business but primarily the technical side of the manufacture and production of valves. They met in the latter half of 2001 and decided to combine McCrae's business experience with Williams' technical expertise to create a company which would ultimately not only sell current valve models but design and produce new valves.

[24] JAG was created on October 1, 2001 (the name stands for John and Gary) and the plan was to operate essentially in a partnership model, to mortgage their homes for capital and to focus their business on ball valves. Because ball valves are large and expensive, JAG required some other form of valves to create volume sales and cash flow in this initial stage of the business. Lesser quality valves are often called “throw away valves” and are not used in the high pressure situations contemplated by the ball valves. These throw away valves are mass-produced but would provide JAG with the income flow that it needed to sustain the business in its start-up phase.

[25] McCrae knew of Jerome Chen and his company Fortune Manufacturing and was aware that Fortune Manufacturing produced a form of throw away valve; the type that JAG needed to begin its business. Sometime in late October/early November 2001, Grace Cheng contacted McCrae and indicated that Jerome Chen was interested in meeting with him. The precise details of that meeting are lost in the fog of time. McCrae insisted that they contemplated JAG as being responsible for the design and operation of valves whereas Chen contended that he viewed the business plan as a method of selling his company’s valves under circumstances where he had complete control of the valve design and manufacture and where the valves would be sold under the name FUSION.

[26] Whatever the particular personal perspectives may be, on November 28, 2001, the parties entered into a Letter of Intent which set out the basics of their relationship. There was no subsequent shareholder or similar type of agreement that purported to set forth the respective rights and obligations of the parties other than a Consignment Agreement, details of which are later discussed.

[27] The salient parts of the Letter of Intent were that:

- Archmetal was to acquire a 30% ownership interest in JAG.
- The consideration for the 30% interest included \$300,000 worth of “Fortune” brand industrial valve inventory.
- JAG was to provide technical and marketing support to Fortune Manufacturing in order to improve the existing valve product line as well as to create new product lines targeted at the oil field industry.
- Where Fortune Manufacturing did not have the capacity or capability to manufacture industrial valves required by JAG, Fortune Manufacturing was to work with JAG “to source these products from other manufacturers and create a “Fortune branded” product line that JAG can market until such time as Fortune has decided to bring that manufacturing in-house”.
- Fortune Manufacturing was to grant JAG an exclusive marketing relationship for all of Fortune’s current and future industrial valves in Canada and Archmetal was to refer its valve customers to JAG after which Archmetal was to focus its business on non-oil field related products.
- The valves supplied by Fortune Manufacturing to JAG were to be marketed under the “Fortune” name.
- Fortune Manufacturing was to consign its valve products to JAG on certain terms; those terms were subsequently set out in the Consignment Agreement.
- Transfer pricing was to be agreed on a product basis.

The Letter of Intent was signed by the parties’ respective representatives.

[28] Transfer pricing and profit margins were a problem almost from the initial stage and never were definitively resolved.

[29] Almost immediately after the signing of the Letter of Intent, McCrae advised Chen that there were problems with the market's acceptance of products with the name "Fortune" because of the perception of quality problems with Chinese manufactured products. It was McCrae's proposal that the name JAG should be used for the new high pressure valves, and that the Fortune logo should be used beside the word JAG. This was the beginning of the discussion about the need for a distinctive name to be associated with the products being sold. Even before all the details had been finalized, McCrae, with the knowledge of Chen, informed various customers of their plans and the relationship between JAG and Fortune Manufacturing. That notice advised customers as well of the plans to move into the higher end ball valve business. In late April 2002, Fortune Manufacturing's counsel was in the process of preparing a Consignment Agreement for the distribution of Fortune valves.

[30] The Consignment Agreement, although dated January 1, 2002, was finalized sometime later. The Consignment Agreement is a critical component of this litigation and for reasons to be discussed later, constitutes the full answer to who was entitled to register the trade-mark FUSION.

[31] The Consignment Agreement contains a number of clauses critical to this litigation.

Clause 2(b) provided that all of the products shipped from Archmetal to JAG remain the property of Archmetal until JAG sells the product to a third party. The clause specifically reads:

Unless otherwise provided, all products of the Company received by the Agent shall at all times remain the sole property of the Company pending sale by the Agent. The Agent shall receive and keep safe the products as a prudent trustee and shall take reasonable measures to identify and insure the Company's products and not comingle same with the Agent's own goods.

Clause 2(c) provided that the products are to be sold at a market price to be agreed to and Archmetal was to bill monthly for the products sold in that month.

Clause 12 is a clause which was referred to in correspondence as late as February 28, 2002:

Any new products, designs, patents, inventions, calculations, and other intellectual property which arise directly or indirectly pursuant to or in consequence of this agreement shall be deemed to *[sic]* equally owned by the parties hereto.

[32] At the same time that JAG, Archmetal and Fortune Manufacturing were finalizing their arrangements, Gary Williams was in China attempting to find a manufacturer who could produce ball valves of the type which Fortune Manufacturing could not manufacture and which were to be sold by JAG in Canada.

[33] Gary Williams' evidence was that he took a valve made by a competitor, Nutron, to a number of places and settled on a company called Suzhou Neway Machinery Co., Ltd. (Neway) as a manufacturer who was capable of producing the type of valves necessary to move into the higher end of the valve market.

[34] In addition to Gary Williams being in China, Charlie Martin, currently an employee of Fortune Manufacturing, was brought in by JAG to aid with the communication, development and quality of Fortune valves. He was located at Fortune Manufacturing's plant in China and the cost of his salary was shared equally between Fortune Manufacturing and JAG until the product development stage was completed, after which he became a Fortune Manufacturing employee.

IV. DEVELOPMENT OF "FUSION"

[35] McCrae claims that on or about January 29, 2002, he came up with the name FUSION because the name Fortune would not be readily acceptable in the Canadian market. The evidence confirms that Archmetal and Fortune Manufacturing, and particularly Jerome Chen, were well aware of the origin and development of the name Fusion which was to be used with respect to certain valves covered by the Fortune/Archmetal/JAG arrangement.

[36] Not only did McCrae come up with the name Fusion but he developed the style in which it was to appear on products and in particular the requirement that the type form be "Bauhaus 93" font.

[37] By February 27, 2002, JAG had entered into a market representation agreement with Neway for their ball valve products in Canada. The correspondence refers to a visit by Gary Williams and confirms the agreement that the ball valves from Neway would show the Neway logo for CRN purposes (CRN is a numbering system used for regulatory purposes to confirm certain qualities of

the valves to withstand certain pressures) but “will also show your name “Fusion””. The JAG-Neway relationship subsequently changed to an exclusive representation agreement.

[38] There is no evidence that either Archmetal or Fortune Manufacturing exercised any control or gave directions with respect to the nature and quality of the Neway products which ultimately were sold in Canada under the name Fusion. Chen and other officials in Archmetal/Fortune Manufacturing were aware of the Neway arrangement, the shipment of Neway valves bearing the Fusion mark, and took no steps to protest or to prevent this arrangement.

V. FORMATION TO TERMINATION

[39] There were problems in the relationship between JAG and Fortune Manufacturing from the very beginning. It is not this Court’s function to review all the problems in the relationship and to determine which party may be responsible and to what extent. Those issues were settled under an Alberta Court of Queen’s Bench action in which only the intellectual property issues were left unresolved. However, between the initiation of the arrangement between the parties and its termination, a number of main events occurred relevant to the trade-mark issues before this Court.

[40] In about November 2002, as part of JAG’s efforts to market Fusion valves, some of which were produced by Fortune Manufacturing and some by Neway, JAG created a catalogue of Fusion ball valves. That catalogue exhibited the Fusion name, the JAG name and logo, and the Fortune name and logo prominently displayed on the spine and inside on various pages of the catalogue.

[41] The catalogue was divided into the products being sold in 2002 which were Fusion Ball valves, Fusion 2000 WOG, Fusion Class 1500, Fusion Class 2500, Fusion Flanged Floaters, Fusion Trunnions and JAG's Spring Returns. There was no question that the last two Fusion valve types were produced by Neway, nor can there be any question that the Defendants knew and at least acquiesced in the use of the Fusion name on these products which it neither made nor over which it exercised any product quality control.

[42] In preparation for an important trade show at Calgary in June 2002, JAG ordered some large valves from Neway for purposes of exhibiting them as samples. JAG contends that these valves were subsequently sold to Medfield, a JAG client, and constituted JAG's first use of the Fusion name in Canada in August 2002.

[43] JAG's relationship with Neway obviously blossomed and in late June 2002, JAG became Neway's exclusive representative for Neway ball valves in Canada. It is the Defendants' contention that they were unaware of the nature of this representational relationship.

[44] The evidence about the Calgary trade show established that JAG and Fortune Manufacturing had a booth at which they exhibited wares associated with the Fusion name. Chen was present for part of the show and had his picture taken against the backdrop showing the valves being promoted under the Fusion name; two of which were made by Neway at that time and not by Fortune Manufacturing. Problems between the parties appeared to accelerate in the latter half of 2002. Whatever the merits of the complaints, the relationship was evidently unravelling.

[45] In addition to the problems perceived as to quality, timeliness and absence of funding, Warren and Darren Williams joined JAG in September 2002. Chen was not prepared to dilute Archmetal's 30% shareholding to bring the Williams sons in as shareholders of Archmetal.

[46] At a meeting in January 2003 between the principals of the parties, including Henry Chen who acted as a translator for his father, the parties discussed some of the problems that had arisen. The precise details of this meeting are lost in the respective memories but the one salient feature is that the question of ownership of the name Fusion was raised. Neither party instantly asserted that it was the owner and McCrae undertook to Chen to outline their position on ownership at some later date. It is accurate to describe the parties' behaviour as "dipsey-doodling around the issue".

[47] In February 2003 McCrae and Williams created a new entity JAG Flocomponents (North America) Inc. and without advising Archmetal, they transferred the business of JAG to JAG North America.

[48] Equally consistent with each party seeking to protect what they saw as their interests and rights, Grace Chen was instructed by Fortune Manufacturing on March 14, 2003 to register in Archmetal's name "right away" both in Canada and the United States the trade-mark FUSION. Instructions to that effect were given to Archmetal's intellectual property lawyers on March 17, 2003. None of the principals of JAG or its successor were aware of Archmetal's attempt to seek trade-mark registration.

[49] Not to be outdone in the race to claim the Fusion name, JAG NA filed with the Alberta Government for the registration of the trade-name FUSION in June 2002. Apparently, McCrae was unaware of the significant legal distinction between a trade-name and a trade-mark.

[50] Finally, on July 2, 2003, after a series of e-mails concerning the problems between the parties, under letterhead of the original JAG, McCrae gave notice to Archmetal that on the basis of Archmetal's failure to comply with the agreement of January 1, 2002, JAG was treating the agreement as concluded. The letter further indicated that any valves carrying the Fusion name would have the name ground off and Archmetal was directed to cease use of the name Fusion anywhere in North America. JAG claimed that the name was registered intellectual property and that any agreement expressly implied *[sic]* for the use of that name on any product was withdrawn.

VI. POST-TERMINATION

A. *Defendants' Trade-mark and Subsequent Action*

[51] Even before the termination of the arrangement between JAG and Archmetal/Fortune Manufacturing, Archmetal filed a trade-mark application on March 27, 2003 for the mark FUSION. Archmetal claimed that it used the mark in Canada since as early as September 2002.

[52] There is no evidence to suggest that the Trade-marks Office was advised of the potential co-ownership of the trade-mark or any interest that JAG may have in the name and mark FUSION.

[53] The first use relied upon in this case to substantiate the claim before the Trade-marks Office was an order for various parts, some of which bear the name Fusion. The date of the order of those parts is September 12, 2002. The evidence is that it is more likely than not that the parts were received by JAG some time before the end of September 2002. Subsequent to the Defendants' trade-mark filing, JAG also filed its trade-mark application for FUSION on April 24, 2003.

[54] The Defendants opposed JAG's trade-mark application and filed evidence and submissions with the Trade-marks Office.

[55] In a critical affidavit by Henry Chen in opposition to JAG's trade-mark application, the Defendants filed as exhibits the Consignment Agreement but without the important provision of Clause 12. The Defendants also filed as an exhibit the bulk of the catalogue used by JAG to market the various valves. The catalogue exhibit filed is missing those portions of the catalogue which clearly show JAG and its logo also associated with the sale of Fusion valves. The Defendants also included as an exhibit the photograph of Jerome Chen at the Calgary trade show and while it showed amongst the valves listed two of the valves made by Neway, there was no indication of Neway's involvement. Further, the photograph is selective in that a wider angle shot would have disclosed JAG's presence and its connection to Fusion.

[56] At no time was there any acknowledgement of JAG's involvement with the mark FUSION or the wares nor was there disclosure of the rights of joint ownership of this or any other intellectual property.

[57] The evidence relied upon for first use in this Court was disclosed in Exhibit 5 and referred to earlier. In the affidavit filed in opposition to JAG's trade-mark was an invoice of September 30, 2002. This covered some but not all of the items referred to in the shipping order of September 12, 2002.

[58] The invoice relied upon by Archmetal in respect of first use contained as part of the terms and conditions the following words "unpaid goods remain property of Fortune". The phrase is consistent with paragraph 2(b) of the Consignment Agreement.

B. *Plaintiffs' First Use*

[59] JAG Flocomponents N.A. Inc., in its April 24, 2003 trade-mark application for the mark FUSION, claimed its date of first use in Canada as February 22, 2002. The evidence before this Court as to first use, to the extent that it was discernible, was that first use was in August 2002 when JAG allegedly sold one of the samples received from Neway to Medfield. For reasons to follow, the evidence of first use is not persuasive.

[60] It is also noted that the Plaintiffs' trade-mark application or any other filings with the Trade-marks Office made no reference to the joint ownership provisions under the Consignment

Agreement. The Plaintiffs' trade-mark application was denied and in the Trade-marks Office's decision reference was made to the then pending Archmetal application.

C. *Section 7 Evidence*

[61] The Plaintiffs rely on four instances to ground this claim:

- (1) a communication from Henry Chen to JAG's key customer, C.E. Franklin Ltd., referring to the seizure of JAG's inventory in China. The e-mail makes reference to Fortune Manufacturing holding the registration for the mark FUSION in China which gave it the ability to have the inventory seized.
- (2) a telephone call from Henry Chen to Dale Rawson of C.E. Franklin Ltd. advising that JAG's China facility had been closed down. The suggestion is that it was closed because of trade-mark issues.
- (3) a letter to customers from Henry Chen advising that the arrangement with JAG had been discontinued due to JAG's improper conduct and seeking the customers' business for valves including the "Fusion line".
- (4) the misleading statements and materials filed with the Trade-marks Office as to ownership and first use, which JAG says constitutes some form of publication or dissemination of this information.

[62] As part of the post-termination conduct, Fortune Manufacturing obviously obtained in China a trade-mark for the use FUSION.

[63] The source of the information about events in China was Jerome Chen.

[64] The Plaintiffs, in relying on the affidavit of Henry Chen filed in opposition to JAG's trade-mark application and the misstatements as to ownership and use with respect to the wares, claim that Henry Chen's affidavit is false and misleading.

VII. LEGAL ANALYSIS

[65] There are several grounds on which this trade-mark could be expunged including absence of entitlement to the trade-mark, inaccurate first use claim, material omissions to the Trade-marks Office, loss of distinctiveness and false or misleading representations to a competitor.

A. *Ownership*

[66] Section 57(1) of the Act gives this Court broad and explicit jurisdiction to expunge a trade-mark on the grounds that it does not accurately represent (express or define) the rights of a person who is a registrant.

57. (1) The Federal Court has exclusive original jurisdiction, on the application of the Registrar or of any person interested, to order that any entry in the register be struck out or amended on the ground that at the date of the application the entry as it appears on the register does not accurately express or define the existing rights of the

57. (1) La Cour fédérale a une compétence initiale exclusive, sur demande du registraire ou de toute personne intéressée, pour ordonner qu'une inscription dans le registre soit biffée ou modifiée, parce que, à la date de cette demande, l'inscription figurant au registre n'exprime ou ne définit pas exactement les droits existants de la

person appearing to be the registered owner of the mark.

personne paraissant être le propriétaire inscrit de la marque.

(2) No person is entitled to institute under this section any proceeding calling into question any decision given by the Registrar of which that person had express notice and from which he had a right to appeal.

(2) Personne n'a le droit d'intenter, en vertu du présent article, des procédures mettant en question une décision rendue par le registraire, de laquelle cette personne avait reçu un avis formel et dont elle avait le droit d'interjeter appel.

[67] The protections in the Act are, as recognized in both *Citrus Growers Assn. Ltd. v. William D. Branson Ltd.* (1990), 36 C.P.R. (3d) 434 (Fed. T.D.) and in *Unitel Communications Inc. c. Bell Canada* (1995), 61 C.P.R. (3d) 12, the protection of the public through the effective use of the trade-mark regime.

[68] Pursuant to s. 18 of the Act, a trade-mark registration is invalid if the applicant is not the (Court's emphasis) person entitled to the registration.

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

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

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

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

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

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

(c) the trade-mark has been abandoned,

c) la marque de commerce a été abandonnée.

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

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.

(2) No registration of a trade-mark that had been so used in Canada by the registrant or his predecessor in title as to have become distinctive at the date of registration shall be held invalid merely on the ground that evidence of the distinctiveness was not submitted to the competent authority or tribunal before the grant of the registration.

(2) Nul enregistrement d'une marque de commerce qui était employée au Canada par l'inscrivant ou son prédécesseur en titre, au point d'être devenue distinctive à la date d'enregistrement, ne peut être considéré comme invalide pour la seule raison que la preuve de ce caractère distinctif n'a pas été soumise à l'autorité ou au tribunal compétent avant l'octroi de cet enregistrement.

[69] In this case, s.17 does not preclude the Plaintiffs' action because (a) the pertinent issue is ownership and (b) the person seeking expungement is the "other person" claiming previous use and confusion as contemplated by s.17(1).

[70] The Court is satisfied that the idea of using the mark FUSION was entirely that of McCrae on behalf of JAG. At the time the issue of branding was in flux. Moreover, Jerome Chen consented to the use of FUSION in respect of products made and sold under the arrangement entered into between JAG and Archmetal.

[71] While the Letter of Intent between the parties contemplated using “Fortune” branded products, that concept was altered because of market perception problems associated with Fortune and other Chinese products. Archmetal’s/Jerome Chen’s conduct, while perhaps not conceding quality issues, accepted the need for a new brand name.

[72] As the parties worked to finalize agreements to more formally establish their legal framework, they entered into a Consignment Agreement as one of the agreements governing their relationship. Clause 12 of that Consignment Agreement is critical in that it specifically addresses new intellectual property.

12. Any new products, designs, patents, inventions, calculations, and other intellectual property which arise directly or indirectly pursuant to or in consequence of this agreement shall be deemed to *[sic]* equally owned by the parties hereto.

[Emphasis added]

[73] The new trade-mark and its use fall squarely within the terms of Clause 12. The concept of branding, as set out in the Letter of Intent, changed and Clause 12 became the operative clause for ownership of intellectual property.

[74] Jerome Chen, Fortune Manufacturing and Archmetal cannot now complain that they somehow own the rights to Fusion. Jerome Chen, on behalf of these entities, consented to JAG’s proposal to use Fusion without reservation as to alleged ownership rights.

[75] JAG is in the same position. It cannot now assert that it holds the exclusive rights to the FUSION trade-mark. Neither the Plaintiffs nor the Defendants acted as if they owned the rights in this mark until after they had their falling out. Their pre-dispute conduct more accurately reflects their understanding of their respective rights than does this post-dispute positioning.

[76] The importance of Clause 12 and its impact on ownership rights is confirmed by the Defendants' efforts to hide that clause from the Trade-marks Office's examiners when they filed the Consignment Agreement but omitted to disclose the clause's existence.

[77] Given the joint ventureship manner of operating which marked some aspects of the parties' early dealings, Clause 12 accurately reflects that the parties intended that any new trade-mark to be used would be jointly owned.

[78] Given the animosity between the parties, it is not surprising that, until the actual trial and only at the last minute, did Clause 12 become a focal point. Clause 12 is a double-edged sword slaying the claims of both sides. Each side wished to avoid the real consequences of their agreement – that neither could claim sole ownership of FUSION.

[79] The fact that Clause 12 was not pleaded is not fatal to this case. The Defendants were not caught by surprise and there was no prejudice to either side that the clause assumed importance in the litigation. Moreover, the Court has a duty to the trade-mark system to ensure that only properly registrable marks are on the Register.

[80] The Court concludes that ownership of the mark FUSION was owned jointly by JAG and Archmetal. As such, neither had the exclusive right to registration of the mark in their name. On that ground alone the mark should be expunged because neither side acknowledges the joint ownership nor is there any suggestion that they are prepared to share ownership. From that perspective, FUSION has been “poisoned” as a viable mark.

B. *First Use*

(1) Re: Archmetal/Fortune Manufacturing

[81] The trade-mark registration is based on first use in Canada of September 2002. The claim is based on a shipment from Fortune Manufacturing to JAG.

[82] The case law is relatively settled that a person may sell his goods through a distributor, retailer or wholesaler and still have the benefit of “use” in Canada. The following quote is much used in support of this proposition.

I think that those words must surely mean that s. 4 contemplates the normal course of trade as beginning with the manufacturer, ending with the consumer and with a wholesaler and retailer or one of them as intermediary. When the applicant sold to the retailer and the retailer sold to the public, the public came to associate applicant's mark with the HARNESS HOUSE belt; s. 4 contemplates that the use between the retailer and the public enures to the benefit of the manufacturer and its use in Canada. In other words -- if any part of the chain takes place in Canada, this is "use" in Canada within the meaning of s. 4. If this interpretation is correct, then the sale by the retailers in Toronto and Montreal to the public of HARNESS HOUSE wares marked with applicant's trade mark is a "use" in

Canada and it matters not whether property or possession passed to the retailer in the United States.

Manhattan Industries Inc. v. Princeton Manufacturing Ltd. (1972), 4 C.P.R. (2d) 6 at para. 40

[83] JAG, in its capacity as an importer or agent, did not acquire the right to register the mark in its own name (see *Citrus Growers Assn.*, above).

[84] Nor is the fact that Archmetal was not involved in this shipment necessarily fatal to the registrability of the mark. Archmetal was clearly the agent for Fortune Manufacturing in this instance.

[85] However, what is fatal to the registration is that the sale in September 2002 did not meet the requirements of s. 4 of the Act being a transfer in the “ordinary course of trade”.

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.

(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 those services.

(2) Une marque de commerce est réputée employée en liaison avec des services si elle est employée ou montrée dans l'exécution ou l'annonce de ces services.

(3) A trade-mark that is marked in Canada on wares or on the packages in which they are contained is, when the wares are exported from Canada, deemed to be used in Canada in association with those wares.

(3) Une marque de commerce mise au Canada sur des marchandises ou sur les colis qui les contiennent est réputée, quand ces marchandises sont exportées du Canada, être employée dans ce pays en liaison avec ces marchandises.

[86] The Defendants rely on *Lin Trading Co. v. CBM Kabushiki Kaisha (F.C.A.)* (1989), 21 C.P.R. (3d) 417 as support of its contention that a sale to a distributor constitutes “use in Canada”. In general terms, they are correct. However, in *Lin Trading*, above, the Court examined the relationship and expectation of the parties and the intent that the sale to the Canadian distributor was intended to promote the mark in Canada.

[87] The essential feature of cases such as *Lin Trading* and others upholding use through a distributor is that there was a sale, a transfer, at the core of the transaction. In that critical respect, those cases are distinguishable from the present circumstances.

[88] In the Consignment Agreement, Archmetal was to supply product to JAG “for sale on a consignment basis”. Aside from JAG being required to pay for product only when it was sold, there

never was any intention to treat the delivery of product as a sale or transfer to JAG. Clause 2(b) is clear on that issue.

[89] Clause 2(b) of the Consignment Agreement evidences Archmetal/Chen's intent to retain property and legal possession of valves shipped to JAG.

Unless otherwise provided, all products of the Company received by the Agent shall at all times remain the sole property of the Company pending sale by the Agent. The Agent shall receive and keep safe the products as a prudent trustee and shall take reasonable measures to identify and insure the Company's products and not comingle same with the Agent's own goods.

[Emphasis added]

[90] Given the degree of hesitancy in the relationship even in early 2002, it was evident that Jerome Chen through his companies did not intend to transfer products to JAG until JAG had sold them to a third party.

[91] Any possession JAG had of the products was layered with the same type of limitations as any suggestion of a transfer. JAG held the products as a trustee and not in its own right.

[92] 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.

[93] 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.

[94] Further, as held in *Unitel Communications*, above, a material misrepresentation as to use, whether or not fraudulent or intended to deceive, can render a trade-mark registration void. Here the misrepresentation, even if innocent, was material. There was no first use in September 2002 and thus the registration ought to be expunged on this ground as well.

(2) Re: JAG

[95] JAG has requested that the FUSION registration be in its name. There are at least two problems with JAG’s request quite apart from the absence of jurisdiction in this Court to order substitution of the registered owner.

[96] The first problem is like that of the Defendants – JAG is only an equal owner of the trade-mark pursuant to Clause 12 of the Consignment Agreement.

[97] The second problem is that JAG cannot establish its earlier date of use of August 2002 based upon an alleged sale to Medfield.

[98] The documentary evidence does not allow for a tracing of the sale. The best evidence that McCrae relies upon is an invoice but no purchase order or other documents substantiating the sale were put in evidence.

[99] There is a discrepancy between McCrae's discovery evidence and his trial evidence on this issue. McCrae's own recollection is not strong and there is no evidence from Medfield to support the sale.

[100] The circumstantial evidence is of no assistance. The Plaintiffs contend that the valves shipped in August 2002 had the FUSION mark on it but that was three months before the mark had been settled.

[101] It is more likely that the invoice referred to a sample but even that explanation is speculative.

[102] Therefore, the Plaintiffs cannot make out their case for an earlier date of first use even if it were relevant.

C. *Distinctiveness*

[103] The evidence concerning whether the mark was and continued to be distinctive is confusing and inconsistent.

[104] One outstanding feature of the evidence is that there was a complete mixing of the Fortune Manufacturing logo with that of the mark, and a mixing of the products including those made by Neway. Lastly, neither Fortune Manufacturing nor Archmetal had any control over the Neway products, their quality or their manufacture, which sold under the mark FUSION.

[105] On balance, the Court would have found that at the time of this expungement application the mark FUSION had not acquired, or if acquired, had lost, the element of distinctiveness.

D. *Misrepresentation/Patent Office*

[106] It is trite law that misrepresentation can occur by commission or omission. To justify expungement, the commission or omission must be material.

17 They rely on the case of *Unitel Communications Inc. v. Bell Canada* and *Marchand Rona Inc. v. Tefal S.A.*, but more specifically on the following statement of Harold G. Fox referred to with approval in these cases:

There is... no provision in the Act under which mis-statements in an application for registration... become grounds for invalidating the registration unless the mis-statements had the effect of making the trade mark not registrable under s. 12 of the Act or unless there was a fraudulent misrepresentation.

[Emphasis added]

18 A registration can be invalidated by two kinds of mis-statements: (i) fraudulent, intentional mis-statements, and (ii) those that may be innocent but that are material in the sense that, without them, the section 12 barriers to registration would have been insurmountable.

General Motors of Canada v. Décarie Motors Inc., [2001] 1 F.C.
665

[107] The somewhat unique feature of this case is that both sides engaged in the same type of misrepresentation as to the date of first use.

[108] Both parties also failed to address the joint ownership provision of Clause 12 of the Consignment Agreement. However, the Defendants' conduct in this regard, in terms of its dealings with the Trade-marks Office, was more egregious.

[109] In Henry Chen's affidavit filed with the Trade-marks Office, he attests to the provision in the Consignment Agreement as to the retention of ownership of the Defendants' products. He also attached parts of the Consignment Agreement. However, the critical part of that Agreement, Clause 12, was omitted from the attachment to his affidavit.

[110] To find a material omission, the Court need not find an intent to deceive. There is no doubt that the provision is material to the trade-mark application. The clause virtually invited the Office to inquire further as to ownership rights.

[111] The Court cannot escape the conclusion that the Defendants knew that the disclosure of Clause 12 would raise issues as to ownership. There was nothing inadvertent about the omission of this evidence.

[112] The trade-mark should be expunged on the grounds of material omission.

E. *Section 7 – Unfair Competition*

[113] The Plaintiffs claim that the Defendants caused them damage by making false and misleading statements tending to discredit their business, wares or services. They plead each of s. 7's provisions but only paragraph (a) is really applicable in the circumstances.

7. No person shall

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

7. Nul ne peut :

a) faire une déclaration fausse ou trompeuse tendant à discréditer l'entreprise, les marchandises ou les services d'un concurrent;

[114] There are three essential elements under s. 7(a): 1) the existence of a false and misleading statement, 2) the statement tending to discredit the business, wares or services of a competitor, and 3) resulting damage.

[115] The constitutionality of s. 7 has been previously litigated (*ITT Hartford Life Insurance Co. of Canada v. American International Assurance Life Co.*, [1997] F.C.J. No. 948, para. 16). Its validity rests on its relationship to intellectual property over which the federal government has authority such as patents, trade-marks, copyright and similar intellectual property.

[116] The Defendants' sole response to the s. 7 issue is that since JAG did not own the FUSION trade-mark or, more importantly, if neither party owns the mark, there can be no slander, defamation or "anything coming out of the *Trade-marks Act*".

[117] With due respect, it is not necessary to own a mark to have the right to claim s. 7 relief. The question is whether the offending party is using alleged intellectual property rights subject to federal jurisdiction to harm a competitor.

[118] While the first communication makes reference to Fortune Manufacturing's Chinese trade-mark, it is purporting to use those rights, not valid in Canada, to harm its competitor in Canada. In that respect there is sufficient nexus to federal law to ground the s. 7 claim. It is integral to the integrity of the Canadian system that non-recognized marks not be used in this manner. In addition, there is a clear implicit relationship to the Canadian trade-mark which is invalid and provides further nexus to s. 7.

[119] However, the statements made are not false and misleading in that Fortune Manufacturing had the Chinese trade-mark and it was the basis of that trade-mark upon which JAG's inventory was seized.

[120] The telephone call to C.E. Franklin Ltd. was false and misleading in that JAG's facility was not closed down. Seen in the context of the dispute between the parties and the intended impact it

was to have on C.E. Franklin Ltd., it is probable that it was made in reference to both Canadian and Chinese trade-mark rights or was intended to be understood in that manner.

[121] No representative of C.E. Franklin Ltd. was called to speak to the matter and the evidence of its connection and impact may be dealt with in the damages phase of this case. Bifurcation does not always allow for finalizing of the liability phase of a case.

[122] The letter sent to customers makes specific reference to FUSION and seen against the background of the relationship and dispute, makes reference, if only by implication, to the Canadian trade-mark which is invalid.

[123] The Plaintiffs' reliance on the Trade-marks Office's proceedings does not fall within s. 7. The remedy for misstatements has previously been discussed. The statements/omissions complained of arise in the context of administrative litigation. Therefore, the limited privilege accorded pleadings would apply in these circumstances. The pleadings are not the type of "statement" contemplated by s. 7.

[124] As an essential element of a s. 7 claim is damage and as there are issues yet to be finalized in the damages phase, the Court will not make a final declaration with respect to s. 7 liability.

VIII. CONCLUSION

[125] The Court does not have the jurisdiction to substitute one registrant for another, as requested by the Plaintiffs. Even if it did have the jurisdiction to do so, it would not. The right to the trademark FUSION is joint and neither party has sought an order for joint ownership. Moreover, the Court questions whether there is a distinctiveness or value in the mark now.

[126] The Court will order the expungement of TMA Registration 662,598.

[127] The Plaintiffs shall have their costs. The scale of costs may be addressed in the damages phase of the case.

“Michael L. Phelan”

Judge

Ottawa, Ontario
June 10, 2010

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1354-06

STYLE OF CAUSE: JAG FLOCOMPONENTS N.A. and JAG
FLOCOMPONENTS (NORTH AMERICA) INC.

and

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

PLACE OF HEARING: Edmonton, Alberta

DATE OF HEARING: January 18-21, 25-26 and 28, 2010

REASONS FOR JUDGMENT: Phelan J.

DATED: June 10, 2010

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