

The Dough Does Not Rise for the Licensor

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In *Milano Pizza Ltd. v 6034799 Canada Inc.* (“Milano”), the Federal Court of Canada expunged Milano Pizza Ltd.’s (the “Licensor”) trademark registration because of the Licensor’s failure to exercise sufficient control over the trademark.

Background Facts

The Licensor had been granting to independent pizzerias in Ottawa licenses to use the Milano design mark (the “Milano Design Mark”) and the words MILANO PIZZERIA and MILANO PIZZA. The licenses required that the licensees operate in a certain territory and purchase MILANO branded products from approved suppliers. The licences were often verbal arrangements rarely reduced to writing. Any agreements that might have been reduced to writing before the mid-2000s were destroyed by a flood. As well, most licensees operated with different menus and different recipes for the various menu items.

The defendants, 6034799 Canada Inc. o/a Milano Pizzeria - Baxter Road, et. al. (collectively, “603”), purchased the Milano Pizza Baxter Road location in 2001. 603 had purchased the business from the previous owners, the Khorrami brothers, who owned 50% of the business. The purchase documents did not require 603 to enter a licence agreement with the Licensor. No trademark clearance search was conducted during the purchase, and the asset purchase agreement did not mention any trademarks. Nonetheless, 603 continued to comply with the unwritten license agreement by, in addition to using the Milano Design Mark and the unregistered word marks, purchasing branded products from approved suppliers and complying with the territorial restrictions imposed by the Licensor.

After a series of disputes, the Licensor terminated 603’s licence in 2016. Despite 603’s license being terminated, 603 continued to operate the business using the same social advertising, menus, and signs except for the storefront logo which was changed to a similar variation of the Milano Design Mark. As a result, the Licensor brought a claim against 603 for trademark infringement for continuing to use the Milano Design Mark without authorization. In the counterclaim, 603 sought the expungement of the Milano Design Mark.

Was the Milano Design Mark valid?

The Court examined whether the registration of the Milano Design Mark was valid under section 50(1) of the *Trademarks Act* (the “Act”). This subsection of the Act governs licensing and deems that the use, advertisement, or display of a trademark by an authorized licensee to be that of the trademark owner if the owner maintains, under licence, direct or indirect control

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of the character or quality of the goods or services in association with which the trademark is used, advertised, or displayed. Although a written licence agreement is not a requirement to establish licensed use of a trademark, the trademark owner must provide evidence of control over the use of the trademark under a licensing arrangement. If a trademark owner fails to demonstrate such sufficient control and exercise, then the trademark may lose any distinctiveness it benefits from under section 50(1) of the Act.

Was there sufficient control over the licenced goods and services?

The Court acknowledged that the Licensor exercised some control over the quality and character of the goods and services by requiring licensees to purchase ingredients from approved suppliers. However, this was insufficient to protect the distinctiveness of the trademark under section 50(1) of the Act. The Court emphasized that a trademark owner must oversee both the input and output of goods and services to properly control the licensed trademark. Although the Licensor controlled the quality of the branded ingredients, it failed to monitor the finished product, the pizza, and other items on the menu. The Licensor also failed to impose a uniform standard for the menu items and did not enforce a right of inspection. The Court emphasized that controlled licensing includes regular inspections by trademark owners and the documentation of such inspections.

Lengthy Co-Existence of a Non-Affiliated Pizzeria

The Court also examined the co-existence of a non-affiliated pizzeria. For over 40 years, Pizzeria Milano had operated independently in Masson, Quebec, and used the same menu and store sign display. Since they were working in the same industry, the Court concluded that the similarities found between the trademarks of the two separate businesses resulted in the Licensor's trademark not being tied to a distinctive single source. This further undermined the distinctiveness of the Milano Design Mark.

The Court's Decision

The Court ultimately found the Milano Design Mark to be non-distinctive for two reasons. First, the Licensor had not established sufficient control over the character or quality of the goods and services used by the licensees under the trademark. Second, the Licensor could not enjoy any acquired distinctiveness from the trademark because of the existence of the non-affiliated pizzeria in Masson, Quebec, that had used the trademark MILANO PIZZERIA for over 40 years. Thus, the Court ruled in favour of 603 by finding the Milano Design Mark to be invalid and ordered the expungement of the Milano Design Mark pursuant to section 18(1)(b) of the Act.

Practice Takeaways

This decision is a helpful reminder for brand owners to maintain direct or indirect control over the use of their trademark licences. Registered trademarks are national in scope, and even a single co-existing competitor can risk the distinctiveness of the trademark. Trademark owners should require that their licensees execute proper license agreements, regularly inspect the

way licensees use the trademark and document such inspections, control the character and quality of both the input and output of licensed goods and services, and police any non-authorized uses of the trademark. Failure to do so may result in the invalidation of a registered trademark.

[A copy of the Federal Court decision can be found here.](#)