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Public Sector

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Statutory protection for public agency trade-marks

The importance of developing, branding and protecting intellectual property in today's competitive business world should not be underestimated. Trade-marks and the marketing and branding connected with them are a vital component of ensuring the success of an organization's wares or services in the marketplace. While public agencies are not profit-oriented entities, there are several important reasons why they should consider protecting their marks. For example, school boards play a vital and central role in the community, and parents, students and others in the community will associate the school board and its community of schools with the various marks that it utilizes. Other public agencies have similar connections with the public. Further, public agencies interact with the for-profit sector and other entities in the not-for-profit sector in both business and cooperative relationships. These third parties may utilize public agency marks in connection with producing products such as letterhead for the agency or in connection with joint fundraising or promotional activities, and it is worth ensuring that the agency's ownership of its marks is recognized and protected.

Whether a public agency pays a third party to develop a logo or develops one in-house, the logo should be protected.

The application process for trade-marks belonging to organizations or businesses is complex and can take several months; however, there is another category of protection which may be available to public agencies. The *Trade-marks Act* provides a protective regime for "official marks". This protection is conferred by prohibiting businesses or any other organizations from adopting a trade-mark in connection with a business that consists of, closely resembles, or is likely to be mistaken for any badge, crest, emblem or mark that has been adopted and used by any public authority in Canada as an official mark for wares or services and which the Registrar has, at the request of the public authority, given public notice of its adoption and use. There are several aspects of the process and framework for official marks that will be discussed in this article.

Prior to August 2007, a request to the Trade-marks Registrar to give public notice of the adoption and use of an official mark consisted of a brief application form, payment of the fee (which at the time of publication was $500.00 per mark) and proof of public authority status. The test for whether an entity is a public authority is two fold and both components must be met in order for the Registrar to be satisfied that the requesting party is a public authority.

The first component requires proof that the government exercises a significant degree of control over the activities of the requesting party.

The second component requires that the activities of the requesting party benefit the public.

Most public authorities have a strong argument that they are subject to significant control by the government and also benefit the public through their activities and therefore should be categorized as public authorities.

In August 2007, as a result of a Federal Court decision examining the Registrar's decision to publish an official mark in connection with the upcoming Vancouver Olympic games (please see *See You In Vancouver Canadian Athletes Fund Corp. v. Canadian Olympic Committee*, [2007] F.C.J. No. 541), the Registrar now requires that a requesting party also provide evidence of "adoption and use" of the mark, which must include an element of "public display". At the time of this publication, the Canadian Intellectual Property Office, the government agency in charge of intellectual property matters, had yet to finalize or release formal guidelines or requirements on what it will accept as proof in this respect; however, examples of use, adoption and public display may include placement of marks on letterhead, programming materials, uniforms or clothing or on buildings.

Once the formal request for provision of notice is provided to the Registrar and the requesting authority has successfully proven that it is a public authority and has adopted, used and publicly displayed the mark, the Registrar will publish a notice of the public authority's mark in the weekly Trade-marks Journal, which is available online on the Canadian Intellectual Property Office website. Unlike ordinary trade-marks, there is no examination process or waiting period to allow any opposition to be filed, and once the notice has been published, the mark (or a mark that is likely

to be mistaken for it) cannot be adopted or used by any other party. The protection conveyed by the official marks regime is also strengthened by the lack of a process for expunging or cancelling the mark in the *Trade-marks Act*.

The regime for the protection of official marks has been criticized for the broad and seemingly intractable protection it confers. This criticism is aimed mainly at public authorities that engage in commercial activities and either participate or compete with private businesses. The basis of the criticism is that, to the extent that public authorities are participating in the commercial sphere or competing with private businesses, they should not be able to benefit from the advantages and superior protection of the official mark regime, which differs significantly from the regime for regular trade-marks used in the business context. However, at this time, there is no indication that the official marks regime will be reviewed or amended.

Public agencies should consider requesting notice of publication of their marks as part of a wider evaluation and review of their intellectual property. Public agencies should also remember that entities connected to public agencies that may not meet the "public authority" criteria can still apply to register their trade-marks under the regular trade-mark process and should certainly consider doing so. This would include non-profit corporations and/or foundations associated with public agencies.

To further discuss matters connected with your public agency marks, please contact your lawyers or Keel Cottrelle LLP.

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Court supports consideration of experience in evaluating tenders

In *Cherubini Metal Works Ltd. v. New Brunswick Power Corp.,* [2007] NBQB 157, a New Brunswick Court of Queen's Bench judge found that the defendant, the New Brunswick Power Corp., did not breach its duty of fairness when it investigated the capacity of the lowest-bidding plaintiff company and then selected the second highest bidder for completion of its project.

NB Power consulted with Cherubini Metal Works Ltd. about budget figures for its proposed construction of a power plant and invited several parties, including Cherubini, to bid once the final bid documents were drafted. The construction project was complex, requiring the coordination of several contractors and subcontractors, as well as the difficulty of managing the project while the existing power generation plant remained open.

Cherubini submitted the lowest bid. The next lowest bid was approximately $300,000.00 higher and was submitted by another company named Ocean Steel & Construction Ltd. After receipt of all bids and a preliminary evaluation, NB Power asked its consultant engineering firm, Coleson Power Group Ltd., to evaluate the two lowest tenders. As a result of its familiarity with Ocean Steel and their named subcontractor, CPG did not perform an evaluation of Ocean Steel. It did perform an extensive evaluation of Cherubini and its subcontractor, Emflo Erectors Ltd., as CPG was not familiar with either company's work. The evaluation consisted of a visit to Cherubini's main office, requests for supervisory employees' resumes and prior project reviews. After completing the evaluation process, CPG recommended that NB Power select Ocean Steel's bid on the basis that Emflo's lack of experience with the scope of the project might result in delays and other problems. NB Power followed this recommendation and granted the contract to Ocean Steel. Following this decision, Cherubini launched a lawsuit against NB Power.

The Court addressed each of Cherubini's arguments before concluding that NB Power did not breach its duty of fairness. First, Cherubini argued that NB Power had breached its implied contractual duty of good faith by awarding the contract on the basis of undisclosed preferences; however, the Court disagreed with this conclusion. The Court found that NB Power had followed the terms of the tender documents when it considered the prior experience of Ocean Steel in making the selection.

Next, Cherubini argued that NB Power had breached its duty of good faith by not disclosing the weight given to the criteria employed in selecting the successful proponent. After summarizing the authorities, the Court concluded that the state of the law is that when evaluating a bid, the tendering party must make all of the criteria it intends to use in selecting the successful

bidder known to all bidders, but does not have to disclose the weight accorded to those criteria. For this reason NB Power did not breach its duty when it did not disclose the emphasis it placed on prior experience.

Cherubini also argued that NB Power had fundamentally breached the contract through its conduct in selecting Ocean Steel. The Court dismissed this argument, as there was no evidence of unconscionability, bad faith or fraud on the part of NB Power in its preference of Ocean Steel's prior experience and therefore Cherubini did not meet its heavy burden of proving a fundamental breach of the contract.

Cherubini's final argument was that NB Power breached its contractual duty by not treating Cherubini fairly and equally in its investigations. After reviewing the Supreme Court's recent decision in *Double N Earthmovers* (please see Keel Cottrelle's *Public Sector Procurement Law Newsletter*, Volume 1, Issue 1), where the Court found that a tendering party does not have an obligation to investigate all compliant bids, the Court dismissed Cherubini's argument. The Court disagreed with Cherubini's assertion that unfairness could be presumed when a tendering party chooses to investigate one bidder and not another. The Court stated that a plaintiff would require more evidence of unfairness in order to prove a breach of the duty of fairness by investigating only one bidder and Cherubini did not have such evidence.

In addition, the Court discussed the waiver clause contained in the tender documents, which provided that by submitting bids, the bidders agreed to waive their right to bring an action against NB Power in connection with the tendering process. Finding no unconscionability in connection with the waiver clause, the Court held that Cherubini had waived its right to bring the action.

This decision follows the reasoning in *Double N. Earthmovers* and confirms the ability to consider experience and capability in awarding tenders. The reference to the waiver clause is interesting and including such a clause might be advantageous to public sector agencies.

Court refers to privilege clause in confirming right to consider experience of bidder

In *Continental Steel Ltd. v. Mireau Contractors Ltd.*, [2007] BCCA 292, the B.C. Court of Appeal allowed an appeal from a trial decision where the trial judge found that the appellant, Mireau Contractors Ltd., breached its duty to act fairly to subcontractors when it accepted the second lowest bid.

A school district sought bids for the construction of a school. As part of the selected tendering process, the bidding sub-contractors were required to submit sealed bids to the British Columbia Bid Depository and five days later the general contractors were required to file their bids. In other words, the general contractors had five days to review the subcontractor bids to decide which subcontractors they wished to include in their bids.

The lowest bid for the subcontracted steel work was submitted by the respondent, Continental Steel, and was lower than the next-lowest bid by just over $5,000.00. Mireau's senior estimator had concerns about Continental Steel because of a negative experience on an earlier project, so he made further inquiries about Continental Steel's work. As a result of his inquiries to other parties within the industry, he learned that Continental Steel routinely put liens on projects as security for payment, even when there was no reason to suspect that payment would not be forthcoming. The senior estimator did not consider this practice to be fair or standard within the industry. The senior estimator also received negative reactions about Continental Steel from other general contractors: one company said that they would not work with Continental Steel again and another said that they were currently in litigation with Continental Steel over a project. Having had his concerns about Continental Steel confirmed and considering the possibility that working with Continental Steel might cost his company more money in the long term, the estimator decided to select the second lowest bidding subcontractor. At trial, he testified that he knew that he did not have to select the lowest bid because of the operation of the privilege clause contained in the bid documents; however, he was aware that there was a duty to treat all bidders fairly. Mireau was

awarded the contract and completed the school construction using the second lowest steel subcontractor.

Continental Steel commenced an action against Mireau alleging that Mireau breached its duty of fairness when it selected the second lowest bid and was successful at trial with an award of $60,000.00 in damages.

In allowing the appeal, the Court of Appeal found that the senior estimator had "*acted in a business-like way in contacting others in the industry to further determine whether the concerns…were justified*". The Court of Appeal characterized Mireau's position as having to make a business decision that treated all the bidders fairly. In the Court's opinion, given Mireau's prior experiences with Continental Steel and the confirmation received as a result of its inquiries, it was a legitimate business decision to prefer the second-lowest bid and did not result in any unfairness towards Continental Steel.

The Court of Appeal also made very interesting comments relating to the duty of good faith. The Court equated an absence of good faith with "bad faith". The Court of Appeal indicated that the concept of "bad faith" in a commercial context implied "*lack of honesty, ill will, improper motive or fraud*".

The Court of Appeal also concluded that the trial judge had "*lost sight of the legal effect of the privilege clause*", which allowed Mireau not to select the lowest bid "*if there [were] valid, objective reasons for concluding that better value may be obtained by accepting a higher bid*".

The Court of Appeal allowed the appeal, finding that there was no unfairness on the part of Mireau in its selection of a subcontractor.

This decision is further corroboration of the principles set out in *Cherubini, supra,* and follows the reasoning in *Double N Earthmovers*. All in all, these decisions give the public sector sufficient leeway to consider the ability of contractors and subcontractors in evaluating and awarding tenders. The same principles would apply to RFPs.

Non-compliance of subcontractor sufficient to disqualify contractor

In *Cityscape Contracting Ltd. v. Edmonton (City)*, [2007] A.J. No. 276 (Q.B.), the Court dismissed a claim against the City of Edmonton for $210,000.00 in damages for failing to award a construction contract to Cityscape.

The City invited contractors to submit tenders for the construction of an indoor soccer facility, a significant component of the project being the supply and erection of a pre-engineered steel building. For a number of reasons, including assurance of certain safety standards, the City required that the pre-engineered building frame be CSSBI/CSA-A660 certified. Such a certification requires that both the manufacturer's design systems and production facilities meet certain established standards. The City clearly stated in the tender documents that the building supplier of the pre-engineered steel building must be certified to CSSBI/CSA-A660 standards. The Court found that CSSBI/CSA-A660 certification was an essential requirement of bid compliance.

Cityscape submitted a bid and became the lowest bidder after another bidder was disqualified. Cityscape provided a list of subcontracts as required by the tender form and the list named Brytex as the subcontractor for the supply and erection of the pre-engineered building. At or shortly after the close of tenders, the City became aware that Brytex might not be certified to CSSBI/CSA-A660 standards. The City contacted Brytex for clarification and learned that Brytex was in the process of being certified. Brytex explained that it was hoping that the City would waive the requirement that it be certified since it expected to be certified within 6 months.

The City needed to have the soccer facility constructed within 8 months of the date that it issued the call for tenders so that the facility could be used for a provincial soccer tournament. In light of the tight timeline, the City stated in the invitation to tender that the successful bidder must commence work within sixty days of being awarded the contract. The City decided that the construction project could not wait until Brytex received certification and that it did not want to waive the requirement that the building be certified. It is important to note that neither

Brytex nor Cityscape ever indicated to the City that it would meet the specifications for certification by supplying a building from another manufacturer who was certified.

The City's decision to decline to waive the requirement for certification meant that Cityscape's bid was noncompliant and consequently disqualified. The City ultimately awarded the contract to Clark Builders who had submitted a bid that was compliant with the specifications and requirements of the tender package.

The Court reviewed the evidence and found that there was no contract between the City and Cityscape as Cityscape's tender was non-compliant with respect to a material requirement and the alternatives proposed by Cityscape were unacceptable to the City. Furthermore, even though the City could have waived the building certification requirement, it was not bound to do so. The Court found that the City was correct in awarding the contract to Clark.

Finally, the Court examined the case in the alternative by assuming that it might be wrong in concluding that there was no contract between the City and Cityscape and/or wrong in finding that the bid was non-compliant. The Court noted that the tender documents contained a privilege clause, which permitted the City to accept the tender most favourable to the City's interests, regardless of whether it was the lowest bid. The tender documents also clearly indicated how the bids would be evaluated by the City: 70% on price; and, 30% on past performance on contracts. Clark had prior positive contract experience with the City whereas Cityscape had none and actually had a history of unsatisfactory past performance in contracts with other owners. The Court considered the evidence presented on the City's bid rating system and concluded that it is unlikely that Cityscape would have been awarded the construction contract in any event.

This is another decision which affirms the rights of the public sector. Bidders should not make assumptions about how the public sector will deal with non-compliance.

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Court finds the issue is not the form — rather it's the substance

In *Steelmac Ltd. v. Nova Scotia (A.G.)*, [2007] N.S.J. No. 216, the Nova Scotia Supreme Court examined whether the Province had committed a breach of contract by rejecting the bids submitted by Steelmac, the lowest bidder, on the basis that the bids were made on the wrong form.

The Province sought bids for the provision and installation of concrete slab reinforcement in two high schools, Pictou West and Pictou East. (Note the provincial involvement rather than the local school board!) The Province provided interested companies, including Steelmac, with two tender packages, one for each job. The tender package consisted of a bound volume of materials and attached by rubber band to the outside cover was a form called a Request for Quotation (RFQ). Steelmac submitted both of its bids using the RFQ forms. Steelmac was the lowest bidder on each of the two tenders, by $13,262.32 on the Pictou East school and by $11,468.97 on the Pictou West school, however, both of its bids were rejected for non-compliance by the Province. The Province claimed that the bids had been made on the wrong form and therefore were not submitted in accordance with specifications.

The Instructions to Bidders contained in the bound materials clearly stated that "*bids must be submitted on forms provided by the Department*" and stipulated that bidders must "*submit the executed offer on the Bid Forms provided*". A document titled "Bid Form" was included in the bound materials and was printed in a different colour from all other documents. The Province stated that the Bid Form is the standard form used in construction tendering and is the only form that the Province considers when assessing bids and awarding tenders, whereas the RFQ form is a tracking form used to facilitate the Province's overall financial management system.

The Court noted that, according to the Supreme Court's decision in *Ron Engineering* (1981), a contract arises between a party issuing a call for tenders and a party that submits a compliant bid in response; referred to as "Contract A". Steelmac argued that its bids had been compliant and consequently that a "Contract A" had been created between Steelmac and the Province as to the Pictou schools. Steelmac alleged that the Province had breached "Contract A" by refusing to give the lowest bidder, Steelmac, those two jobs.

Two main arguments were advanced by Steelmac: first, the bids had been submitted on forms that complied with the bidding instructions and; second, even if it had submitted its bids on improper forms, its bids were in substantial compliance with the bidding instructions.

The essence of Steelmac's first argument was that, in using the RFQ forms to submit its bids, it had used "*forms provided by the Department*" and therefore had been in compliance with the bid submission requirements. The Court disagreed with this argument noting that the RFQ form was not the only form provided by the Department. The Bid Form was also provided by the Department and the Court found that even a "*cursory examination of the tender package material by Steelmac would have disclosed the 'Bid Form' and the Instructions to Bidders that reference that form*".

The Steelmac employee who was involved in preparing and making the bids acknowledged in his testimony that he had not read all of the materials in the tender package, including the Instructions to Bidders, before submitting Steelmac's bids. In fact, he confessed to only finding the "Bid Forms" in the materials after the tenders had closed. The Court found that any "*reasonably literate person*" who read the Instructions to Bidders and then examined the Bid Form would have been able to determine that the Bid Form is to be used to make the bid. In short, the Court had no difficulty coming to the conclusion that Steelmac had submitted its bids on the wrong forms.

The Court found Steelmac's second argument more compelling since it accepted Steelmac's submission that the "substantive compliance test" is the standard most appropriate to the circumstances in the case. The Province had unsuccessfully argued that the "strict compliance test" should be applied since bids in a public tender ought to strictly comply with tender specifications in order to protect the integrity of the public tendering system. In response to the Province's submission, the Court explained that "*turning down low bids for frivolous reasons would be harmful to the public tendering system*".

The Court considered the "substantial compliance test" and determined that the use of the wrong form is not fatal to a bid: "*if the bidder provides what the owner needs to know it doesn't seem to me that the failure to use the anticipated form is all that significant*". What was significant to the Court was whether or not the bid, regardless of the form it was submitted on, contained the necessary information and assurances so as to be in substantial compliance with the bidding instructions. Although the RFQ forms submitted by Steelmac contained the bid prices, the Court found that the RFQ forms did not provide the acknowledgments and assurances as to the quantity and quality of materials that were contained on the Bid Forms. The Province required these acknowledgments and assurances and, by not providing them, Steelmac had not substantially complied with the requirements for proper bids.

In light of its finding that the bids were noncompliant, the Court found that no contract had been created between Steelmac and the Province. The Court held that the Province had acted correctly when rejecting the two bids for non-compliance and dismissed the action for breach of contract.

The comment that the employee had not read the package is not surprising. For this reason, many public agencies utilize pre-bid information sessions to point out special requirements of the tender.

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