

BETWEEN :

SARCO CANADA LIMITED APPLICANT;

AND

SARCO COMPANY INC. RESPONDENT.

Toronto
1968

May 22-24
27, 28

Ottawa
June 19

Trade Marks—Trade Marks Act, S. of C. 1952-53, c. 49, ss. 2(t), 13(1)(b), 56(1)—Use of trade mark lost its distinctiveness—Expunging of such trade mark—Invalidity.

On the application by the Canadian company for an order pursuant to section 56(1) of the *Trade Marks Act* to expunge the trade mark "Sarco" of the U.S. company, the evidence was that both companies, during the period 1948 to 1964, did exercise such "equal rights" and used the trade mark "Sarco" in Canada on each of their respective products.

Held, that because of such use this trade mark has lost its distinctiveness;

- 2. that an order will go expunging the registration of the trade mark "Sarco";
- 3. that the applicant is entitled to its costs.

APPLICATION to amend registered trade mark.

A. S. Pattillo, Q.C., John W. B. Brown and G. R. W. Gale for applicant.

Harold G. Fox, Q.C. and Donald F. Sim, Q.C. for respondent.

GIBSON J.:—This is a hearing on the application of Sarco Canada Limited (herein called "Sarco Canada") for an Order pursuant to section 56(1) of the *Trade Marks Act*,

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1953 Statutes of Canada, chapter 49, that the entry in the Register of Trade Marks recorded as Registration No. N.S. 4/1582 in the name of Sarco Company, Inc. (herein called "Sarco U.S.") in respect of the trade mark "Sarco" to be amended by substituting as the owner of the said trade mark the applicant Sarco Canada or alternatively, for an Order expunging the said Registration from the Register.

The date of this application was February 26, 1964.

The applicant (herein sometimes referred to as Sarco Canada) was incorporated under the laws of the Province of Ontario by Letters Patent dated July 8, 1929. The principal objects are "to manufacture, buy and sell 'Sarco products', steam traps, radiator traps, valves and temperature control and industrial equipment of all kinds". The applicant at that time was a wholly-owned subsidiary of the respondent in these proceedings (herein sometimes referred to as Sarco U.S.) a company incorporated under the laws of one of the States of the United States of America. Sarco U.S. executed at that time a Consent to the incorporation of Sarco Canada and the use by it of the corporate name "Sarco (Canada) Limited".

From 1908 to 1929 Sarco U.S. sold its products in Canada through an agent by the name of Peacock Bros.

From 1929 until 1941 Sarco U.S. products were sold in Canada through Sarco Canada.

In 1941 Sarco Canada began to manufacture certain Sarco products pursuant to the specifications of Sarco U.S. and began to also sell these products along with Sarco U.S. products.

By 1948 Sarco Canada manufactured approximately 45% of all the products sold by it in Canada and about 21% of the products sold were those of Sarco U.S. The balance of products Sarco Canada sold in Canada were products purchased from other manufacturers.

The chief shareholder of Sarco U.S. and Sarco Canada until 1948 was one H. Clement Wells. He also owned the majority of shares in an English Sarco business carried on by Spirax-Sarco Engineering Limited and a number of foreign companies by the control exercised through a company called Sarco International Corporation, examples of

which were Sarco Belge S.A. (Belgium), Sarco G.M.B.H. (Germany) and Inde E. Com. Sarco Sud Americana Ltda. (Brazil).

In 1948 H. Clement Wells for the welfare of his brother Eric E. Wells caused to be transferred from Sarco U.S. to Eric E. Wells all the shares of Sarco Canada which in turn were transferred by Eric E. Wells to trustees upon certain trusts *inter alia* and speaking generally, to provide a pension to Eric E. Wells for his life and after his death, to his widow, after which the shares were to be held by trustees for the benefit of the employees of Sarco Canada.

From this time in 1948 until the date of this application, Sarco Canada ceased to be a U.S. subsidiary to Sarco U.S. and was an independent company.

But from 1948 to 1964 the date of this application, Sarco Canada sold Sarco U.S. products as above mentioned.

In 1933 an application was made to the Registrar of Trade Marks on behalf of Sarco U.S. for the registration of the trade mark "Sarco" as a word mark and the trade mark "Sarco" in respect of the wares "steam traps, thermostats, strainers, steam valves and fittings" was registered on August 29, 1933 as No. 1582 Folio 4. Renewals of the registration were made by Sarco U.S. as from August 29, 1948 and August 29, 1963.

At no time was there any formal assignment of the trade mark "Sarco" for use in Canada by Sarco U.S. to Sarco Canada, or formal licence to use it.

In the period 1960 to 1964, Sarco U.S. made certain sales of its product directly to Canadian purchasers. In addition, certain of the Sarco U.S. products were sold through Sarco Canada in an unchanged condition both as to labels on the products and on the containers and on the literature of instructions enclosed to Canadian customers.

The applicant's witness A. C. Simpkins, G. Granek and W. H. Evans, who were independent witnesses, knew that Sarco products were made by both Sarco Canada and Sarco U.S. and were sold to Canadian customers. The respondent's witness Francis Winchester who was agent from 1951 to 1964 for Sarco Canada in the Quebec area, said that "Sarco" meant to him, during that period, products of both Sarco U.S. and Sarco Canada.

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There was a free exchange of technical information, know-how and other help between Sarco U.S. and Sarco Canada from 1948 to 1964 without payment of any monies.

Eric E. Wells died in 1958 and H. Clement Wells died in 1964 having retired to Europe in 1955.

Counsel for the applicant submitted (1) that the applicant was not a licensee of Sarco U.S. of the trade name "Sarco", on the day of this application or in the period 1948 to 1964; (2) that the applicant was not an agent of Sarco U.S. during the period 1948 to 1964; (3) that the trade mark "Sarco" during the period 1948 to 1964 was not distinctive in Canada of the wares of Sarco U.S.; (4) that under section 56(1) of the *Trade Marks Act* the name Sarco U.S. should be expunged as owner of the trade mark "Sarco"; and (5) that the Register should be altered to record the name of Sarco Canada as owner because: (i) the trade mark "Sarco" is distinctive of the wares of Sarco Canada; and (ii) that Sarco Canada is the beneficial owner and was the sole user of the mark in Canada during the period 1948 to 1964.

Counsel for the respondent submitted that (1) the applicant is a licensee of the owner of the trade mark and is therefore estopped or otherwise precluded from attacking the validity of the trade mark and its registration and the title of its licensor; (2) (as a corollary of the first submission) that there has existed an agency or "permitted use" situation and the applicant is likewise estopped or otherwise precluded from questioning validity and title; (3) the trade mark is and always has been distinctive in Canada of the goods of the respondent, Sarco U.S.; (4) if these submissions are not accepted, that the respondent has no defence to the claim for expungement; and (5) that the Register should not be amended to show Sarco Canada as owner of the trade mark because at no time was the trade mark "Sarco" ever distinctive of the wares of Sarco Canada in Canada.

On the whole of the evidence, it is clear that H. Clement Wells (who as stated, at one time for all practical purposes, was the sole owner of the shares of all the Sarco Company throughout the world) at the material time in 1948 was the sole owner of Sarco U.S. which latter Company in turn owned all the shares of Sarco Canada. He wished to look

after the welfare of his brother Eric E. Wells and his wife and also the employees of Sarco Canada. That is the reason he entered into the 1948 transaction. It also explains the relationship between Sarco U.S. and Sarco Canada during the period 1948 on and until the time both he and Eric E. Wells ceased to be connected with either Company, and until these companies became controlled by strangers to the Wells brothers and to each other.

As a result, when H. Clement Wells and Eric E. Wells were respectively associated with these two Companies as between the two Companies, no one paid much attention to the method of the use of the Canadian registered trade mark "Sarco". It was used indiscriminately on both the products of Sarco U.S. and the products of Sarco Canada which were sold in Canada.

In support of their respective contentions as to whether the basis upon which Sarco Canada used the trade mark "Sarco" was one of implied licence or agency counsel for each of the parties submitted that there is an issue of credibility as between the evidence of their respective witnesses.

Such issue, counsel contended, extended also to the submission as to whether or not there was an assignment in equity of the trade mark "Sarco" to Sarco Canada in 1948.

The issue of credibility does not, however, extend to the question of distinctiveness. All witnesses say in effect that to each of them they associated the trade mark "Sarco" with the wares of both Sarco U.S. and Sarco Canada.

On the issue of implied licence or agency, certain of the evidence contained in the affidavit of Herbert L. Simmons filed by the respondent is conclusive in my view.

In this evidence Mr. Simmons says he was first employed by Sarco U.S. as office manager in 1925; that from that time until 1955 when Mr. H. Clement Wells was practically 82 years, he was intimately associated with him; that he was credit manager of Sarco U.S. in 1933, office manager and assistant treasurer in 1945 and director of Sarco U.S. in 1948 and was designated by H. Clement Wells to succeed him as President and Treasurer of Sarco U.S. on January 1, 1955; that for many years he was an officer and director of other Sarco Companies; that in the 1930's he was Mr. H. Clement Wells' "right-hand man and confidential assistant" in the management of all the Sarco

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Companies wherever located and that therefore “for almost 40 years” he has been an officer of Sarco U.S. and also had an intimate knowledge during that period of “the Sarco Company’s operation” and he had “a personal association with Mr. Wells for approximately 20 of those 40 years”.

In paragraph 5 of this affidavit evidence Mr. Simmons also says:

I have never made an agreement either formal or informal—with Sarco Canada Limited regarding the use of the name and mark “Sarco”, and have always respected the right of Sarco Canada Limited to use the name “Sarco” which was given to it in 1929 as part of the application for its incorporation. I have always believed that Sarco Company, Inc. and Sarco Canada Limited have equal rights to use the name and mark “Sarco” in Canada...

From this I find that on true interpretation this means that there was no implied licence to use the trade mark “Sarco” by Sarco Canada and no agency arrangement between Sarco U.S. and Sarco Canada as to its use. This means precisely what it says, *viz* that from 1948 to 1964 Sarco Canada had “equal rights to use the trade name ‘Sarco’ in Canada”. Having such “equal rights” negatives any licence or agency arrangement.

And, on the evidence, I find that during the period 1948 to 1964 both parties did exercise such “equal rights” and used the trade mark “Sarco” in Canada on each of their respective products.

As a result, the trade mark “Sarco” during that period was not solely distinctive either of the wares of Sarco U.S. or of the wares of Sarco Canada.

In other words, during this period this trade mark lost its distinctiveness.

This is one of the statutory grounds of invalidity. (See *Trade Marks Act* section 18(1)(b) which reads:

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

...

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

By definition, a trade mark must be distinctive of only one person’s wares. (See *Trade Marks Act* section 2(t)) which reads:

(t) “trade mark” means

(1) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services

manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others,

- (ii) a certification mark,
- (iii) a distinguishing guise, or
- (iv) a proposed trade mark;

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“Distinctive” is defined in section 2(f) of the *Trade Marks Act* as follows:

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

In *Western Clock Company v. Oris Watch Company, Ltd.*¹ Audette J. said:

Distinctiveness is of the very essence and is the cardinal requirement of a trade-mark, which is used to distinguish the goods of a trader from the goods of all other traders.

In *C. Fairall Fisher et al v. British Columbia Packers Limited*² Thorson P. said:

...It is clear from these definitions that distinctiveness is an essential requirement of a trade mark.

In *Standard Ideal Company v. Standard Sanitary Manufacturing Company*³ Lord MacNaghten said:

...Distinctiveness is the very essence of a Trade Mark.

The decision on this application therefore is that because this trade mark has lost its distinctiveness that an order will go that the entry in the Register of Trade Marks recorded as Registration No. N.S. 4/1582 in the name of Sarco Company, Inc. in respect of the trade mark “Sarco” be expunged.

The applicant is entitled to its costs.

¹ [1931] Ex. C.R. 64 at 67.

² [1945] Ex. C.R. 128 at 132.

³ (1910) 27 R.P.C. 789 at 796