

Franchising - Canada

Franchise disclosure legislation does not apply to trademark licence

Contributed by [Lapointe Rosenstein Marchand Melançon LLP](#)

February 17 2015

Facts
Decision
Comment

In *MGDC Management Group v Marilyn Monroe Estate*⁽¹⁾ the Ontario Superior Court of Justice found that a trademark licence agreement was not subject to the Arthur Wishart Act, Ontario's franchise disclosure law. The judgment provides informative guidelines for businesses that wish to avoid falling within the requirements of franchise disclosure legislation when licensing trademarks in Ontario.

Facts

Pursuant to a licence agreement, the estate of Marilyn Monroe had licensed the trademarked name MARILYN MONROE to MGDC Management Group for the purpose of operating various Marilyn Monroe-themed restaurants. The licensee contended that the agreement was a franchise agreement under the act, and that it was "entitled to the kind of full disclosure that franchisees receive under the Act".⁽²⁾ Claiming that it had not been provided with adequate disclosure, the licensee sought rescission of the licence agreement pursuant to the statutory rescission provisions of the act, as well as damages.

The licensor argued that the licence agreement was not subject to the act and moved to dismiss the licensee's application.

Decision

The licensor had never granted another licence for the use of the MARILYN MONROE trademark in association with a restaurant or cafe. The court emphasised that the licence agreement was the only one of its kind and considered an express statutory provision that specifies that the act does not apply to:

"an arrangement arising from an agreement between a licensor and a single licensee to license a specific trade-mark ... where such license is the only one of its general nature and type to be granted by the licensor with respect to that trade-mark."⁽³⁾ (Emphasis added.)

On the basis of this statutory exclusion, the court ultimately concluded that the act did not apply to the licence agreement. Being excluded from the application of the act on the basis of this provision would mean that the licensor was exempt from mandatory franchise disclosure.

The court held that when considering whether an agreement is a franchise agreement under the act, substance must be studied over form; in this case the mere fact that the agreement was called a 'licence agreement' was not necessarily conclusive. The court noted that the licence agreement did not satisfy the general criteria to be considered a franchise agreement - in particular, because the licensor did not have "significant control" of the business operated by the licensee in association with the licensed trademark.

The court recognised that a trademark licence may reserve certain rights of control to the licensor in order to protect the integrity of the trademark, including the right to approve designs and business methods adopted by a licensee. However, the court did not consider that this type of general approval could be equated with the "significant control" or "significant assistance" element required under the act in order for an agreement to be considered a franchise agreement - especially in circumstances where the licensor did not "establish or dictate to the [Licensee] how to design or run their business".⁽⁴⁾

The court emphasised that under the licence agreement, the licensor's sole contribution to the licensee's restaurants was the trademark; and while a trademark licence is an essential component of a franchise agreement, the licensee had primary responsibility for the development and operation of the restaurants, including with respect to the décor, products, services, advertising, promotion and selection of franchisees. In addition, the licensor did not exercise operational control over the

Authors

Bruno Floriani



Marissa Carnevale



licensee's business.

As a result of its analysis, the court concluded that the licence agreement was not a franchise agreement governed by the act, and that the licensee was not entitled to franchise disclosure pursuant to the act. The court therefore granted the licensor's motion to dismiss the licensee's application for rescission and damages.

Comment

In this ruling the court relied on the 'single trademark licence' exemption to conclude that the act did not apply to the licence agreement.

The judgment nonetheless provides concrete suggestions for tailoring a licence relationship with a view to reducing the likelihood that such an arrangement would be considered a franchise agreement under the act. Given the court's reliance on the 'single trademark licence' exemption, as discussed above, to conclude that the act did not apply, these suggestions of the court are not conclusive for the purpose of determining whether a traditional trademark licence arrangement would contain enough elements to distinguish itself from a franchise agreement that is subject to the act. However, the decision provides welcome guidance on this important issue and certain elements of the court's analysis in this case may be considered by courts in the future in order to ascertain whether the act's disclosure rules apply to certain types of contractual arrangement.

The court's analysis should be carefully considered when businesses attempt to establish licence relationships. In particular, a recommended conservative approach would be to avoid including any controls by a licensor over a licensee's general business methods, and to reserve to a licensor only those rights that are typically considered to be simple controls over trademark use by limiting a licensor's supervisory role to branding and image concerns relating specifically to the licensed trademark. For example, a trademark licensor could be entitled to approve marketing materials that incorporate the licensed trademark, as well as the quality of goods or services in respect of which the trademark is used. However, trademark licensors should not attempt to retain control over the look and feel or overall trade dress of the establishment where the trademark is used by a licensee, or the manner of its operation of its business, as this could conceivably be viewed by courts as constituting the significant control or significant assistance required to characterise the relationship as a franchise relationship that is subject to the act.

For further information on this topic please contact [Bruno Floriani](#) or [Marissa Carnevale](#) at Lapointe Rosenstein Marchand Melançon LLP by telephone (+1 514 925 6300), fax (+1 514 925 9001) or email (bruno.floriani@lrmm.com or marissa.carnevale@lrmm.com). The Lapointe Rosenstein Marchand Melançon LLP website can be accessed at www.lrmm.com.

Endnotes

(1) 2014 ONSC 4584

(2) *Ibid.*, at para 2

(3) Similar provisions are found in franchise legislation in the Provinces of Manitoba, New Brunswick and Prince Edward Island, while there is no such provision in Alberta's franchise legislation.

(4) 2014 ONSC 4584, at para 11

The materials contained on this website are for general information purposes only and are subject to the [disclaimer](#).

ILO is a premium online legal update service for major companies and law firms worldwide. In-house corporate counsel and other users of legal services, as well as law firm partners, qualify for a free subscription. Register at www.iloinfo.com.

Online Media Partners



© Copyright 1997-2015
Globe Business Publishing Ltd