Snell & Wilmer L.L.P.

Global Connection

www.swlaw.com

August 2008

contents

If you have any questions or would like any assistance regarding the matters discussed in this newsletter please contact the authors or your regular Snell & Wilmer contact:

Barb Dawson
602.382.6235
bdawson@swlaw.com

Damon Boyd
602.382.6337
dboyd@swlaw.com

Richard Katz
520.882.1270
rkatz@swlaw.com

Jake Smith
602.382.6274
jbsmith@swlaw.com

Garth Stevens
602.382.6313
gstevens@swlaw.com

Rebecca Winterscheidt
602.382.6343
bwinterscheidt@swlaw.com

Doing Business in Canada

SIMILARITIES AND DIFFERENCES WITH THE U.S.

by Garth Stevens

When I left my corporate law practice in Vancouver, B.C. to take up practice in Phoenix in early 2000, one of the interesting things I noted during my first year at this firm was how little was known about Canadian business law among my new colleagues. Not surprisingly, this made me a rather useful commodity around the firm as the 'go-to' guy for answering questions about how things worked in the land of snow, large trees, and high octane beer. Questions were varied. What type of legal entities exist in Canada and what goes into forming an entity? How does the securities regulatory system work in Canada? Is it better to incorporate a Canadian subsidiary or operate a branch office? How is property collateralized in Canada? Does Canada have community property laws? How do you enforce a U.S. judgment in Canada? And on and on it went.

From a corporate, business, and securities law standpoint, the United States and Canada have far more in common than one might think. Both countries' federal and state/provincial legal regimes (excluding Louisiana and Quebec, which are based on the Napoleonic civil code) are founded on British common law and share a similar history of case law and legal principles, including those related to property rights, contractual interpretation and enforcement, and investor protection. As such, the legal foundations of both countries with respect

to business law are largely the same, and business people often look to similar (and in some cases even the same) jurisprudence and statutory constructs in interpreting, understanding, and enforcing their rights and obligations.

The following is a brief summary of some key legal aspects of doing business in Canada. This, of course, is only a cursory overview and should not be relied upon as all that one needs to know about Canadian business law. It should, however, serve to illustrate how similar Canada is to the U.S. in many areas.

Corporations in Canada, which may be formed federally under the Canada Business Corporations Act (CBCA) or under the statutes of any of the country's 10 provinces, are formed, capitalized, and operated in substantially the same manner as U.S. corporations. General and limited partnerships also operate in Canada much the same as they do in the U.S. A corporation formed under the CBCA or certain of the provincial statues is required to have a board of directors comprised of at least 25% "resident Canadians" – a term that varies somewhat among the different statutes, but generally means a person who is a Canadian citizen ordinarily resident in Canada, a Canadian citizen not ordinary resident in Canada who is among a prescribed class of persons, or a permanent resident of Canada. In most of these cases, if the corporation's board consists of less than four directors, at least one director must be a resident Canadian.

There is no Canadian equivalent to a limited liability company or subchapter-S corporation. However, three Canadian provinces – British Columbia, Alberta, and Nova Scotia – permit the formation of unlimited liability companies (ULCs). These companies provide for pass-through tax treatment as "disregarded entities" for U.S. shareholders, much like subchapter-S corporations and LLCs (the principal reason for a ULC's use). However, unlike corporations or LLCs, ULCs do not provide for limited liability of the shareholders, instead imposing joint and several liability on the shareholders for the liabilities of the company. As such, due consideration must be given to structuring the ownership of a ULC to protect the beneficial owners against the liabilities of the ULC. ULC's are often used as a means by which U.S. companies can form a Canadian subsidiary and avoid the extra layer of taxation that would result from using a standard Canadian corporation. Of course, this is merely one potential piece of the puzzle in the tax-related structuring of cross-border ownership of business entities.

Securities regulation in Canada is provincial, unlike the U.S. federal regulatory model with additional state "blue sky" regulation. That

structural distinction aside, both countries operate similar securities regulatory regimes, including requirements for prospectus registration in public offerings, periodic reporting obligations for public issuers, and registration exemption criteria for private offerings (including similar "accredited investor" qualifications). While Canada does not have a direct equivalent to Sarbanes-Oxley (what country does?), many of the core tenets of Sarbanes-Oxley related to timely disclosure of material information, accounting standards, and director independence are enshrined in provincial securities legislation and Canadian stock market regulations. Canadian and U.S. securities regulators participate in the Multi-Jurisdictional Disclosure System (MJDS) which allows U.S. public issuers meeting certain eligibility requirements to issue securities in Canada using U.S.-modeled registration and disclosure documents.

Commercial debt financing in Canada through the use of standard promissory notes, convertible notes, term loans, credit facilities, and debentures is substantially the same as the U.S., although the standard institutional lenders in Canada – chartered banks and trust companies – are limited in number and, as a result, provide nowhere near the available options that borrowers have in the U.S. Real and personal property are collateralized in Canada in much the same way as is done in the U.S. Similar to U.S. state level regulation of this area of the law, this is regulated at the provincial level in Canada. A real property interest in Canada is collateralized under a mortgage usually containing terms substantially similar to what one would find in the U.S. While Article 9 of the Uniform Commercial Code (UCC) has not been adopted per se in Canada, most provinces have codified Article 9 of the UCC in the form of Personal Property Security Acts right down to using the same nomenclature that one would find under the UCC.

Patents, trademarks, copyrights, and other intellectual property rights are subject to registration-related protections in much the same manner as they are in the U.S. For instance, as with patent filings in the U.S., patents filed in Canada have a life of 20 years running from the date of filing.

Employment and labor laws are quite similar, although Canadian laws (imposed at the provincial level and varying from province to province) tend to lean rather heavily in favor of employees. Generally speaking, the concept of at-will employment does not exist in Canada. While employees can be terminated for virtually any reason, in the absence of grounds for termination for "cause," employees are normally entitled to reasonable advance notice of termination or payment of compensation in lieu thereof.

What constitutes reasonable notice is typically provided in the applicable provincial statute.

Overall, for U.S. companies contemplating a move into Canada or at least doing business in Canada, a good rule of thumb to go by – at least as a starting point – is that if you can do it in the U.S., you can probably do it in Canada. Certainly some exceptions apply where the two countries' laws are distinct, including with respect to tax and immigration-related matters. And operating in Canada entails a heavier regulatory burden than exists in the U.S. In the end, though, Canada is a fairly business-friendly country, and proper planning should make for a relatively smooth entry into a sizeable, well educated, and culturally integrated market.

For further information on the content of this article, please contact Garth Stevens, Partner, Snell & Wilmer L.L.P., phone (602) 382-6313, email gstevens@swlaw.com.

Common U.S. Visas for Canadian Nationals

by Rebecca Winterscheidt

Every year thousands of foreign nationals from around the world, including Canada, enter the United States to work. Before any foreign national can begin legally working in the United States, however, an appropriate visa must be obtained. Below is a list of visas most commonly available to Canadians seeking to work in the United States.

TN Visa

The TN nonimmigrant work visa is specifically for Canadian (and Mexican) nationals admitted under the North American Free Trade Agreement (NAFTA). The TN Visa is available to those Canadians who wish to enter the United States to engage in business activities at a professional level. NAFTA identifies a non-exhaustive list of professions for which a person may be admitted to the United States under this visa, many of which require a four-year degree. These professions include (among others) attorneys, accountants, architects, engineers, hotel managers, management consultants, various categories of medical professionals, and scientists. Canadians can obtain a TN Visa at the border, which are issued in one-year increments. TN Visa holders can then apply for one-year extensions while in the United States and there is no cap on the number of TN Visas that can be issued.

L-1 Visa

The L-1 Visa for "intracompany transferees" is available to multinational companies that desire to transfer to the United States managers, executives, or other employees with specialized knowledge. To qualify for this nonimmigrant visa, the Canadian must

have worked at least one of the last three years for a company that is related to the company in the United States. The foreign company can be a parent, branch, subsidiary, or sister company to the company in the United States. Managers and executives (L-1As) can remain in that status for seven years while individuals with specialized knowledge are limited to five years. There are no limits to the number of L-1s that can be issued. Managers and executives are also afforded a "short cut" to obtaining a green card.

H-1B Visa

The H-1B Visa is a work visa for individuals who are professionals filling professional level positions. This typically means that the job must require, and actually use, individuals with a four-year degree. These visas are generally issued in three-year increments but can be extended for up to six years, and in limited circumstances, even longer. Unfortunately these visas are very popular and in the past few years the demand for them has outstripped the supply on the first day they became available, resulting in a forced lottery program.

As currently written, immigration laws in the United States strongly favor professionals and highly-skilled foreign nationals. Accordingly, not everyone will qualify for each visa discussed. If you are a Canadian, or a U.S. employer wanting to hire a Canadian national, consult legal counsel to determine which options should be pursued to best accomplish your goals.

For further information on the content of this article, please contact Rebecca Winterscheidt, Partner, Snell & Wilmer L.L.P., phone (602) 382-6343, email bwinterscheidt@swlaw.com.

U.S. Investors Looking to Invest in Canada Through a U.S. LLC Receive Good Tax News

by Jake Smith

General

On September 21, 2007, the U.S. and Canadian governments agreed to update the U.S.-Canada Income Tax Treaty (the "Treaty") with the passage of the fifth protocol (the "Protocol").[1] Prior to the Protocol's effective date, use of a U.S. limited liability company (LLC) was, with respect

1 As of the date this article was submitted to publication, the Protocol has yet to be ratified by the U.S. Senate; (Canada ratified the Protocol in December 2007). Generally speaking, with the exception of income withheld at the source (principally interest, dividends, and royalties), the Protocol will have effect for any taxable period beginning after the calendar year in which the Protocol enters into force. On July 10, 2008, The U.S. Treasury Department released the technical explanation to the Protocol, which was a prerequisite to Senate ratification.

to obtaining Treaty benefits, a trap for the unwary because of how the LLC was taxed for both U.S. and Canadian tax purposes.

Specifically, for U.S. federal income tax purposes, a multi-member LLC is often taxed as a partnership. As a result, the LLC's tax items of income and loss flow through to its members. As a result of this "flow through" treatment, for Treaty purposes, the LLC, itself, would not be considered a U.S. resident. Therefore, Treaty benefits would be unavailable to it.

To complicate matters, for Canadian tax purposes, a multi-member LLC is taxed as a corporation. As a result, the LLC's tax items of income and loss would not flow through to its members. The combination of U.S. and Canadian treatment of the U.S. LLC produced unfavorable results as U.S. members of the LLC would be denied Treaty benefits (*e.g.*, lower withholding rates) with respect to Canadian sourced income. Once the Protocol is effective, this will no longer be the case.

Under the Protocol, the Canadian government has agreed to extend Treaty benefits to investments made in Canada by U.S. residents through a U.S. LLC. Specifically, the Protocol provides that U.S. residents earning Canadian sourced income through a U.S. LLC will be entitled to Treaty benefits where the U.S. treatment of the income is identical to what would have been the treatment if the income had been earned by the U.S. investor directly. Thus, the Protocol provides for flow through treatment of a U.S. LLC, resulting in varying Treaty benefits to the LLC member depending on the type of income earned.

Canadian Sourced Interest Income

Prior to the passage of the Protocol, Canadian source interest income was subject to a withholding rate of up to fifteen percent (15%) of the gross amount of the interest paid. The Protocol provides that Canadian source interest income is not subject to Canadian taxation as long as the interest income is not: (i) effectively connected with a Canadian permanent establishment, (ii) a participating interest (*i.e.*, calculated with respect to the profit performance of the borrower), or (iii) derived from related-party indebtedness.[2]

Example: U.S. citizens, X, Y, and Z are the only members of "LLC," a U.S. limited liability company, treated as a partnership for U.S. federal tax purposes. LLC lends money to "Borrower," a Canadian corporation. None of LLC, X, Y, or Z has a Canadian permanent establishment. For U.S. tax purposes, X, Y,

2 This exemption from withholding will have effect the first day of the second month after the date on which the Protocol enters into force. Withholding taxes on interest paid on related-party indebtedness will be phased out over a three-year period.

and Z will be taxed in the U.S. on the interest income that flows through LLC.

If the Protocol were not in effect, then with respect to interest income paid by Borrower, LLC would not be a U.S. resident for Treaty purposes. As such, LLC would be subject to Canadian taxation with respect to its Canadian source interest income and no Treaty benefits would be available with respect thereto. However, under the look-through treatment afforded by the Protocol once in effect, we look beyond LLC and focus, for purposes of determining Treaty benefits, on X, Y, and Z. In such a case, for the reasons set forth above, none of X, Y, or Z would be subject to Canadian taxation with respect to its Canadian source interest income from Borrower.

Canadian Sourced Dividends

The Protocol generally does not change the withholding rate of 15% for Canadian source dividend income. However, the withholding rate has been reduced to 5% if the beneficial owner of the dividend income is a U.S. corporation that owns at least 10% of the voting stock of the Canadian company paying the dividends.[3]

Combining this reduced rate together with: (i) the recognition of a U.S. LLC as a U.S. resident for Treaty purposes, and (ii) the look through treatment applied to a U.S. LLC, a U.S. corporation that indirectly own at least 10% of the voting stock of a Canadian corporation through a U.S. LLC would benefit from the reduced 5% Treaty rate.

Example: "US Co," a U.S. corporation, owns at least 10% of LLC, a multi-member, U.S. limited liability company, taxed as a partnership for U.S. income tax purposes. LLC, in turn, owns 100% of "Can-Co" a Canadian corporation. Can-Co pays dividends to its shareholder on an annual basis. As a result, for U.S. tax purposes, US Co will be taxed in the U.S. on such Canadian source dividend income that flows through LLC.

If the Protocol were not in effect, then, with respect to dividend income paid by Can-Co, LLC would not be a U.S. resident for Treaty purposes. As such, LLC would be subject to Canadian taxation with respect to its Canadian source dividend income and no Treaty benefits would be available with respect thereto. However, under the look-through treatment afforded by the Protocol once in effect, we look beyond LLC and focus, for purposes of determining Treaty benefits, on US Co. In addition, as explained above, because: (i) the dividends would be treated as paid to US Co and (ii) US Co owns at least 10% of LLC, the reduced 5% withholding rate is applied to the dividends paid by Can-Co.

3 This exemption from withholding will have effect the first day of the second month after the date on which the Protocol enters into force.

To ensure compliance with Treasury Regulations governing written tax advice, please be advised that any tax advice included in this communication, including any attachments, is not intended, and cannot be used, for the purpose of: (i) avoiding any federal tax penalty, or (ii) promoting, marketing, or recommending any transaction or matter to another person.

For further information on the content of this article, please contact Jake Smith, Associate, Snell & Wilmer L.L.P., phone (602) 382-6274, email jbsmith@swlaw.com.

U.S. Government Regulations of Canada/U.S. Cross Border Trade

by Richard Katz

The United States and Canada share the world's largest national trading relationship. A number of issues unique to this relationship can impact individual importers and exporters who have to comply with U.S. government regulation along the border.

Customs Valuation

It is estimated that up to 45% of trade between the two countries involves intra-company transfers. The Customs value law allows the government to scrutinize related party transfer prices to assure a realistic price for duty assessment and statistical purposes. The law provides a number of standards for testing the acceptability of this price, but the burden is on the U.S. importer to justify its claimed valuation. There may also be instances in which necessary elements of the intra-company price are not available at the time the goods are exported from Canada. U.S. Customs & Border Protection allows the importer to enter its merchandise at a good faith estimate and later reconcile the estimated value with actual costs. Individual Customs entries are flagged, withheld from final processing (liquidation), and adjusted, if necessary, through the reconciliation process.

ITAR Canadian Exemption

The U.S. and Canadian defense industries share a unique relationship, recognized in the so-called "Canadian Exemption" to the State Department's International Trade in Arms Regulations (ITAR). In place since May 2001, the Exemption permits the export of most items and services on the U.S. munitions list to Canada without an export license. A U.S. defense contractor must be "registered" to take advantage of the license Exemption, and its consignee in Canada must be a registered person under the Canadian Defense Production Act. There are other reporting requirements and additional restrictions on the re-export of these items to third countries that a company must consider.

The Canadian Exemption is a limited exemption from some requirements under the U.S. ITAR. Cross-border transfers of military hardware, technical data, and defense services between the U.S. and Canada are still highly regulated by the U.S. State Department; failure to adhere to the regulations can result in substantial civil and criminal penalties.

The China Factor

Trade with China continues to play an increasingly larger role in the U.S.-Canada trade relationship. China is a primary supplier of consumer goods to both countries and a large consumer of energy, particularly from Canada. The import and transhipment of Chinese-origin goods bearing counterfeit trademarks is a serious concern to the U.S. Scrutiny of such products can be expected at the U.S. border, including goods "in bond" that are bound for Mexico and beyond. The Office of U.S. Trade representative has placed Canada on its Special 301 Watch List in 2007 for the purpose of securing more vigorous intellectual property enforcement.

NAFTA

The North American Free Trade Agreement (NAFTA) has matured and staged duty reductions have been fully realized. Also, the negotiation of other free trade agreements by both the U.S. and Canada has diminished the importance of NAFTA to some degree. However, the current weakness of the U.S. Dollar will make Mexico a favored manufacturing destination, particularly by the Europeans. This will lead to increased cross border trade and increased complexity in making NAFTA origin determinations for products made from non-North American inputs.

Security Issues

In the post 9/11 world, "security trumps trade." There are varying estimates of the delays due to increased border security and consequent increased costs to businesses that involve the crossing of the U.S.-Canada border. The U.S. and Canada have created a joint program with the acronym 'FAST' (Fast And Secure Trade), which provides for the certification of trade partners that are then given faster clearance across the border. On the U.S. side, exporters, importers, carriers, and other trade participants can be certified under the C-TPAT program (Customs-Trade Partnership Against Terrorism) to gain access to FAST.

On June 28, 2008, the U.S. and Canada signed a mutual recognition arrangement agreeing to similar standards for Canada's Partners in Protection (PIP) program and the U.S. C-TPAT. Because of new, stricter Canadian standards, PIP members who joined the program prior to June 28, 2008 will have to re-apply to be certified under the enhanced program. Members of the trade community

can expect continued efforts by both the U.S. and Canadian governments to further secure the border and C-TPAT and/or PIP participation may become mandatory in the future.

For further information on the content of this article, please contact Richard Katz, Of Counsel, Snell & Wilmer L.L.P., phone (520) 882-1270, email rkatz@swlaw.com.

Patent Rights in Canada

by Damon Boyd

Patent Rights

Patents can be valuable tools for protecting inventions and many countries, including Canada, have well developed laws relating to patents. In this regard, Canadian law provides for the granting of patent rights in inventions. A Canadian patent is a grant of exclusive rights given to an inventor to make, sell, and use an invention. In Canada, this exclusive grant exists for 20 years from the filing date of the patent application.

In exchange for the rights provided by a patent, an inventor must provide a detailed description of the invention in a patent application. The patent application is published 18 months after it is filed, providing the public with the benefit of the inventor's description, and promoting the sharing of knowledge with the public. Although the information and invention are revealed to the public, should the patent application ultimately issue, the public is not allowed to make, sell, or use the invention during the period for which the patent is in force.

Advantages of Patents

There are a number of advantages to obtaining a Canadian patent, even if the applicant already has a U.S. patent on an inventor. As noted above, patents afford an inventor the exclusive right to make, sell, or use an invention for a 20-year period. This exclusivity allows patent holders the right to license to, or exclude another person from practicing, the invention.

If another person practices the invention without permission, such as marketing a product that is based on or identical to the invention claimed in the patent, the patent holder may sue for patent infringement.

Patent infringement occurs when a product embodies all essential elements of an issued patent. When an action for infringement is brought, the court hearing the complaint will give the claims a "purposive construction." This construction differs from a literal one in that each claim is construed based on an objective determination of the meaning intended by the inventor, as interpreted

through the eyes of one having ordinary skill in the art at the time that the patent was first available to the public. The "purposive construction" is designed to avoid an overly literal construction without broadening the claims beyond what an inventor intended. This construction will also show which elements of the claimed invention are essential and which are not. Essential elements are those that, at the time the patent application is filed, would be considered essential to the invention by a person of ordinary skill in the art. If the invention in question does not contain all of the essential elements of the patent, it does not infringe. Relief available for infringement includes an injunction against selling the product, damages, lost profits, costs, and rarely, punitive damages.

Another advantage of filing for a Canadian patent is that it establishes priority of invention for further international patent filings. If a patent is filed in Canada, the inventor may file in any other country which belongs to the Paris Convention for the Protection of Industrial Property within a year of the Canadian filing date. This priority allows the inventor to use the filing date of the earlier patent filing as the effective filing date of a later, international patent.

Requirements

Under Canadian law, an inventor may patent a physical embodiment of an idea or a process that produces something saleable or tangible. Scientific principles, ideas, theorems, business methods, and medical treatments may not be patented.

To obtain a patent, the inventor must be the first person to file an application for a specific invention. A patent may only be issued to the first person to file. In addition, in general, an invention must meet three criteria to be considered patentable. Namely, the invention must have utility, must be novel, and must be an improvement that would not be obvious to a worker of average skill in the technology involved. In addition, an invention may not be patented if it has been publicly disclosed more than one year grace before the filing date of the application.

Finally, the legal owner of the invention is the only person who may obtain a patent. The patent may later be licensed, assigned, or sold by the legal owner, if they so choose.

Patent Applications

To obtain a patent, an inventor must complete and submit to the Canadian Patent Office a formal petition, specification with a detailed description of the invention, an abstract of the invention, claim or claims to the invention, and any drawings mentioned in the specification.

The claims of a patent define, in technical terms, the extent of the protection afforded by the patent or patent application. Claims are typically written as a series of noun phrases which express the elements of the invention. For another invention to be found to infringe on the patent, it must contain all of the limitations expressed in the claims of the patent. Therefore, it is beneficial to draft the claims to incorporate the minimal set of limitations necessary to define the invention. However, it is necessary to include sufficient limitations to overcome previous patents and prior art.

Before filing the application

Before an inventor applies for a patent, the inventor should consider performing or commissioning a search of existing patents and prior art to obtain a better understanding of whether the invention is novel and non-obvious.

After filing the application

After the application is filed, the inventor may request an examination. A request for examination is necessary for the application to be reviewed and a patent to eventually be issued. A request for examination must be made within 5 years of the application filing date, and must include the examination fee. If the request is not made within 5 years, the application will be considered abandoned.

During the examination, the patent examiner will review the claims in the patent application to determine if a patent should be issued. The examiner will compare the claims to prior patents and technical literature to determine if the claimed invention is anticipated, obvious, or otherwise improper.

If the examiner objects to any of the claims, they will issue a Patent Office Action explaining the objection. An inventor may respond to the Patent Office Action with an "amendment letter." Each objection raised in the Patent Office Action must be addressed in the amendment letter. Claims may be cancelled, amended, or new claims added to overcome the examiner's objections. In addition, any person may challenge a patent application by filing prior art with the examiner.

If an examiner issues a final objection to a patent application, an inventor may appeal the decision. The Patent Appeal Board reviews final objections, and may grant a patent if they believe the objection was in error. Finally, an application rejected by the Commissioner may be appealed to the Federal Court of Canada, and further, to the Supreme Court of Canada.

Finally, many of the aspects of Canadian patent law discussed above are quite similar to the patent laws of the United States and other countries. However, there are many

significant differences as well, particularly with regard to protection of inventions and considerations relating to infringement. It is thus important to find counsel familiar with Canadian patent law early in the development of inventions to help obtain the best possible protection for the inventions and to help reduce the risk of liability for infringement of third party patent rights.

For further information on the content of this article, please contact Damon Boyd, Partner, Snell & Wilmer L.L.P., phone (602) 382-6337, email dboyd@swlaw.com.

Trademark Rights in Canada

by Damon Boyd

Trademark Rights and Registration

Marketing and the brands associated with products and services can be valuable assets, and trademarks can be important tools in protecting those brands. In Canada, like the United States and most other countries around the world, a trademark is a word, symbol, design, or a combination of these, used to distinguish the goods and/or services of an individual or business from those of others in the marketplace. Canadian law protects trademarks through legal proceedings from misuse and imitation.

Provided certain requirements are met, a trademark may be registered on the Canadian Trade-marks Register. Any company, individual, partnership, trade union, or other lawful association may obtain registration of their trademarks.

While one is not required to register a trademark in order to obtain rights, and rather may establish and rely on common law trademarks rights in the trademark, registering a trademark provides benefits to the registrant such as the exclusive right to use the mark across Canada for 15 years. The registration is renewable every 15 years thereafter.

Additionally, registration is prima facie evidence of ownership. This means that, in a dispute, the registered owner does not have to prove ownership, but rather the alleged infringer has the burden of proving the registered owner lacks trademarks rights.

Registration is accomplished by first filing an application for registration with the Canadian Trade-marks Office. The application then goes through an examination process to make sure that it meets all requirements of the Trade-marks Act.

When the Trade-marks Office receives an application, it does the following:

- Searches the trademarks records to find other trademarks that may come into conflict with the application and, if any are found, informs the applicant of the same.

- Examines the application for compliance with the requirements of the Trade-marks Act and Regulations and informs the applicant of requirements which are not met by the application.

- Publishes the application in the Trade-marks Journal.

- Allows time for challenges (oppositions) to the application.

- If an opposition is not filed to the application, the mark is allowed. Upon payment of the $200 registration fee and the filing of a declaration of use in the case of a proposed use trademark application, the mark is registered.

In most instances a trademark must be used in Canada before it can be registered. Although an application may be based on "proposed use," the trademark must ultimately be used to be registered.

Marks That May Not Function as Trademarks

Given that trademarks are for the purpose of distinguishing goods or services from others, certain "marks" may not function as trademarks or otherwise be registrable. Some of these include:

Confusingly Similar Marks

Words, symbols, sounds, and ideas that suggest someone else's trademark are not registrable. Whether a mark is confusingly similar to another mark depends on, for example, whether the trademarks look or sound alike, whether they suggest similar ideas, and whether they are used to market similar goods or services.

Names and Surnames

A trademark will not be registered if the trademark is primarily the applicant's full name or surname, or that of another individual. However, an exception to this rule applies if the applicant can prove that the goods or services have become known under the name so that the word now connotes more than a person's name or surname in the public's mind. Another exception is if the name or surname has meaning other than just as a name or surname, *i.e.*, it is also recognizable as a word (*e.g.*, Brown).

Clearly Descriptive Marks

A trademark will not be registered if it clearly describes only a feature or inherent characteristic of the goods or services. However, as with names and surnames, if the applicant can establish that mark has become so well-known that people think of the product or services of applicant and no one

else's when they hear the words, the applicant may be able to register the trademark.

Deceptively Misdescriptive Marks
A trademark will not be registered even if the mark is not clearly descriptive, but is clearly misleading—"deceptively misdescriptive." For example, one cannot register "sugar sweet" for candy sweetened with artificial sweetener, and "air express" for a courier service that uses only ground transportation.

Marks that Indicate Place of Origin
A trademark will not be registered if the mark clearly designates the place of origin of the goods or services, or if it misleads the public into thinking that the goods come from a certain place if they do not.

Words in Other Languages
A trademark will not be registered if the mark is a word that constitutes the name of the goods or services in another language.

Trademark Infringement

Once a mark has been registered, the owner or licensee can file an action against unauthorized users of the mark. Additionally, unregistered marks may be actionable under the tort of "passing off." The Trade-mark Act provides that:

> . . . the registration of a trade-mark in respect of any wares or services, unless shown to be invalid, gives to the owner of the trade-mark the exclusive right to the use throughout Canada of the trade-mark in respect of those wares or services.

This section gives the owner the exclusive right to sue anyone who uses the identical mark for the sale of identical wares or services so long as:

- the mark is properly "registered" under the Act;
- the mark has been "used" by the infringer; and
- the mark has been used for the sale of identical wares or services.

The Canadian Trade-mark Act allows a trademark owner to bring an action against users of identical or confusingly similar marks. The Act establishes that the right of the owner of a registered trademark to its exclusive use shall be deemed to be infringed by a person who sells, distributes, or advertises wares or services in association with a confusing trade-mark or trade-name without the permission or authorization of the owner.

Finally, the Canadian Trade-mark Act also allows one to prevent another from using a registered trademark in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto. This

means that owners of a mark who have their goodwill indirectly harmed by another party can sue them for infringement.

Thus, there are many similarities between trademark law in Canada and the United States, and indeed, other countries around the world. However, there are differences as well, and before one embarks on a marketing strategy for products or services in Canada, it is important to find counsel familiar with Canadian trademark law to reduce the risk of liability for infringement of another's mark, and to help obtain the best protection available for one's brand.

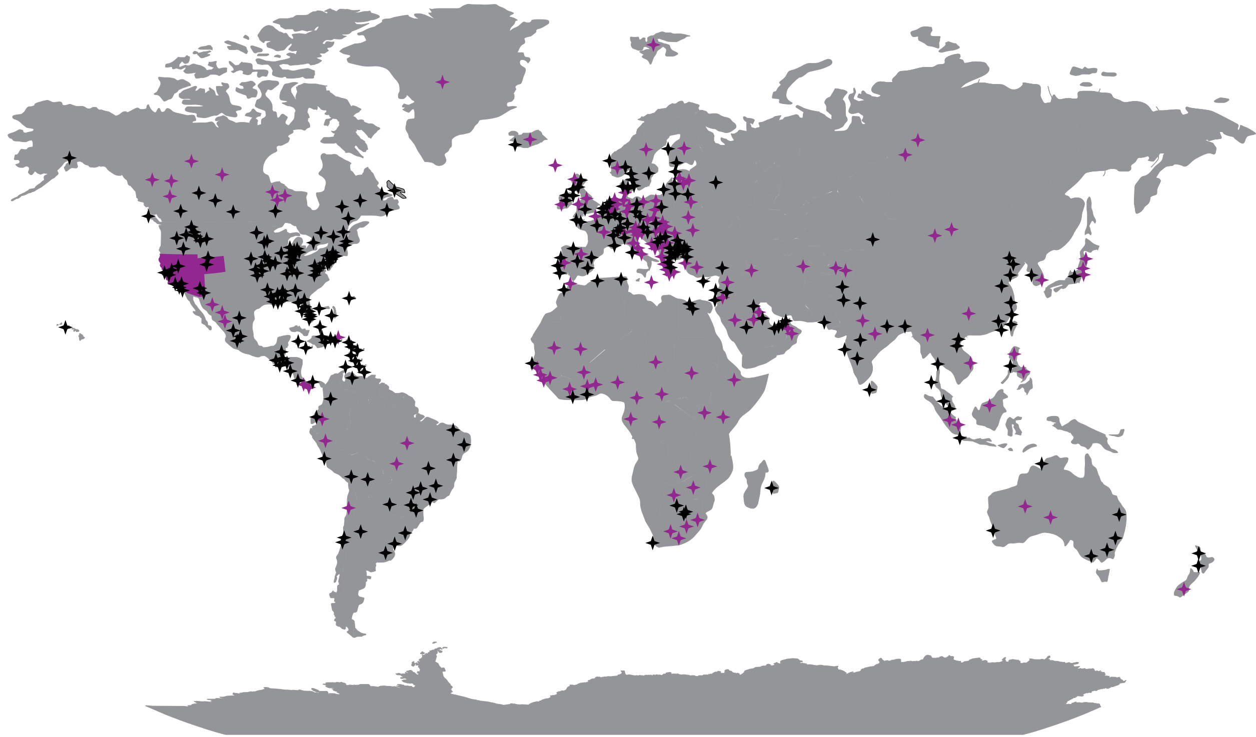
For further information on the content of this article, please contact Damon Boyd, partner, Snell & Wilmer L.L.P., phone (602) 382-6337, email dboyd@swlaw.com.

* * *

SNELL & WILMER NAMED TOP CORPORATE LAW FIRM

Company directors and in-house legal counsel voted Snell & Wilmer the number one law firm to do business with in Phoenix for the seventh consecutive year. The 2008 Legal Industry Research Study is conducted by *Corporate Board Member* magazine, a national publication that covers corporate governance and boardroom issues.

Snell & Wilmer International Practice Network and Experience



✦ Lex Mundi Affiliates
✦ Snell & Wilmer Work Experience

Snell & Wilmer
L.L.P.
LAW OFFICES

Character comes through.®

DENVER LAS VEGAS ORANGE COUNTY PHOENIX SALT LAKE CITY TUCSON

©2008 All rights reserved. The purpose of this newsletter is to provide our readers with information on current topics of general interest and nothing herein shall be construed to create, offer, or memorialize the existence of an attorney-client relationship. The articles should not be considered legal advice or opinion, because their content may not apply to the specific facts of a particular matter. Please contact a Snell & Wilmer attorney with any questions.