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Contents

GREATER OPPORTUNITIES FOR GST/QST CLAIMS

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Last April 23rd, the Supreme Court of Canada rendered its first judgment concerning the GST. Contrary to all expectations, the Supreme Court ruled in favour of the taxpayer and overturned the decision by the Federal Court of Appeal, dismissing the arguments submitted by the Minister.

In this case[1], the taxpayer, United Parcel Service Canada Ltd. ("UPS"), acted as a customs broker, bringing various goods into Canada on behalf of its customers. As such, UPS paid the applicable duties and taxes to the competent authorities on behalf of its customers, including the GST payable by them on the imported goods. Certain errors were sometimes made in the amount of the GST remitted to the tax authorities, thus resulting in GST overpayments. Various factors led to these errors, including the use of an incorrect value for duty, returned shipments, etc. When UPS noticed a GST overpayment, it credited its customer's account for the amount and billed the customer for the correct amount of the applicable GST. To recover the GST overpayment, UPS deducted it from the GST it had to pay to the tax authorities in connection with the operation of its business.

The Minister refused to allow the deductions claimed by UPS for the GST overpayment. In support of its position, the Minister asserted, among other things, that UPS could not deduct GST overpayments given that it only acted as an agent on behalf of its customers and that, as such, it could not be entitled to the claimed deductions. According to the Minister, only UPS's customers were entitled to recover the GST overpayments, since the responsibility for the payment of this tax belonged to UPS's customers and not UPS.

The Supreme Court of Canada rejected the Minister's arguments and held that the applicable legislation did not contain the restriction alleged by the Minister. Furthermore, the Court reiterated the duty incumbent on the Minister when determining a taxpayer's assessment. In this regard, when the Minister notices that a taxpayer would have been entitled to a reimbursement of GST if it had been claimed within the requisite time, he is obliged to apply the amount of the reimbursement toward reducing the net tax payable by the taxpayer.

In the coming months, much will surely be written about this judgment, as it reverses the position of the tax authorities on several fundamental issues concerning the GST. This judgment will likely open the door to numerous GST and QST claims. Given the potential amounts at stake, Canadian businesses will have to make sure that they take full advantage of the new opportunities available to them. ◂

1. *United Parcel Service Canada Ltd.* c. *Canada* 2009 SCC 20.

SHIELDING THE DIRECTORS OF A COMPANY PLACED UNDER THE PROTECTION OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*

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In difficult economic times, directors and officers are more frequently called upon to take part in restructuring measures to prevent or avoid the bankruptcy of their company. Thus, recourses to the *Companies' Creditors Arrangement Act*[1] (the "CCAA") have multiplied in recent months.

When a company is insolvent, directors and officers may be tempted to resign given the increased risks of personal liability.

The CCAA allows for the compromise in a plan of arrangement of the claims against the directors of the company that precede the commencement of the judicial restructuring proceedings and that relate to the obligations of the company for which they may be held liable. The CCAA also allows for the stay of recourses against the directors during the arrangement process.

However, the protection afforded by this measure may prove inadequate because it is ultimately subject to the vote and approval of the plan of arrangement by the creditors.

To mitigate this problem, one practice accepted by case law provides for a charge to be granted in the initial orders rendered under the CCAA in favour of the directors and officers (the "D&O Charge"). The D&O Charge is a type of guarantee of indemnification that ranks ahead of the creditors already holding secured interests against the company's property during the restructuring process.[2]

In principle, the D&O Charge is only effective from the date of the initial order under the CCAA.

However, in a decision rendered on January 13, 2009 in the matter of *l'Arrangement de Mecachrome International Inc. et ses filiales*,[3] the Superior Court of Quebec allowed the D&O Charge to cover claims against the directors and officers that preceded the initial order.

It was argued in this case that, in the months leading up to recourse under the CCAA, the company had already initiated an informal restructuring process under the governance of the directors in office at the time. It was shown that the success of the restructuring rested largely on the continuity of the board of directors consisting of independent directors, to such an extent that all the secured creditors and other major creditors supported the protection sought for the directors.

Taking these special circumstances into account and given the narrowly defined scope of the D&O Charge, the Court allowed the Charge to cover a period preceding that of the initial order.

While in the case of *Mecachrome International Inc.* the independent directors obtained retroactive protection to the date on which their involvement in the informal restructuring is deemed to have commenced, such protection will certainly not always be available. Hence the importance of getting one's legal advisors involved at the outset of the restructuring process. If the application for increased protection of the directors had been denied in this matter, the company's restructuring process might have failed because the company could not hold onto its directors and officers. ◄

1. R.S.C. 1985, c. C-36
2. *Les Boutiques San Francisco incorporées et Richter & Associés inc.* (S.C., 2003-12-17), SOQUIJ AZ-50211993; *Strategy First Inc. et Raymond Chabot Inc.* (S.C., 2004-08-18), SOQUIJ AZ-50267905.
3. *Mecachrome International Inc. (Arrangement de)*, C.S.M: 500-11-035041-082, January 13, 2009.

THE VALUE OF A TRADE-MARK: A MATTER OF CONTROL

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These days, as corporate structures become increasingly complex and the entities within a given company multiply, it is fairly common to see a trade-mark being used in connection with the business of an entity other than that of the owner officially registered with the Canadian Intellectual Property Office (the "Register"). Unless appropriate measures are taken, this situation may risk depreciating the value of the trade-mark or even cause the registered owner to lose it altogether.

Given the importance and the value that a trade-mark may have in the company's assets, it is paramount to consider the following concepts where a transaction dealing with assets involves one or more trade-marks.

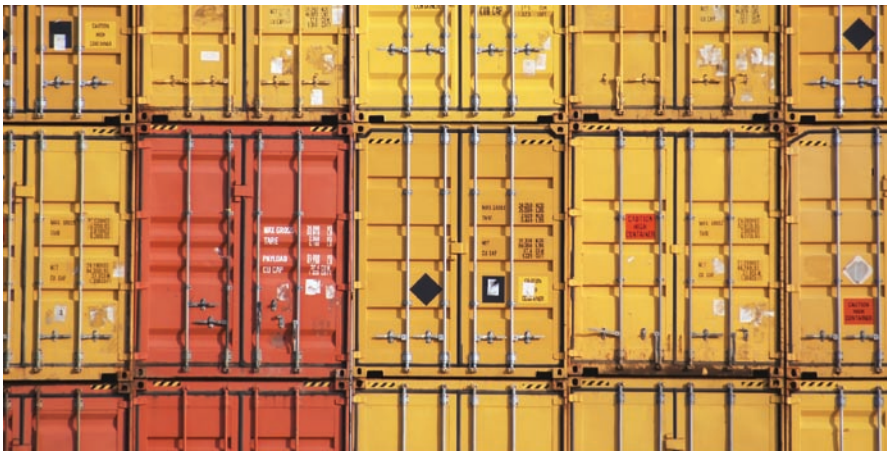
Under Canadian law, the basic principle in trade-mark protection matters is that the trade-mark is protected by usage. The distinctive character of a mark, namely its market strength and, consequently, its value, depends on its use. Moreover, the *Trade-marks Act* (the "TMA") provides for certain situations that could result in the expunging of a registered trade-mark where it is no longer being used by its registered owner or a licensee.

From this perspective, under section 50 of the TMA, in order for the use of a trade-mark by an entity other than its registered owner to benefit the owner as though he had used it himself, a trade-mark user license must exist by virtue of which the owner controls the features or quality of the wares and services in respect of which the trade-mark is used by the licensee. Otherwise, the value of this trade-mark might suffer from the reduction in its distinctive character associated with the registered owner, or the validity of the trade-mark could be challenged and it could even ultimately be expunged from the Register.

Furthermore, it is important to note that the corporate link that exists between the entity using the trade-mark and the registered owner does not suffice to establish the existence of a license between the parties meeting the requirement of control under section 50 of the TMA, even if one is the subsidiary of the other, or both have the same directors, officers or shareholders.

Consequently, in the event the entity using the trade-mark differs from the one whose name appears in the Register as registered owner, any person who will be assessing the value of this mark must ensure that he has all the relevant documents in hand, and must consider whether a license exists that meets the requirement of control under section 50 of the TMA. Otherwise, the trade-mark may be assigned a value other than its true value. ◄

THE *EXPORT AND IMPORT PERMITS ACT*: AN ACT TOO OFTEN OVERLOOKED



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Occasionally, one gets an unexpected and irresistible business opportunity. For example, a prospective buyer from a foreign country contacts you about acquiring a license to use the technology you have developed at great expense. Or even more interestingly, the transaction would allow you to meet your quarterly sales targets!

There are some statutes that often slip our minds, which require that one obtain a permit or license to conclude certain transactions. One such statute is the *Export and Import Permits Act*, a federal act whose purpose is to require a person to obtain an export permit to acquire the right to export certain goods and technologies out of Canada. The federal government may also invoke this statute to implement any trade sanctions which Canada may have passed against some countries. Lastly, a permit must also be obtained under this statute to import certain goods into Canada.

As a general rule, the export control list of goods covers the export of dual-use goods or technologies, *i.e.* those that could be used for both civil and military purposes, including munitions, nuclear materials and goods specially designed for nuclear use, nuclear-related dual-use goods (*i.e.* goods and technology with nuclear and non-nuclear uses that could be used for the manufacture of nuclear explosive devices), goods and technologies that are or could be used for the proliferation of systems carrying nuclear, chemical or biological weapons, as well as chemical components, biological agents and the related equipment that could be used for the manufacture of chemical or biological weapons. Certain other exports also require a permit to be obtained in advance, including the re-exporting of goods originating in the United States and goods and technologies intended for use in space, softwood lumber, etc.

Since ignorance of the law is no excuse and the consequences of not complying with the *Export and Import Permits Act* may be serious, any person who exports or imports products or goods from or into Canada must ensure that his activities do not require a permit to be obtained beforehand. If such a permit is required, it is important for this person to comply with the provisions of the statute and obtain such a permit before exporting or importing these products or technologies. ◄

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