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CHAPTER THREE

Passing Off and Unregistered Trademarks

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I. INTRODUCTION

When you go to the corner store to buy a chocolate bar, how do you find the one you are looking for from all the others that are available to you on the rack? Likely it is by identifying the name on the package in the context of its colour and shape. Those unique features of the chocolate bar's presentation, which help you to distinguish the product *Lindt*™ from the product *Snickers*™, explain the nature and purpose of trademarks. A trademark is a non-functional feature of a product or service—typically, the name and/or logo—that distinguishes the source of one consumer product from that of others in the marketplace. Without the monopoly protection of trademark law, any manufacturer could call its chocolate bar "Lindt" or "Lint," thus potentially confusing consumers in the marketplace as to which is the high-quality chocolate bar they have come to enjoy or have heard about. In the words of Binnie J in *Mattel, Inc v 3894207 Canada Inc*, 2006 SCC 22 at para 21, trademarks assure "consumers that they are buying from the source from whom they think they are buying and receiving the quality which they associate with that particular trade-mark. Trade-marks thus operate as a kind of shortcut to consumers to where they want to go." Trademark law also serves to protect the investment of trademark owners in the goodwill associated with their marks. Canadian trademark law recognizes both unregistered and registered trademarks. This chapter discusses unregistered trademarks in the context of the tort of passing off. Chapter 4 addresses registered trademarks.

II. PASSING OFF

Protection for unregistered trademarks is available at common law or under the civil law of Quebec. At common law, the primary tort for the protection of unregistered trademarks is "passing off." In Quebec, the equivalent delict is alternatively referred to as "*le passing off*," "*substitution*," "*commercialization trompeuse*," or "*concurrence déloyale*" (see e.g. *Demco Manufacturing Inc c Foyer d'artisanat Raymond inc*, 2006 QCCA 52). Whatever it is called, the basis for action is art 1457 of the *Civil Code of Québec*, CQLR c CCQ-1991, which is the general basis for all civil liability in Quebec. In *Demco Manufacturing*, the Quebec Court of Appeal ruled that the three elements of the test for passing off formulated by the Supreme Court of Canada in *Ciba-Geigy Canada Ltd v Apotex Inc*, [1992] 3 SCR 120 were applicable to recourse under the *Civil Code* as well.

In general, recourse in passing off protects a trader against a competitor who creates a likelihood of confusion in the marketplace by causing confusion as to the source of his or her goods or services. Such protection is available so long as the mark at issue has acquired sufficient goodwill or reputation for it to be distinctive of a particular trade source.

The *Trade-marks Act*, RSC 1985, c T-13 creates a regime under which trademarks may be registered. This process, which requires examination and allows for opposition, can lead to the registration of a trademark in the national register. Although registration is not essential, it offers a number of distinct advantages over the protection available for unregistered marks. Registration confers the right to use the registered mark throughout Canada, and protects against the use of marks that create a likelihood of confusion with the registered mark. Further, while a plaintiff must establish the existence of sufficient goodwill in its unregistered mark in the relevant geographical area each time it brings an action for passing off, the certificate of trademark registration suffices to prove the plaintiff's rights in the mark on a national level.

In spite of the advantages of trademark registration, many businesses operate without registering their trademarks. This can be for a number of reasons—for example, small and local businesses may not always have trademark protection in mind when they commence operations, and certainly the trademark registration process has its attendant costs. In some cases, the common law may be the only means of protecting "marks" that would not qualify as trademarks under the *Trade-marks Act*. For example, until recently, the Canadian Intellectual Property Office (CIPO) did not permit the registration of sound marks. A distinctive sound, however, could always have been argued to be an unregistered trademark. Scents are currently unregistrable in Canada, but may be protected at common law in appropriate circumstances. Similarly, the "getup" or appearance of store or restaurant premises would not constitute a "distinguishing guise" under the *Trade-marks Act*, but could receive protection at common law. (Note that these differences between the protection available in passing off and under the *Trade-marks Act* will disappear once the amendments to the *Trade-marks Act* in the *Economic Action Plan 2014 Act, No 1*, SC 2014, c 20 ["the 2014 amendments"] take effect. This change is discussed in greater detail in Chapter 4.) Passing off may also be available in circumstances where parties are not conventional business competitors—for example, where there are disputes between professional associations, charities, religious associations, or other non-commercial associations. The tort of passing off thus remains an important trademark law recourse.

A. Constitutional Dimensions of Passing Off and Trademark Law

Unlike patents and copyrights, each of which is specifically identified as a matter within federal jurisdiction in the *Constitution Act, 1867* (UK), 30 & 31 Vict, c 3, reprinted in RSC 1985, Appendix II, No 5, the *Constitution Act* is silent as to jurisdiction over trademark law. The question of the constitutionality of the *Trade-marks Act* as a whole, and of s 7 in particular, was dealt with in *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65. There, the Supreme Court of Canada held that the federal government had the power to enact the *Trade-marks Act*, establishing a national scheme for trademarks, by virtue of the general trade and commerce power under s 91(2) of the *Constitution Act*. Regarding the necessity of federal authority in this area, the court observed:

> [29] The protection of unregistered trade-marks is integral to the legitimacy, legal standards and efficacy of registered trade-marks. The *Trade-marks Act* is clearly concerned with trade as a whole, as opposed to within a particular industry. There is no question that trade-marks apply across and between industries in different provinces. Divided provincial and federal jurisdiction could mean that the provincial law could be changed by each provincial legislature. This could result in unregistered trade-marks that were more strongly protected than registered trade-marks, undermining the efficacy and integrity of the federal Parliament's *Trade-marks Act*. The lack of a civil remedy integrated into the scheme of the Act, applicable to all marks, registered or unregistered, might also lead to duplicative or conflicting and hence inefficient enforcement procedures.

The court also affirmed that it was appropriate for the *Trade-marks Act* to address both registered and unregistered marks. According to the court, "[i]f trade-marks are intended to protect the goodwill or reputation associated with a particular business and to prevent confusion in the marketplace, then a comprehensive scheme dealing with both registered and unregistered trade-marks is necessary to ensure adequate protection. The inclusion of unregistered trade-marks in the regulatory scheme is necessary to ensure the protection of all trade-marks" (at para 31).

The constitutionality of s 7(b) of the *Trade-marks Act*, which creates a cause of action equivalent to passing off, was also challenged in *Kirkbi*. The argument was that, in codifying the tort of passing off, the federal government was encroaching on provincial jurisdiction over property and civil rights. The court disagreed, noting that "[i]n its pith and substance, s 7(b) is directly connected to the enforcement of trade-marks and trade-names in Canada: the civil remedy in s. 7(b) protects the goodwill associated with trade-marks and is directed to avoiding consumer confusion through use of trade-marks" (at para 35). However, there are limits to the scope of s 7(b). As the court noted, s 7(b) "is a remedial provision limited to trade-marks as defined in the Act (ss. 2 and 6)" (at para 33). The effect of this is illustrated in *Nissan Canada Inc v BMW Canada Inc*, 2007 FCA 255 (excerpted later in this chapter). The *Kirkbi* court reiterated its ruling in the earlier case of *MacDonald et al v Vapor Canada Ltd*, [1977] 2 SCR 134 at 172, where it held:

> Section 7 is … nourished for federal legislative purposes in so far as it may be said to round out regulatory schemes prescribed by Parliament in the exercise of its legislative power in relation to patents, copyrights, trade marks and trade names. The subparagraphs of s. 7, if limited in this way, would be sustainable, and, certainly, if s. 7(e) whose validity is alone in question here, could be so limited, I would be prepared to uphold it to that extent.

Under the scheme of the *Trade-marks Act*, ss 1 to 11 apply to registered and unregistered marks alike. For example, s 9 of the Act lists a wide range of marks, the adoption (s 9) or use (s 11) of which is prohibited. Prohibited marks are also not registrable (s 12(1)(e)). Sections 12 and following govern registered trademarks. Recourse may be had at common law for passing off in relation to unregistered marks, and actions for passing off under s 7(b) or (c) may also be brought in Federal Court.

B. The Elements of the Tort

Passing off is a tort action that is available in certain circumstances of unfair competition. Essentially, it provides a remedy for two general categories of deception in the commercial context. The first is where one trader attempts to "pass off" her goods or services as those of another. For example, if company A has a long and established reputation in the provision of certain consumer goods, company B might try to represent its products as being those of company A in order to take advantage of company A's goodwill and reputation. Where the actions of company B satisfy the elements of the tort, company B may be liable for passing off. Another type of passing off is where the goods of one trader are supplied to a party who has ordered the goods of another, and the purchasing party is led or allowed to believe it has received the goods as ordered.

In *Ciba-Geigy* (below), the Supreme Court of Canada identified the elements of the tort of passing off in these terms: "The three necessary components of a passing-off action are thus: the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff" (at 132). The application of this test to various sets of facts will be the focus of much of this section of the casebook.

Passing off is an action that is typically available between commercial competitors. In other words, it is not an action available to consumers who feel that they have been duped into purchasing a product that they do not want, or doing business with a company other than the one with which they intended to deal. However, the consumer is not absent from judicial consideration. In *Ciba-Geigy*, the Supreme Court of Canada emphasized that there is a consumer protection dimension to the tort of passing off. Gonthier J wrote: "It is clear that however one looks at the passing-off action, its purpose is to protect all persons affected by the product" (at 134). In *Novopharm Ltd v Bayer Inc*, [2000] 2 FC 553, [1999] FCJ No 1661 (QL) (TD), an excerpt from which is set out in this chapter, Evans J discussed the consumer protection dimensions of passing off and trademark law in the context of prescription pharmaceutical products.

The tort of passing off has also been codified in s 7(b) and (c) of the *Trade-marks Act*, which provide:

> 7. No person shall …
>
> (b) direct public attention to his goods, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he commenced so to direct attention to them, between his goods, services or business and the goods, services or business of another;
>
> (c) pass off other goods or services as and for those ordered or requested;

This description captures the two general categories of conduct addressed by the tort. In the following excerpt from *Ciba-Geigy*, the Supreme Court of Canada described the essence of the tort of passing off and articulated the test for passing off in Canada.

Ciba-Geigy Canada Ltd v Apotex Inc
[1992] 3 SCR 120

GONTHIER J (for the court): …

A. Passing-Off Action

(1) General Principles Developed by the Courts

The concept of passing-off was developed in 1842 in *Perry v. Truefitt* (1842), 6 Beav. 66, 49 E.R. 749, which seems to have been the first case in which the expression "passing-off" appeared: "A man is not to sell his own goods under the pretence that they are the goods of another man" (p. 752 E.R.). In *Singer Manufacturing Co. v. Loog* (1880), 18 Ch. D. 395 (C.A.), aff'd (1882), 8 App. Cas. 15 (H.L.), James L.J. described passing-off and its origins, at pp. 412-13:

> [N]o man is entitled to represent his goods as being the goods of another man; and no man is permitted to use any mark, sign or symbol, device or other means, whereby, without making a direct false representation himself to a purchaser who purchases from him, he enables such purchaser to tell a lie or to make a false representation to somebody else who is the ultimate customer. … [H]e must not, as I said, make directly, or through the medium of another person, a false representation that his goods are the goods of another person.

The House of Lords has set out the requirements for a passing-off action on many occasions. In *Erven Warnink B.V. v. J. Townend & Sons (Hull) Ltd.*, [1980] R.P.C. 31, Lord Diplock identified five conditions, at p. 93: there must be (1) misrepresentation (2) by a trader in the course of trade (3) to prospective customers of his or ultimate consumers of goods or services supplied by him, (4) which is calculated to injure the business or goodwill of another trader, and (5) which causes actual damage to the business or goodwill of the trader bringing the action.

More recently, in *Reckitt & Colman Products Ltd. v. Borden Inc.*, [1990] 1 All E.R. 873, Lord Oliver reaffirmed, at p. 880:

> The law of passing off can be summarised in one short general proposition, no man may pass off his goods as those of another. More specifically, it may be expressed in terms of the elements which the plaintiff in such an action has to prove in order to succeed. These are three in number. First, he must establish *a goodwill or reputation attached to the goods or services which he supplies* in the mind of the purchasing public *by association with the identifying "get-up"* (whether it consists simply of a brand name or a trade description, or the individual features of labelling or packaging) under which his particular goods or services are offered to the public, such that the get-up is recognised by the public as distinctive specifically of the plaintiff's goods or services. Second, he must demonstrate *a misrepresentation* by the defendant to the public (whether or not intentional) leading or likely to lead the public to believe that goods or services offered by him are the goods or services of the plaintiff … . Third, he must demonstrate that he suffers or, in a quia timet action, that he is likely to suffer *damage* by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as the source of those offered by the plaintiff. [Emphasis added.]

The three necessary components of a passing-off action are thus: the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff.

In Canada the Supreme Court has also had occasion to rule on a passing-off action, in particular in *Oxford Pendaflex Canada Ltd. v. Korr Marketing Ltd.*, [[1982] 1 SCR 494], in which the issue turned primarily on the similar get-up of the parties' products. In that case this Court stated that in any passing-off action the plaintiff, in order to succeed, must establish that its product has acquired a secondary meaning.

In *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, [1984] 1 S.C.R. 583, this Court noted at p. 601 that the requirements of a passing-off action have evolved somewhat in the last hundred years:

> [A]ttention should be drawn to the fact that the passing off rule is founded upon the tort of deceit, and while the original requirement of an intent to deceive died out in the mid-1800's, there remains the requirement, at the very least, that confusion in the minds of the public be a likely consequence by reason of the sale, or proffering for sale, by the defendant of a product not that of the plaintiff's making, under the guise or implication that it was the plaintiff's product or the equivalent.

A manufacturer must therefore avoid creating confusion in the public mind, whether deliberately or not, by a get-up identical to that of a product which has acquired a secondary meaning by reason of its get-up.

Outside the common law countries passing-off has no exact lexicological equivalent and in general is not a delict as such. In France, for example, it is one aspect of unfair competition to which civil liability sanctions apply. The passing-off rules in Quebec are derived largely from the common law. Remedies may be sought in federal as well as provincial law:

> [TRANSLATION] Unlawful or unfair competition causing an unjust injury to another person falls within civil liability under art. 1053 C.C. Actions for damages for unfair competition are heard under not only the federal legislation but also the general principles of delictual civil liability.

(Nadeau and Nadeau, *Traité pratique de la responsabilité civile délictuelle* (1971), at p. 221.)

(2) Purposes of the Passing-Off Action and Target Clientele

In considering those upstream and downstream of the product, two separate aspects must be distinguished. I refer in this regard to the persons who manufacture or market the products, on the one hand ("the manufacturers"), and on the other to those for whom the products are intended, the persons who buy, use or consume them ("the customers").

It is clear that however one looks at the passing-off action, its purpose is to protect all persons affected by the product.

(a) *Protection of Manufacturers*

This corresponds to the third point mentioned by Lord Oliver. The right to be protected against the "pirating" of a brand, trade name or the appearance of a product is linked to a kind of "ownership" which the manufacturer has acquired in that name, brand and appearance by using them.

In *Pinard v. Coderre*, [1953] Que. Q.B. 99, Marchand J.A. of the Quebec Court of Appeal noted at p. 103:

> [TRANSLATION] It would seem that the first occupant of this name or these words acquired a right to use them exclusive of all other persons, comparable in many ways to *a true right of ownership*. [Emphasis added.]

Accordingly, to begin with, from what might be called the individual or manufacturer's standpoint, the passing-off action is intended to protect a form of ownership.

There is also the concept of ownership, protected by the passing-off action in relation to goodwill, a term which must be understood in a very broad sense, taking in not only people who are customers but also the reputation and drawing power of a given business in its market. In *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, *supra*, Estey J., at p. 598, cites *Salmond on the Law of Torts* (17th ed. 1977), at pp. 403-4:

> The courts have wavered between two conceptions of a passing-off action—as a remedy for the invasion of a quasi-proprietary right in a trade name or trade mark, and as a remedy, analogous to the action on the case for deceit, for invasion of the personal right not to be injured by fraudulent competition. The true basis of the action is that *the passing off injures the right of property in the plaintiff*, that right of property being his right to the goodwill of his business.
>
> • • •
>
> Indeed, it seems that the essence of the tort lies in the misrepresentation that the goods in question are those of another; … [Emphasis added.]

It will then be necessary to look at the relationship between the various merchants or manufacturers, and it is at that point that questions of competition have to be considered. As Chenevard says (*Traité de la concurrence déloyale en matière industrielle et commerciale* (1914), vol. 1, at pp. 6-7), [TRANSLATION] "[c]ompetition is the soul of commerce; it requires unceasing effort and as such is the chief factor in economic progress." Drysdale and Silverleaf (*Passing Off: Law and Practice* (1986)) are substantially of the same opinion, at p. 1:

> In countries with a free market system the proper functioning of the economy depends upon competition between rival trading enterprises. It is the mechanism of competition which controls the price, quality and availability of goods and services to the public.

However, merchants must observe certain rules which, quite apart from being legal, are ethical at the least:

> [TRANSLATION] Just as an effort made to dislodge an opponent from the position he occupies, to attract sales to oneself by offering better goods on better terms, is legitimate when only fair methods are used, so such conduct is objectionable when it infringes the rules of honesty and good faith that underlie commercial transactions. (Chenevard, *supra*, at p. 11.)

The author describes at p. 10 certain situations which, if the manufacturer succumbs to temptation, will easily lead him to commit the tort of passing-off:

> [TRANSLATION] Seeing the success of his competitor's product, he had the idea of profiting from it: since this article, this shape, this packaging had met with public favour, why not copy it?—since this trade name had made its way in the world, why not adopt a similar one?

The purpose of the passing-off action is thus also to prevent unfair competition. One does not have to be a fanatical moralist to understand how appropriating another person's work, as that is certainly what is involved, is a breach of good faith.

Finally, another more apparent, more palpable aspect, a consequence of the preceding one, must also be mentioned. The "pirated" manufacturer is very likely to experience a reduction in sales volume and therefore in his turnover because of the breaking up of his market. When such a situation occurs in the ordinary course of business between rival manufacturers that is what one might call one of the rules of the game, but when the rivalry involves the use of dishonest practices, the law must intervene.

(b) *Protection of Customers*

In the Anglo-Saxon legal systems, [TRANSLATION] "the person chiefly concerned is the competitor affected by the unfair act" (Mermillod, *Essai sur la notion de concurrence déloyale en France et aux États-Unis* (1954), at p. 176). He is frequently in fact the first party affected by the practice or aware of it.

However, "[i]t should never be overlooked that … unfair competition cases are affected with a public interest. A dealer's good will is protected, not merely for his profit, but in order that the purchasing public may not be enticed into buying A's product when it wants B's product" (*General Baking Co. v. Gorman*, 3 F.2d 891 (1st Cir. 1925), at p. 893). Accordingly, "the power of the court in such cases is exercised, not only to do individual justice, but to safeguard the interests of the public" (*Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937 (2d Cir. 1919), at p. 941). The ordinary customer, the consumer, is at the heart of the matter here. According to the civilian lawyer Chenevard, *supra*, at p. 20, in a case of unfair competition it is [TRANSLATION] "the buyer who is the first to be injured."

The customer expects to receive a given product when he asks for it and should not be deceived. It often happens that products are interchangeable and that a substitution will have little effect. However, the customer may count on having a specific product. There are many reasons for such a choice: habit, satisfaction, another person's recommendation, the desire for change, and so on. I have no hesitation in using the classic saying, taken from popular imagery: "the customer is always right." Merchants must respect his wishes, choices and preferences as far as possible. Where this is simply not possible, no substitution must be made *without his knowledge*. That is the minimum degree of respect which manufacturers and merchants, who we should remember depend on their customers, should show.

There is no shortage of fraudulent or simply misleading practices: one may think, for example, of products having a similar get-up, the use of similar labelling, use of the same trade name, counterfeiting, imitation of packaging. These are all possible ways of attempting, deliberately or otherwise, to mislead the public. The courts and authors have unanimously concluded that the facts must be weighed in relation to an "ordinary" public, "average" customers:

> [Y]ou must deal with the ordinary man and woman who would take ordinary care in purchasing what goods they require, and, if desiring a particular brand, would take ordinary precautions to see that they get it.

(Neville J. in *Henry Thorne & Co. v. Sandow* (1912), 29 R.P.C. 440 (Ch. D.), at p. 453.)

The average customer will not be the same for different products, however, and will not have the same attitude at the time of purchase. Moreover, the attention and care taken by the same person may vary depending on the product he is buying: someone will probably not exercise the same care in selecting goods from a supermarket shelf and in choosing a luxury item. In the first case, the misrepresentation is likely to "catch" more readily.

In *The Law of Passing-off* (1990), Wadlow gives the following definition at p. 351:

> The term "get-up" is normally used in passing-off to mean the whole visible external appearance of goods in the form in which they are likely to be seen by the public before purchase. If the goods are sold in packages, then their get-up means the appearance of the pack taken as a whole. If they are sold or displayed unpackaged, then the get-up relied on can only be that inherent in the goods themselves.

The look, the appearance, the get-up of a product play a crucial role in the purchase process since they are the chief means at the manufacturer's disposal to attract customers. The importance of visual impact is well known: what appeals to the eye is crucial.

The product's appearance or its packaging—shape, size or colour—may be characteristic of a particular manufacturer and have the effect of marking out the product or making it recognizable as his own. In the mind of the customer appearance is not always linked to a trade mark, that is, the consumer may rely on the appearance rather than the trade mark to indicate the use of the product. For example, when he needs removable self-stick notes, he will look for small blocks of yellow paper. He may not know the name of the product or manufacturer, but he does not need to in order to recognize what he wants to buy. What he has noticed and what he has retained is the specific colour of the merchandise; or he will know that a particular product contained in a tin with an exotic bird on the lid is polish, without necessarily having to know the trade name or brand, and when he wishes to purchase *that polish* it is the image of the bird on the packaging that will assist him in recognizing the product. With a few exceptions, the external features of a product are not sought for themselves, but because they are the means of recognizing the satisfactory product, for example. They are a source of information associated with reputation for a consumer or a group of customers. Appearance is thus useful not only in product recognition but also to distinguish one product from another with the same uses.

Of course, it may be that appearance is associated with a specific brand in the consumer's mind. When he wishes to have a product of that brand he will look for that get-up.

The question now is as to who lies beyond the product, that is who must be protected, who must not be confused by manufacturers, for example, by a similar appearance. As business is organized at present, it is very seldom that an individual deals directly with the manufacturer or producer: he is not generally the immediate customer. The route taken by a product between the time of its manufacture, to use a broad term, and the time it reaches the consumer can be compared to a chain made up of several links which must all be there and be in a particular order. Manufacturer, wholesaler, retailer and consumer are all links in this chain.

The first person who buys the product is not generally the one for whom it is ultimately intended. Assuming that there are three links in the chain, with the producer and the consumer at the two ends, the "retailer" (grocer, bookseller, garage owner and so on) is an intermediary between the producer and the consumer. I would without hesitation describe him as a "trade customer," that is a person who obtains a product not for his own use but with a view to passing it on to a third person in the course of his business. There is little need to dwell at length on the case of such merchant intermediaries, who are in fact part of the manufacturer's or producer's clientele. There may at times be some question whether the passing-off action really affects them as customers. The closer they are, that is the more direct contact they have with the manufacturer or producer, the less likely they are to be misled. This is indeed what Viscount Maugham found in *Saville Perfumery Ld. v. June Perfect Ld.* (1941), 58 R.P.C. 147 (H.L.), at pp. 175-76: "It is, for example, quite a common occurrence … to find that retail traders are not misled while ordinary customers are."

Outside the field of pharmaceutical products, the courts and authors have unquestionably recognized that the consumer, or the person who might be called the ordinary customer—the last link in the chain—is also part of the "clientele" in whose minds any confusion must be avoided.

The English common law has long recognized this principle very explicitly. I shall again quote a passage from James L.J. mentioned above to emphasize the use of certain terms:

> [N]o man is permitted to use any mark, sign or symbol, device or other means, whereby, without making a direct false misrepresentation himself to a purchaser who purchases from him, he enables such purchaser to tell a lie or to make a false representation to *somebody else who is the ultimate customer*. [Emphasis added.]

(*Singer Manufacturing Co. v. Loog*, *supra*, at p. 412.)

Further, when Lord Diplock in *Erven Warnink B.V. v. J. Townend & Sons (Hull) Ltd.*, *supra*, set out the conditions for the passing-off action at p. 93, he used the very words "ultimate consumers."

There is no question that confusion, which is the essence of the tort of passing-off, must be avoided in the minds of all customers, whether direct—here one thinks of the retailers—or indirect—in that case the consumers. Proof of reputation or secondary meaning and of misrepresentation has never been limited by the courts to direct customers of the person claiming a right.

In civil law jurisdictions, including Quebec, the concept of a clientele is expressed still more broadly where misrepresentation is involved, as indicated by this passage from the reasons of Pelletier J.A. in *République française v. S. Hyman Ltd.* (1920), 31 Que. K.B. 22, at p. 23:

> [TRANSLATION] [What is at issue is] the means of enforcing the principle that while a person may sell his own goods as he wishes, he is not entitled to offer them for sale in such a way as to lead *buyers and the public in general* to think that the goods he is selling are those legitimately manufactured and sold by someone else. [Emphasis added.]

Nadeau and Nadeau, *supra*, at p. 224, state in connection with passing-off: [TRANSLATION] "It is not necessary to establish that buyers have been misled, but simply that an attempt was made to mislead *the public*." (Emphasis added.) This language indicates that it is necessary to avoid confusing *anyone who has an actual or potential, immediate or remote, connection* with the product. The tendency in Anglo-Saxon law appears to be to discontinue use of the expression adopted by Lord Diplock, "ultimate consumers," and, as he himself has increasingly done, to refer to the concept of the public. (See *inter alia* Wadlow, *supra*, and Fleming, *The Law of Torts* (7th ed. 1987), at pp. 675-76.)

Moreover, we must not lose sight of the fact that the ordinary clientele includes "consumers." I use this word in its juridico-sociological meaning, which to Western minds in the late 20th century inevitably implies the need for protection. The passing-off action is entirely consistent with the plethora of present-day protectionist provisions, even though it existed long before they did!

1. Goodwill or Reputation

The first element of the test for passing off set out in *Ciba-Geigy* requires the plaintiff to establish that it has goodwill or reputation associated with a particular mark. The mark may be a word or combination of words, a design, the getup of a product, or some other distinguishing feature. To establish goodwill, the plaintiff may introduce evidence to demonstrate the strength of the association between its mark and its company as trade source. The length of time the goods or services have been in the market, the degree of distinctiveness of the mark, and the volume of publicity and sales are among the many different factors that may be considered in demonstrating the strength of association.

a. Secondary Meaning

In some cases, a trader may choose a name for his or her products or services that is entirely descriptive of those products or services. In these circumstances, can a plaintiff establish goodwill or reputation in the descriptive name? In the case that follows, consider the extent to which a competitor can be limited in using a purely descriptive product name to describe his or her product.

Frank Reddaway and Frank Reddaway & Co, Limited v George Banham & Co, Limited
[1896] AC 199 (HL) (footnotes omitted)

HERSCHELL LJ:

The appellant, Frank Reddaway, has been for many years a manufacturer of machine belting. In October 1892 the company, the other appellants, was incorporated; and the business has since been carried on by it. In 1877 Reddaway began to make belting from yarn, which consisted principally of wool or hair, and sold it under the name of "Woollen Belting." About the year 1879 he began to call the belting which he manufactured "Camel Hair Belting," for the purpose of distinguishing it from the belting of other manufacturers. A large proportion of his trade has been with India, the Colonies, and foreign countries.

The belting consigned to these countries was stamped with a "Camel," or with the word "Camel," or "Camel Hair," and sometimes with both.

The yarn of which the appellant's belting chiefly consists is, for the most part, made of camel hair. I gather from the evidence that, although the wool or hair of which the yarn was made was commonly called "camel hair," it was not generally known (at all events until recently) that it really consisted of the hair of the camel.

The respondent, Banham, was formerly in the employment of the appellant Reddaway. He ceased to be so employed in 1889, and began to manufacture belting on his own account. He made belting from yarn of the same description as that used by the appellants, which he sold and advertised as Arabian belting. The respondent company was formed in 1891, and in April or May of that year began to call their belting "Camel Hair Belting," those words, and those words only, being in most cases stamped on the belting. Many other manufacturers had made, for many years past, belting, the principal ingredient of which was camel hair yarn, and which they sold and described by such names as yak, buffalo, llama, crocodile, &c.

The appellants having learned that the respondents were selling belting described as "Camel Hair Belting," and with those words stamped upon it, brought this action for an injunction. …

My Lords, in the opinion of the Court of Appeal inasmuch as the words "camel hair belting" were descriptive of the article sold, the words "camel hair" indicating the material of which it was made, the defendants were entitled to use the same language with reference to the belting which they sold; and the plaintiffs could have no right to restrain them from doing so even though, as the jury had found, the words "camel hair belting" would be understood to mean belting manufactured by the plaintiffs, and purchasers of the belting would be deceived into the belief that they were obtaining goods of the plaintiffs' manufacture.

The Master of the Rolls expressed the view that a manufacturer might obtain the right to prevent a person using a name, which would be understood as his, and the use of which would thus interfere with his trade, but that, though this was the fundamental proposition, you could not restrain a man from telling the simple truth; and that this was all the defendants had done when they called their belting "Camel Hair Belting."

It must be taken, if the findings of the jury are to stand, on which I shall have a word or two to say presently, that the description by the defendants of their belting as "camel hair belting" would deceive purchasers into the belief that they were getting something which they were not getting, namely, belting made by Reddaway. If they would be thus deceived by the defendants' statement there must surely be some fallacy in saying that they have told the simple truth. I will state presently where I think the fallacy lurks. Before I do so, however, it is right that I should say that there appears to me abundant evidence to support the findings of the jury.

For many years belting made of camel hair yarn had been known in the markets of the world. It had been sold under a variety of names. But there was ample evidence to justify the finding, that amongst those who were the purchasers of such goods, the words "camel hair" were not applied to belting made of that material in general; that, in short, it did not mean in the market belting made of a particular material, but belting made by a particular manufacturer. It is impossible, I think, to read the correspondence which passed between the defendants, and those who were ordering goods of, or procuring orders for them, without seeing that this was the case. Moreover, it is impossible to doubt that the defendants were well aware of the fact.

They begin by calling their belting "Arabian," and state that they are prepared to guarantee it "to be better than the belting commonly called 'camel hair belting.'" They are told by one of their correspondents that if he has a sample similar to one he forwards (which was made by Reddaway) "stamped camel hair belting, nothing more," he thinks he can take this order from Reddaways. They do their best to comply with their correspondent's wish, and send belting so stamped. Another correspondent asks for 500 feet, which is to be quite equal to Reddaway's "camel hair belting," and which must be in every respect identical to the sample of that make. It was to be stamped "warranted best camel hair belting." In that or another case, it is not quite clear which, the defendants stated to the firm whom they employed to manufacture the belting, that no manufacturer's name must appear on it, or it would be useless. I see no reason to be otherwise than completely satisfied with the answers which the jury gave. On this assumption I proceed to inquire whether the plaintiffs have made out any right to relief.

I cannot help saying that, if the defendants are entitled to lead purchasers to believe that they are getting the plaintiffs' manufacture when they are not, and thus to cheat the plaintiffs of some of their legitimate trade, I should regret to find that the law was powerless to enforce the most elementary principles of commercial morality. I do not think your Lordships are driven to any such conclusion.

The principle which is applicable to this class of cases was, in my judgment, well laid down by Lord Kingsdown in *Leather Cloth Co. v. American Leather Cloth Co.* It had been previously enunciated in much the same way by Lord Langdale in the case of *Croft v. Day*. Lord Kingsdown's words were as follows: "The fundamental rule is, that one man has no right to put off his goods for sale as the goods of a rival trader, and he cannot, therefore (in the language of Lord Langdale, in the case of *Perry v. Truefitt*), be allowed to use names, marks, letters, or other indicia, by which he may induce purchasers to believe that the goods which he is selling are the manufacture of another person." It is, in my opinion, this fundamental rule which governs all cases, whatever be the particular mode adopted by any man for putting off his goods as those of a rival trader, whether it is done by the use of a mark which has become his trade mark, or in any other way. The word "property" has been sometimes applied to what has been termed a trade mark at common law. I doubt myself whether it is accurate to speak of there being property in such a trade mark, though, no doubt some of the rights which are incident to property may attach to it. Where the trade mark is a word or device never in use before, and meaningless, except as indicating by whom the goods in connection with which it is used were made, there could be no conceivable legitimate use of it by another person. His only object in employing it in connection with goods of his manufacture must be to deceive. In circumstances such as these the mere proof that the trade mark of one manufacturer had been thus appropriated by another, would be enough to bring the case within the rule as laid down by Lord Kingsdown, and to entitle the person aggrieved to an injunction to restrain its use. In the case of a trade mark thus identified with a particular manufactory the rights of the person whose trade mark it was, would not, it may be, differ substantially from those which would exist if it were, strictly speaking, his property. But there are other cases which equally come within the rule that a man may not pass off his goods as those of his rival which are not of this simple character—cases where the mere use of the particular mark or device which had been employed by another manufacturer would not of itself necessarily indicate that the person who employed it was thereby inducing purchasers to believe that the goods he was selling were the goods of another manufacturer.

The name of a person, or words forming part of the common stock of language, may become so far associated with the goods of a particular maker that it is capable of proof that the use of them by themselves without explanation or qualification by another manufacturer would deceive a purchaser into the belief that he was getting the goods of A. when he was really getting the goods of B. In a case of this description the mere proof by the plaintiff that the defendant was using a name, word, or device which he had adopted to distinguish his goods would not entitle him to any relief. He could only obtain it by proving further that the defendant was using it under such circumstances or in such manner as to put off his goods as the goods of the plaintiff. If he could succeed in proving this I think he would, on well-established principles, be entitled to an injunction.

In my opinion, the doctrine on which the judgment of the Court of Appeal was based, that where a manufacturer has used as his trade-mark a descriptive word he is never entitled to relief against a person who so uses it as to induce in purchasers the belief that they are getting the goods of the manufacturer who has theretofore employed it as his trade-mark, is not supported by authority, and cannot be defended on principle. I am unable to see why a man should be allowed in this way more than in any other to deceive purchasers into the belief that they are getting what they are not, and thus to filch the business of a rival.

The authority relied on was the case of *Burgess v. Burgess*. When the judgments in that case are examined, it seems to me clear that no such point was decided. Turner L.J. commences by saying, "No man can have any right to represent his goods as the goods of another person; but in applications of this kind it must be made out that the defendant is selling his own goods as the goods of another." He then points out that where a person is selling goods under a particular name, and a person not having that name is using it, it may be presumed that he so uses it to represent the goods sold by himself as the goods of the person whose name he uses; but where the defendant sells goods under his own name, and it happens that the plaintiff has the same name, it does not follow that the defendant is selling his goods as the goods of the plaintiff. He adds: "It is a question of evidence in each case whether there is false representation or not." This, I think, clearly recognizes that a man may so use even his own name in connection with the sale of goods as to make a false representation. In *Massam v. Thorley's Cattle Food Co.*, James L.J. said: "*Burgess v. Bridges* has been very much misunderstood if it has been understood to decide that anybody can always use his own name as a description of an article whatever may be the consequences of it, or whatever may be the motive for doing it, or whatever may be the result of it." After quoting from the judgment of Turner L.J. the passages to which I have just alluded, he said: "That I take to be an accurate statement of the law, and to have been adopted by the House of Lords in *Wotherspoon v. Currie*, in which the House of Lords differed from the view which I had taken." The decision in *Wotherspoon v. Currie* is an important one, and is, in my judgment, inconsistent with the *ratio decidendi* of the Court of Appeal in the present case. The name "Glenfield" had become associated with the starch manufactured by the plaintiff, and the defendant, although he established his manufactory at Glenfield, was restrained from using that word in connection with his goods in such a way as to deceive. Where the name of a place precedes the name of an article sold, it prima facie means that this is its place of production or manufacture. It is descriptive, as it strikes me, in just the same sense as "camel hair" is descriptive of the material of which the plaintiff's belting is made. Lord Westbury pointed out that the term "Glenfield" had acquired in the trade a secondary signification different from its primary one, that in connection with the word starch it had come to mean starch which was the manufacture of the plaintiff. In *Massam v. Thorley's Cattle Food Co.*, just referred to, James L.J. said:

> The defendant was actually manufacturing starch at Glenfield, having gone thither for the purpose of enabling him to say that he was manufacturing it at Glenfield. The House of Lords said the mere fact that he was really carrying on his manufacture at Glenfield, and was not therefore telling a lie, did not exempt him from the consequence of the fact that his proceedings were intended and calculated to produce on the mind of the purchasers the belief that his article was the article of the plaintiffs.

I think this view of the decision of the House of Lords was correct, and that it is at variance with the view taken by the Court of Appeal, that the defendants could not be liable to an action because in using the words "camel hair" in connection with their belting they were simply telling the truth. I rather demur, however, to the statement of James L.J., that the defendant in *Wotherspoon v. Currie* was not telling a lie in calling his starch "Glenfield starch," as I do to the view that the defendants in this case were telling the simple truth when they sold their belting as camel hair belting. I think the fallacy lies in overlooking the fact that a word may acquire in a trade a secondary signification differing from its primary one, and that if it is used to persons in the trade who will understand it, and be known and intended to understand it in its secondary sense, it will none the less be a falsehood that in its primary sense it may be true. A man who uses language which will convey to persons reading or hearing it a particular idea which is false, and who knows and intends this to be the case, is surely not to be absolved from a charge of falsehood because in another sense which will not be conveyed and is not intended to be conveyed it is true. In the present case the jury have found, and in my opinion there was ample evidence to justify it, that the words "camel hair" had in the trade acquired a secondary signification in connection with belting, that they did not convey to persons dealing in belting the idea that it was made of camel's hair, but that it was belting manufactured by the plaintiffs. They have found that the effect of using the words in the manner in which they were used by the defendants would be to lead purchasers to believe that they were obtaining goods manufactured by the plaintiffs, and thus both to deceive them and to injure the plaintiffs. On authority as well as on principle, I think the plaintiffs are on these facts entitled to relief.

The case of *Massam v. Thorley's Cattle Food Co*., from the judgment of James L.J. in which I have already made quotations, is an authority in favour of the plaintiffs' contention. It was argued for the respondents that in that case there was fraud, inasmuch as Thorley, whose name formed part of the designation of the company, had only a small, indeed it may be said a nominal, interest in it. I do not think this was the foundation of the judgment; the reasoning of James L.J. would have been equally forcible if Thorley's interest had been the principal one. The company had quite as much right to call themselves by the name they adopted as by any other. What they were restrained from doing was endeavoring to pass off their goods as the goods of another manufacturer. This was

> the wrongful act which brought them within the reach of the law, and not the particular means by which they carried out their design. …
>
> What right, it was asked, can an individual have to restrain another from using a common English word because he has chosen to employ it as his trade-mark? I answer he has no such right; but he has a right to insist that it shall not be used without explanation or qualification if such a use would be an instrument of fraud. Who suffer injury by such a conclusion, or would be the worse if the defendant is thus restrained? It has been shewn that the public have not needed the words "camel hair" to describe a particular kind of belting, that the words have never been used in the trade in that sense. What James L.J. said in *Thorley's Case* is applicable to the present. He observed:
>
> > Thorley's Food for Cattle had never become an article of commerce as distinguished from the particular manufactory from which it had proceeded.
>
> It is not proposed, in the present case, to prohibit the use of the words "camel hair" altogether. The injunction granted by Collins J. had not that effect. In the case just referred to the counsel for the plaintiff, at the conclusion of the judgment, asked whether the substance of their Lordship's judgment was not that the defendants were not to use the name Thorley in connection with their cattle food. James L.J. replied, "We cannot prohibit them using the name if they use it in a way not calculated to mislead the public." I say the same about the use of the words "camel hair" in the present case.
>
> For these reasons I think the judgment of the Court of Appeal should be reversed.

A trader who uses purely descriptive terms for its mark runs the risk of not acquiring any particular goodwill or reputation. Consumers may associate the descriptive mark with some inherent quality of the product, rather than with the product source. What factors in *Reddaway* allowed the plaintiff to succeed in establishing secondary meaning? A defendant cannot be enjoined from truthfully describing its product, but it can be stopped from doing so in a manner that is confusing. What particular steps were required of the defendant in *Reddaway* to distinguish its product? What does this say about adopting descriptive terms as a product or business name?

It is possible that apparently descriptive terms are not actually descriptive of a business. To give an extreme example, "Steak House" is not actually a descriptive name for an eatery that happens to be a vegetarian restaurant.

Secondary meaning may also be acquired in the appearance of the product or its packaging. In other words, a product that is particularly distinctive in its appearance may come to be associated by consumers with a particular trade source. When this happens, a competitor who copies the product appearance may be liable for passing off. However, a plaintiff in these circumstances must be able to show that the product has an appearance that has become distinctive of a single trade source. This is not always possible. In *Oxford Pendaflex Canada Ltd v Korr Marketing Ltd et al*, [1982] 1 SCR 494, for instance, the fact that a product's appearance could not be clearly associated with a particular trade source proved fatal to the establishment of goodwill. In addition, if the product appearance is an inherent feature of the product—for example, the shape and configuration of a Lego block—then it cannot be relied on as a trademark, because to find it so would provide a monopoly over the manufacture of the product itself (*Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65). Product appearance is more likely to be considered distinctive of a particular trade source when it is a design, embellishment, or other non-essential feature that is applied to the underlying product, such as in the *Ray Plastics* case (below).

Ray Plastics Ltd v Dustbane Products Ltd
(1994), 57 CPR (3d) 474 (Ont CA)

AUSTIN JA:

The defendant appeals from a judgment of Farley J., dated August 23, 1990, awarding the plaintiffs an injunction against passing-off, together with damages of $178,994 and costs on a party-and-party basis. The plaintiffs cross-appeal the award of costs and ask that costs be awarded on a solicitor-and-client basis. At the outset of the argument, the cross-appeal was abandoned and the original appeal was narrowed to two issues. The first was whether there was any evidentiary basis for the trial judge's finding of reputation or secondary meaning. The second was whether the postjudgment interest rate of 15% should be lowered to the average rate over the period between the date of judgment and today.

Facts

Raywares Limited was a division of Ray Plastics Limited. Raywares and the defendant's Brushcraft division were competitors in the manufacture and sale of brushes to retailers such as Canadian Tire, K Mart, Zellers and Pro Hardware. Canadian Tire was a very substantial customer of both Raywares and Brushcraft.

In 1982 and 1983, Raywares manufactured and sold a new combination snowbrush, ice scraper and squeegee it called "Snow Trooper." It was black and yellow and its appearance was uncommon, to pick a neutral word. It was a very successful seller.

At the initiative of Canadian Tire, Brushcraft produced a similar product for the years 1984 and following and, as a result, Canadian Tire gave all its snowbrush business to Brushcraft. The trial judge described Brushcraft's product as "virtually identical," "a virtual clone" [33 CPR (3d) 219, 75 OR (2d) 37, 22 ACWS (3d) 734]. No issue is taken with that finding.

The essence of an action for passing-off is the allegation that the goods of the defendant are being sold as those of the plaintiff. One of the elements of the tort which the plaintiff must prove is that the potential buyer believes the goods being sold are those of the plaintiff or come from the same source as "the originals," whatever that source may be. As stated by Russell L.J. in *Roche Products Ltd. v. Berk Pharmaceuticals Ltd.*, [1973] R.P.C. 473 (C.A.), at p. 482:

> Now, in this as in all other passing off cases the basic question is whether, directly or indirectly, the manner in which the goods of the defendant are presented to the relevant consumers is such as to convey to the minds of the latter the impression that they are the goods of the plaintiff. In an "appearance" or get-up case it is not enough simply to say that the former are very like the latter. It must be established that consumers have, by reason of the appearance of the goods of the plaintiff, come to regard them as having some one trade source or provenance, whether manufacturing or marketing, though it matters not that they have no idea at all of the identity of that trade source or provenance.

This element has become known as "reputation." In cases which turn on the get-up or distinguishing guise of the product, the element has become known as "secondary meaning."

The position of Brushcraft is that there was simply no evidence to support the trial judge's conclusion that the Snow Trooper had established any reputation or that its get-up had acquired any secondary meaning. In particular, there was no evidence from consumers or marketing experts and no surveys.

In reaching the conclusion that the Snow Trooper had established a reputation, the trial judge said expressly that he relied on the product's distinctiveness and the advertising that had been done. In his submissions in support of that conclusion, counsel for Raywares relied in addition on the sales of the product and on the intentional copying of it.

As to distinctiveness, the rule is that the more distinctive a product, the more easily one can establish reputation. This is clear from the statement of Russell L.J. in *Roche*, *supra*, at pp. 484-5:

> I would make this observation. I think that there is some ambiguity in the use of the word "distinctive" in connection with get-up or appearance. It may mean that the appearance in fact on the evidence distinguishes the goods as the goods of one source: and for this purpose it is not essential that it should be novel or striking or unusual. *Or it may be used to mean that the appearance is in some way novel or striking or unusual, in which case it is easier to conclude that there has come to be an association of that appearance with a single trade source.* [Emphasis added.]

The trial judge found that the get-up of the Snow Trooper was very distinctive. Again, no issue was or could be taken with that finding.

The sales to be considered occurred in 1982 and 1983. They were approximately 100,000 and 139,000 respectively, and of these 50,000 and 52,500 were to Canadian Tire. Having regard to the product and the potential market, those were substantial sales.

There was also an appreciable amount of advertising of the Snow Trooper, both in colour and in black and white, not only by Canadian Tire but by other major retailers.

As to intentional copying, while the trial judge said he did not think that the defendant was dishonest, he went on to find that it was not very concerned where the chips might fall. He also said [at 225-31]:

> Canadian Tire suggested to Brushcraft that it wished to have a snowbrush combo that was very similar to the Snow Trooper. Certainly the instruction of the buyer at Canadian Tire was to the effect that there would be a likelihood of confusion by the end user.

One witness described the Snow Trooper as "startlingly different." The trial judge found that: "… the representative of Canadian Tire wanted a replacement snowbrush combo to look like the Snow Trooper; he specified the exact colour combination" [at 227]. Having regard to the evidence, particularly the physical appearance of the two brushes, there cannot be any doubt that there was intentional copying of the Raywares product.

The rule in the United States appears to be that "evidence of intentional, direct copying establishes a prima facie case of secondary meaning, sufficient to shift the burden of persuasion to the defendant on that issue": *Vaughan Manufacturing Co. v. Brikam International, Inc.*, 814 F.2d 346 (U.S. Court of Appeals, 7th Cir. 1987) at p. 349, para. 2.

In *Orkin Exterminating Co. Inc. v. Pestco Co. of Canada Ltd.* (1985), 5 C.P.R. (3d) 433 at p. 452, 19 D.L.R. (4th) 90, 50 O.R. (2d) 726, Morden J.A., for this court, cited with approval the *Restatement of the Law of Torts, Tentative Draft No. 8* (1963), at p. 113, as follows:

> If he imitates the other's trademark or tradename knowingly and acts in other ways to convey the impression that his business is associated with the other, the inference may reasonably be drawn that there are prospective customers to be misled.

The inference of "prospective customers to be misled" means that the product had a reputation, that the get-up had secondary meaning. Having regard to the very distinctive get-up of the Snow Trooper, its sales, and extensive advertising over two years and the inference to be drawn from the intentional copying, the trial judge was entirely justified in coming to the conclusion he did respecting reputation.

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I would therefore dismiss the appeal with costs. Appeal dismissed.

In getup cases, the plaintiff has to establish that the particular product feature at issue is distinctive of the plaintiff as trade source or, at the very least, of a single trade source (if the identity of the plaintiff is unknown). In other words, consumers must associate the product appearance with a particular commercial source for the goods. If they do not, then the getup has not acquired secondary meaning and there is no goodwill or reputation that is being exploited by the defendant. The trade source does not have to be specifically known by the consumer. For example, in *Ray Plastics*, it was enough that consumers might return to purchase another black and yellow brush thinking it was the Snow Trooper, regardless of whether they knew who the manufacturer was.

In *Ray Plastics*, the Snow Trooper brush had a distinctive appearance that was a result of a choice of colours—in other words, the features applied to the product were not essential to the product. A feature that is essential to the proper functioning of the product cannot be a "mark." The law of passing off does not confer a monopoly over functional features (see *Kirkbi AG v Ritvik Holdings Inc*, 2005 SCC 65).

When the product is a pharmaceutical in pill, capsule, or tablet form, can the manufacturer claim goodwill or reputation in the shape, size, and colour of the tablet? The question of whether the appearance of a pharmaceutical product has acquired a secondary meaning is an important one for pharmaceutical companies, because many prescription drugs are not sold in packaging, but are dispensed by pharmacists in plain plastic vials. This question is considered in *Novopharm Ltd v Bayer Inc,* excerpted below.

In *Ciba-Geigy*, excerpted above, the Supreme Court of Canada had to decide, in the abstract, whether the ultimate consumer of a pharmaceutical product could even be considered as the test person for a passing-off analysis. Pharmaceutical companies wanted the consumer to be considered because it would be difficult to argue that the other "consumers" of pharmaceutical products—for example, doctors, pharmacists, and hospitals—would be at all influenced when choosing pharmaceutical products by things such as shape, colour, and size. Gonthier J, for the unanimous court, ruled that it was appropriate to consider anyone in the chain of purchasers of pharmaceutical products, all the way down to and including the ultimate consumer. In *Novopharm Ltd v Bayer Inc*, the issue of goodwill in the appearance of a pharmaceutical product was tackled directly.

Novopharm Ltd v Bayer Inc
[2000] 2 FC 553, [1999] FCJ No 1661 (QL) (TD)

EVANS J:

A. Introduction

[1] This is an appeal under section 56 of the *Trade-marks Act*, R.S.C., 1985, c. T-13 by Novopharm Ltd. against a decision by the Registrar of Trade-marks dated December 23, 1996. In this decision the Registrar rejected Novopharm's opposition to Bayer Inc.'s Canadian Trade-mark Application No. 657,397 for the trade-mark "Circle Design" for use in association with "pharmaceutical preparations, namely, nifedipine."

[2] Bayer had first filed an application for the mark in 1990 and amended it in 1991.

[3] Novopharm alleges that the Registrar erred in rejecting its opposition because the trade-mark application failed to comply with statutory requirements of both form and substance, and because the evidence did not support his finding that the mark in fact distinguished Bayer's nifedipine tablets from other pharmaceutical products on the market.

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[69] The definition of "distinctive" is found in section 2 of the Act, which provides that, in order to be distinctive, the trade-mark applied for by Bayer must "actually distinguish the wares … in association with which it is used by its owner from the wares … of others … ."

[70] Whether a particular mark or guise is distinctive is a question of fact, and is determined by reference to the message that the mark conveys to the consuming public: *Heavy Duty Cycles Ltd. v. Harley-Davidson Inc.* (1997), 72 C.P.R. (3d) 527 (F.C.T.D.); *Sportcam Co. v. Breck's Sporting Goods Co.*, [1973] F.C. 360 (F.C.A.). That is to say, the relevant question is whether there is a clear message to the public that the wares with which the mark is associated and used are the wares of the owner of the mark, and not of another person: *Havana House Cigar & Tobacco Merchants Ltd. v. Skyway Cigar Store* (1998), 81 C.P.R. (3d) 203 (F.C.T.D.).

(a) Relevant Legal Principles

[71] Before I turn to the evidence it may be helpful to set out some of the legal principles that will help to frame the analysis of it.

[72] First, the burden of establishing the distinctiveness of a mark rests on the applicant, both in the opposition proceeding before the Registrar and on an appeal to this Court. Thus, Bayer must establish on a balance of probabilities that in 1992, when Novopharm filed its opposition to the application, ordinary consumers associated dusty rose, round extended-release tablets of the size of the 10 mg "Adalat" tablet, with Bayer, or a single source of manufacture or supply: *Standard Coil Products Can. Ltd. v. Standard Radio Corp.*, [1971] F.C. 106 (T.D.), at page 123; affd [1976] 2 F.C. iv (C.A.).

[73] Second, the "ordinary consumers" to be considered for this purpose include not only physicians and pharmacists, but also the "ultimate consumers," that is the patients for whom "Adalat" tablets are prescribed and to whom they are supplied, even though their only access to nifedipine is through a physician's prescription: *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, [1992] 3 S.C.R. 120.

[74] In *Ciba-Geigy* the Court held that the elements of the tort of passing off were as applicable to pharmaceutical products as to any other. Accordingly, it was relevant to consider whether the "get-up" of the plaintiff's goods had acquired a distinctiveness that would lead patients to identify that "get-up" with a single source, so that they were likely to be confused into thinking that another's product, with a similar appearance to that of the plaintiff, emanated from the same source as the plaintiff's.

[75] I should also note that, while there are some obvious differences between actions for the tort of passing off and opposition proceedings to the registration of a trade-mark, there is also a significant link between them. A dismissal of Novopharm's opposition will enable Bayer to prevent competitors from marketing a product that is interchangeable with "Adalat" in the form of tablets with a similar appearance to Bayer's nifedipine tablets.

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[77] Third, while I accept that the colour, shape and size of a product may together be capable in law of constituting a trade-mark, the resulting mark is, as a general rule, likely to be weak: *Smith Kline & French Canada Ltd. v. Canada (Registrar of Trade Marks*, [1987] 2 F.C. 633 (T.D.), at pages 634-636.

[78] In this case, pink round small tablets are commonplace in the pharmaceutical market. This means that Bayer has a heavy burden to discharge in proving on the balance of probabilities that in 1992 those properties had a secondary meaning, so that ordinary consumers associated the tablets with a single source: *Standard Coil*, *supra*, at page 123. The fact that, when Novopharm filed its objection, "Adalat" were the only extended-release nifedipine tablets on the market is in itself insufficient to establish a secondary meaning: *Cellular Clothing Company v. Maxton & Murray*, [1899] A.C. 326 (H.L.), at page 346; *Canadian Shredded Wheat Co. Ltd. v. Kellogg Co. of Canada*, [1939] S.C.R. 329.

[79] Fourth, it is not fatal to an application that consumers may also use means other than the mark for identifying the product with a single source. Thus, while pharmacists rely mainly on the brand name and other identifying indicia on the stock bottles and packaging containing the product, or the inscription on the tablets, which is not part of the mark, if there is evidence that to any significant degree they also recognized the product by its appearance (excluding the markings on the tablet because they are not part of the mark), this may be sufficient to establish the distinctiveness of the mark.

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(d) "Distinctiveness in Fact"

[85] … Counsel submitted that there was simply insufficient evidence in the record to support a finding of fact that in 1992 "consumers" of nifedipine associated it with a single source, by virtue of the dusty rose colour of the tablets, their round biconvex shape, and the size of the 10 mg or 20 mg tablet.

[86] The fact that Bayer was the only manufacturer of nifedipine in Canada at that time is not in itself sufficient to establish that, because of their appearance, the tablets

would thereby be associated with a single source. Nor does the fact that Bayer chose the colour dusty rose purely for marketing reasons, rather than for reasons connected with the function of the product, necessarily mean that it operated as a trade-mark when applied to the round, extended-release nifedipine tablets.

[87] Before the Registrar, and in this appeal, Bayer relied heavily on indirect or circumstantial evidence to establish that a substantial number of "consumers," namely, physicians, pharmacists, and patients, associated dusty rose, round biconvex nifedipine tablets with a single source, and with Bayer or its predecessor, Miles, in particular. In other words, the contention was that the appearance of the tablets had acquired a secondary meaning, and thus marked the tablets as coming from Bayer or, at least, from one source.

[88] I was referred to a somewhat similar case, *Ciba-Geigy Ltd. v. Novopharm Ltd.* (1994), 56 C.P.R. (3d) 289 (F.C.T.D.), in which the plaintiff had obtained an interlocutory injunction to restrain the defendant from passing off its pharmaceutical product as that of the plaintiff. Both parties manufactured tablets with the same active ingredient and the same appearance: which was dark pink in colour, and round and biconvex in shape.

[89] Rothstein J. (as he then was) found that the evidence established that there was a serious issue to be tried. Following the Supreme Court of Canada's reasons in the other *Ciba-Geigy* case referred to earlier, he was particularly interested in the extent to which the evidence indicated that patients were likely to be confused by the similarity in the appearance of the two products.

[90] The products in Rothstein J.'s case were interchangeable and, if patients identified the plaintiff's product by its appearance, the marketing by the defendant of tablets that were confusingly similar in appearance would prevent patients from exercising consumer choice by specifying which product they wished to have prescribed. He also stated that it was unlikely, on the other hand, that physicians and pharmacists identified pharmaceutical products by their physical appearance.

[91] This case is also helpful to Bayer because Rothstein J. found in favour of the plaintiff, even though it adduced no direct evidence of confusion by patients. He was prepared to rely on the affidavits of physicians and pharmacists who, he stated, were sufficiently close to the "front line" and, in the case of pharmacists, exposed to the commercial realities of the retail trade, to provide reliable testimony from their own knowledge and experience of the behaviour of a substantial number of patients.

[92] On the other hand, the relevance of this decision is limited by the fact that Rothstein J. was only concerned to find whether there was a serious issue to be tried. In contrast, I must decide whether the evidence in this case establishes on the balance of probabilities that the colour, shape and size of "Adalat" tablets had acquired a secondary meaning in 1992.

[93] Counsel for Novopharm countered counsel for Bayer's reliance on the judgment of Rothstein J. in *Ciba-Geigy*, *supra*, by referring me to the reasons for judgment of Reed J. in *Eli Lilly and Co. v. Novopharm Ltd.* (1997), 147 D.L.R. (4th) 673 (F.C.T.D.). Both cases concerned claims for passing off involving attempts by an innovator pharmaceutical company to prevent a generic company from marketing pharmaceutical products that were similar in appearance to those of the plaintiff.

[94] As we have already seen, Rothstein J. had found that the evidence before him on the issue of the distinctiveness of the appearance of the plaintiff's product was sufficient to establish only that there was a serious issue to be tried. However, in *Eli Lilly*, *supra*,

Reed J. held at the end of a trial that the plaintiff had not established on the balance of probabilities that a sufficient number of patients identified the appearance of its product with a single source of supply. Accordingly, she dismissed the plaintiff's claim for passing off.

[95] It is clear from the reasons given by Reed J. that she had before her voluminous evidence relating to such issues as the ways in which pharmacists identify pharmaceutical products, physicians' prescription practices and survey evidence on patient awareness of brand names. There was also evidence that in Canada generic pharmaceutical manufacturers commonly market their product in a colour, size and shape similar to that of the brand name product with which it is interchangeable, after either the expiry of the brand name's patent or the development of a non-infringing way of manufacturing an interchangeable product with the same bioavailability.

[96] Despite the fact that some of the evidence in *Eli Lilly* was not limited to the particular product in question in that case, I must decide the appeal before me on the much less extensive evidence that was adduced in the present case. Because the decisions in *Ciba-Geigy* and *Eli Lilly*, and other similar cases, are heavily based on findings of fact made on the evidence adduced in each proceeding they are of only limited direct assistance to me. I set out below the evidence relied on to establish the distinctiveness of the colour dusty rose as applied to the "Adalat" tablets.

(i) Market dominance and reputation

[97] Bayer adduced evidence on "Adalat's" market penetration and dominance in 1992 in order to support its claim that the product had acquired sufficient distinctiveness by the relevant date.

[98] First, counsel for Bayer submitted, it could be inferred from the fact that in 1992 "Adalat" was the only extended-release nifedipine product on the market that consumers must have identified its appearance with a single source. I agree that the non-interchangeability of the product at the relevant time supports Bayer's claim, but I do not regard it as conclusive. Otherwise, patentees would be able to extend their sole right to market a product long after their patent on the product had expired: *Cellular Clothing*, *supra*; *Canadian Shredded Wheat*, *supra*.

[99] Consumers may well identify the appearance of a pharmaceutical product with its therapeutic purposes, rather than with a single manufacturer, even when, in fact, the product is not interchangeable with any other. Patients may simply refer to the colour and shape of a tablet to identify the medication that they take for a particular condition: "These are the pink round pills that I take for my angina," not, "My angina tablets are dusty rose and round, and therefore, I know that they come from the same manufacturer."

[100] Second, there was evidence that, by both name and appearance, "Adalat" tablets had a significant reputation in Canada by 1992 when Novopharm filed its opposition to the application. In his affidavit Mr. Alexander stated that the sales of "Adalat" in Canada at the time were well in excess of $300 million, and that several million dollars had been spent on advertising and other promotional literature, which often contained both photographs or some other life-like representation of the tablets, and the manufacturer's name. In addition, Bayer had supplied to physicians over 17 million samples of "Adalat" free of charge. All of these activities, it was said, would tend to associate the appearance of the tablets with a single source, and with Bayer or Miles in particular, of course.

[101] Further, Mr. Alexander explained, the Compendium of Pharmaceuticals and Specialties, a reference book published by the Canadian Pharmaceutical Association and widely distributed to physicians and pharmacists in Canada, included a "Product Recognition Section." This section is intended to familiarize readers with the physical appearance of products available in Canada so that they can associate them with the manufacturer and identify them by their appearance. "Adalat" had appeared in the Product Recognition Section prior to 1992, and continued to do so thereafter.

(ii) Recognition by physicians and pharmacists

[102] Bayer also relied on the evidence of physicians and pharmacists who testified that "Adalat" tablets were associated by their appearance with a single manufacturer.

[103] Bayer relied on a statement by Mr. Dan, president of Novopharm, in response to a question from counsel for Bayer. Mr. Dan said that, when dispensing pharmaceutical products, pharmacists rely on the colour, size and shape to identify them. However, he also added that this was only a "secondary check," the primary source of identification for pharmacists being the label on the container in which the product was supplied.

[104] Other evidence adduced by Novopharm also suggested that, for purposes of identification, physicians and pharmacists use the colour of "Adalat," and indeed of all prescription medicines, in a very minimal way, if at all.

[105] For example, in one of the affidavits that was not before the Registrar Dr. Mitchell Levine, a physician, stated that the size and shape of a pharmaceutical product played no role in his decision to prescribe it.

[106] Other evidence also indicated that pharmacists identified Bayer's nifedipine by the colour and size of the tablets to only a very limited degree, especially since there are many pink pills on the market, including those prescribed for the treatment of cardiovascular conditions. Thus, for instance, in addition to Mr. Dan's testimony that he used colour as only a "secondary check," Mr. Joseph Newton, another pharmacist, said that he relied primarily on the label on the manufacturer's stock bottle when supervising his assistants, and did not always check the colour of the pills in the bottle.

[107] Two other pharmacists, Mr. Organ and Mr. Haber, testified that, when they used the appearance of a tablet to help them to identify it, they looked also at the markings on it. However, the markings on Bayer's extended-release nifedipine are not part of the mark that is the subject of the application under consideration here.

[108] In my opinion, the evidence did not prove that physicians or pharmacists to any significant degree identified "Adalat" by colour and shape.

(iii) Recognition by patients

[109] Bayer also sought to establish that "Adalat" had achieved significant recognition amongst the final consumers of the product, namely, the patients for whom it is prescribed and to whom it is sold. In this context it was emphasized that "Adalat" tends to be prescribed on a long-term basis, so that patients have plenty of opportunity to associate the appearance of the tablets with the fact that they come from a particular manufacturer.

[110] There was also evidence that pharmacists often sold "Adalat" in boxes containing several weeks' supply for a particular patient. The boxes prominently displayed both the

brand name of the tablets and the name of the manufacturer. Moreover, the name of the active ingredient and of the manufacturer appear on the label affixed to the vial in which the tablets are dispensed to the patient.

[111] From all this evidence it could be inferred, one pharmacist agreed in the course of cross-examination on his affidavit, that many patients would associate their pink round angina pills with the brand name "Adalat," or the sole manufacturer, especially since a substantial percentage of patients are chronic consumers of the tablets.

[112] However, this same evidence might be regarded as supporting exactly the opposite inference. That is, the prominence of the name "Adalat" on the packaging would tend to cause patients to identify their medication by the brand name, or that of the manufacturer, rather than by the colour, shape and size of the tablets themselves. Thus, if satisfied with the therapeutic effect of "Adalat," they would be able to ask for it by its brand name or that of the manufacturer.

[113] In the course of cross-examination by counsel for Bayer, Dr. Paul Pitt, a physician, stated that people who find a particular medication to be helpful will often identify it by its colour, shape and size. However, this did not seem to me to advance Bayer's cause much because, as Dr. Pitt subsequently said, the colour, size and shape of tablets mean to many people little more than that, "this is the pill that I take for my angina." His evidence thus fell well short of establishing that consumers identify the appearance of "Adalat" tablets with a single source.

[114] Dr. Levine also stated that, while patients may identify a medication by its colour, shape and size, they do so in order to identify the tablet that they take for a particular condition, especially when they are taking a number of tablets for different purposes. In his experience, however, they generally do not associate the medication with a particular source, although he also admitted that he did not base his opinion on statements made to him by patients.

(iv) Distinctiveness in the broader prescription medicine market

[115] Counsel for Novopharm submitted that, contrary to the view expressed by the Registrar in this case, the fact that "Adalat" is not the only pharmaceutical product in the market that is sold in pink round tablets tends to negate a finding of distinctiveness, even though there was no evidence that those other products had a reputation in Canada as a result of which their appearance was associated with a single source of manufacture.

[116] This point was addressed by Thurlow J. (as he then was) in *E. & J. Gallo Winery v. Andres Wines Ltd.*, [1976] 2 F.C. 3 (C.A.), at pages 8-9, which was also a case where the application for a mark was challenged on the ground that it lacked distinctiveness. The Court held that it was difficult to find that the mark in question in fact served to distinguish the applicant's wares when it was also used by several other companies in association with their wares. The question was not whether those other producers had the right to monopolize the use of the mark, and therefore it was irrelevant whether consumers associated it with the other producers' wares.

[117] An affidavit that was not in evidence before the Registrar was sworn for the purpose of this appeal by Mr. Donald Macdonald, a pharmacist. The affidavit listed nearly forty medications available in Canada for the treatment of high blood pressure and angina that were pink in colour. He attached to his affidavit extracts from the "Product

Recognition Section" of the CPS for 1992 showing pink tablets that were available in Canada, including most of those listed in the body of the affidavit.

[118] This evidence, it is true, does not always address both the colour and the shape and size of medication other than "Adalat." However, in my opinion it tends to negate Bayer's claim that the colour and shape of "Adalat" are distinctive of the product, especially since the colour pink as applied to a small round biconvex pill can hardly be said to be inherently distinctive: *Novopharm Ltd. v. Searle Canada Inc.* (1995), 60 C.P.R. (3d) 400 (T.M.O.B.).

[119] In another affidavit that was not before the Registrar Dr. Levine confirmed the availability in Canada in 1992 of some twenty pink tablets that were prescribed for the treatment of cardiac problems. He also stated that he had switched patients from one pink tablet to another if the first appeared not to be helpful to the particular patient.

(v) Conclusion

[120] On the basis of the evidence adduced in this appeal, not all of which was before the Registrar, I am unable to conclude that the colour, shape and size of "Adalat" are distinctive of the product. Evidence of the prevalence in Canada in 1992 of pink tablets used to treat cardiovascular conditions seriously damages Bayer's claim, especially given the mark's inherent weakness, and the fact that it does not include the markings which appear to be used to some extent to identify "Adalat."

[121] While the fact that there was no other product that was interchangeable for nifedipine in 1992 provides some support for its distinctiveness, in my opinion it was insufficient in itself to establish the necessary secondary meaning. Bayer produced no direct evidence to show that patients associated the colour and shape of "Adalat" tablets with a single source.

[122] While such evidence may not be necessary, its absence is damaging when there is evidence from pharmacists and physicians to the effect that patients typically do not associate the appearance of a medication with a single source. In addition, in this case the evidence about the packaging of "Adalat" suggested that patients were more likely to identify Bayer's product by its brand name or manufacturer, than by its colour, shape and size.

[123] Given this finding, the very limited use that pharmacists make of the appearance of medication for identification purposes is quite inadequate to establish the distinctiveness required for a valid trade-mark.

F. Conclusions

[124] Behind the essentially factual enquiry into whether Bayer had established that the colour dusty rose as applied to their round "Adalat" tablets had acquired a secondary meaning lurk two competing public policy considerations, in addition to the manufacturer's interest in protecting the market share that it may have built up by investing in advertising and creating a product to which consumer good will attaches.

[125] On the one hand, there is the concern that the market not be distorted, and competition thereby unduly restricted, by preventing generic pharmaceutical manufacturers from selling an interchangeable product, with the same bioavailability, that is identical in appearance to that of the brand name product.

[126] The fact that the Minister of Health is satisfied that a generic product is in all respects functionally identical to the brand name means that in most cases it is immaterial for therapeutic purposes which one is supplied to the patient. Price, not appearance, is the primary basis for a supplying or purchasing decision. To require the generic manufacturer to market an interchangeable product, with the same bioavailability, in a form other than that to which consumers are accustomed may provoke consumer resistance that has no rational basis.

[127] On the other hand, some patients may experience adverse side effects from one product but not from another, even though they are interchangeable and have the same bioavailability. The non-active ingredients, or excipients, used in the manufacture of pharmaceutical products may affect people differently.

[128] In addition, not all manufacturers exercise the same level of quality control. Consequently, consumers who have found a brand name product to be very beneficial may not want to have their prescription filled with an interchangeable generic product in case its quality is less reliable than that of the medication that they have been taking.

[129] To deny an applicant a mark in the appearance of a pharmaceutical product might prejudice members of both of these groups of consumers, especially since it is otherwise difficult to identify a tablet with a single source. A patient who reports symptoms to her doctor may not attribute them to a switch from the brand name to the generic if she is not alerted to the switch because the drugs are identical in appearance.

[130] Both of these concerns can be said to involve consumer protection. The first tends to reduce the price of medication by not limiting competition through the grant of a monopoly in a product's appearance. The second maximizes consumers' freedom of choice over the medication that they purchase or ingest.

[131] In the context of the dispute in this case, the tension between these competing public policy considerations is to be mediated through the requirement that an applicant for a trade-mark must establish its distinctiveness. However, trade-mark law is a more suitable instrument for ensuring fair competition than for protecting the health of individuals, especially since, as in this case, the description of the wares with which the mark is associated includes the active ingredient, nifedipine, but not the excipients that are also a part of the pharmaceutical product in question. Trade-mark law would not prevent Bayer from changing the excipients of "Adalat," nor require that notice of any change be given to consumers.

[132] Accordingly, an applicant seeking to register as a trade-mark the colour and shape of a prescription pharmaceutical product must adduce evidence that clearly establishes on the balance of probabilities that a significant number of consumers associate the appearance of that product with a single source.

[133] On the basis of the evidence before me and the considerations outlined above, I have concluded that Bayer has not discharged this burden of proof with respect to the mark for which it applied in association with its extended-release nifedipine tablets. Novopharm's appeal is therefore allowed.

How would you weigh the competing public policy considerations around the protection of trademark rights in the appearance of pharmaceutical products?

What role does the availability of direct-to-consumer advertising of pharmaceutical products play in the recognition of product appearance as distinctive of a particular trade source? In an era of virtually borderless broadcasting and Internet communications, does it matter to the issue of acquired distinctiveness whether direct-to-consumer advertising of pharmaceutical products is permitted in Canada?

b. The Geographic Ambit of Goodwill

Protection against passing off is available only where there is goodwill or reputation. A company whose goods or services are well known in Nova Scotia, but not in Ontario, will not be protected at common law from another company offering similarly named or branded products or services in Ontario. Confusion or misrepresentation is the essence of the tort: where the plaintiff's product or service is unknown in a particular region, it will be difficult for the plaintiff to argue that customers were misled into thinking they were purchasing its products when they were purchasing those of the defendant.

Additional public policy considerations come into play when the party alleging passing off does not actually do business in Canada. Should a Canadian company be free to adopt the trademark of its choice, even one that is in use in another country, so long as it does not create confusion with another trademark being used in Canada? Is it possible for a foreign company that does not do business in Canada to establish goodwill in Canada? What is required for it to do so? In the following excerpt from *Orkin*, the Ontario Court of Appeal considered whether an American company that did not do business in Canada could establish goodwill or reputation in Canada for the purposes of a passing-off action.

Orkin Exterminating Co Inc v Pestco Co
(1985), 50 OR (2d) 726, 5 CPR (3d) 433 (CA)

MORDEN JA (for the court):

This is a passing off action in which Orkin Exterminating Company, Inc., an American company which does not carry on business in Canada, was granted an injunction against the defendants restraining them from using in Canada its trade name "Orkin Exterminating Company" and the trademarks Orkin and "Orkin" in a logo (called "Orkin & Design") and, also, judgment for nominal damages of $1,000. The defendant, The Pestco Company of Canada Limited, which carries on business in the Metropolitan Toronto area, and its president and manager, the defendant Emanuel Valder, appeal from this judgment. The major issue in the appeal, described in its most general terms, is concerned with what facts must exist for the plaintiff Orkin, which is not in competition with Pestco in Ontario, or elsewhere, to be entitled to the relief obtained at trial. (Whether the injunction should have covered the whole of Canada is not an issue raised by the defendants; accordingly I express no opinion upon it.) More specifically, the question is what connection with Ontario must Orkin have to succeed in this passing off action. The reasons for judgment of the trial Judge, Mr. Justice Fitzpatrick, are reported in 47 O.R. (2d) 265, 80 C.P.R. (2d) 153, 11 D.L.R. (4th) 84.

Before stating the issues in more detail I shall set forth the facts. It can be said at the outset that Orkin and Pestco are in the same business, that of providing pest control and exterminating services to residential and commercial customers. I shall deal first with the history and activities of Orkin.

Orkin, and its predecessors, have been carrying on business in the United States since 1901 and the name Orkin has been associated with the business since that time. The founder of the business was Otto Orkin. The name Orkin Exterminating Company, Inc., as already indicated, is the company's corporate name and trading style and has been used by it and its predecessor since the 1920's. The Orkin logo, which is a red diamond with "Orkin" in capital letters inside it, has been used in connection with the company's business as the primary trademark and logo of the business since the 1930's.

Orkin is now, and at all times material to this proceeding has been, one of the largest pest control companies in the world. It is highly regarded by its customers, which include Canadian customers, for the "excellent" and dependable service which it provides. The trial Judge said that

> [t]he evidence is uncontradicted that Orkin enjoys an outstanding reputation for reliability and competence. Its integrity is such that many of its customers have left keys to their residences with the company so those residences can be serviced in their absence.

The company has gone to great lengths over the years to establish and maintain a high standard of service through its employee training and product development programs and its service guarantees.

Orkin's business has expanded steadily over the past 80 years. It began in Georgia in 1901. By 1967 (which is an important year for this proceeding since it was then that Pestco began using the name Orkin) it was carrying on business in the southern United States as well as in some northern central states—Ohio, Indiana, Illinois, Wisconsin, Iowa and Michigan. It had at that time established operations in Cincinnati, Columbus, Cleveland, Detroit, Grand Rapids, Jackson, Kalamazoo, Saginaw and Milwaukee. Orkin spent substantial sums of money advertising its name, logo and business in the United States through radio, television, newspapers and billboards. The following are basic figures respecting these expenditures:

Period	Advertising Expenditures
1954–1966	$15 million
1967–1975	$34 million
1976–1980	Over $7 million a year

According to the evidence of Earl F. Geiger, a director of Orkin, these expenditures did not cover the advertising on branch signs, on automobiles, in brochures, and through direct mail delivery.

As far as Orkin's reputation in Canada is concerned the following matters may be noted. Canadians travelling in the United States are exposed to Orkin's extensive advertising and use of its trademarks in that country. There was evidence adduced that millions of Canadians travel in the United States every year, particularly in the southern vacation states, where Orkin's operations are extensive. Canadians in Canada are exposed to Orkin's advertising and articles appearing in American publications which circulate here. Examples of publications in which such articles and advertisements have appeared are: Fortune, 1952; Newsweek, 1964; Business Week, 1964; Time, 1964; United States News and World Report, 1964; Supermarket News, 1975, 1977 and 1978; and National Geographic, 1977.

Mr. Geiger estimated that over the past three or five years, thousands of Canadians have used Orkin services on a regular basis in connection with property owned or rented by them in the United States. Some of these received the bills for the service at their homes in Canada. Advertising material accompanied the bills.

Orkin provides services to companies which have operations in Canada including Burger King, McDonald's, Coca-Cola, Howard Johnson, Ponderosa, Sheraton Hotels and Hilton Hotels as well as carriers such as Delta, Eastern and United Airlines and Amtrak.

Orkin's international reputation in the pest control field resulted in the Canadian government seeking its advice as a consultant respecting the control of pests for the Exposition in Montreal in the mid-1970's.

As far as advertising is concerned the trial Judge said [at 266 OR, 85 DLR, 155 CPR]:

> Orkin advertises extensively in the United States by signs on its trucks and logos on the uniforms of its servicemen, in magazines and on billboards, by radio and television. Canadians travelling in the United States see its trucks, servicemen and billboards. At home they read American magazines and see and hear Orkin advertising on radio and television, which is broadcast from American stations but received in Canada. The only advertising Orkin has had done in Canada is some radio advertising in Windsor, but that was admittedly for the Detroit market.

I have already mentioned Orkin's Canadian customers. Eight of them from the Toronto area gave evidence with respect to their familiarity with Orkin, its business and the Orkin name and trademarks. They all said that if they were to see the Orkin name or logo in use in Canada they would assume that they represented the Orkin company with which they were familiar or some business that was affiliated with it.

Mr. Geiger testified that since 1965, Orkin has been looking for a "suitable vehicle" with which to carry on business in Canada. In 1964 it had given instructions to its counsel to register the Orkin trademark in Canada. It assumed that this had been done although in fact, for some reason, it was not. At the time of trial, according to Mr. Geiger, Orkin was engaged in an ongoing dialogue with a company with a view to establishing an operation in Canada.

In 1976 Pestco filed an application in Canada under the *Trade Marks Act*, R.S.C. 1970, c. T-10 indicating that it proposed to use the identical logo that Orkin had used since the 1930's. Mr. Valder admitted that he took the design from one of Orkin's brochures. Also in 1976 Pestco began using the Orkin logo on invoices which it sent to customers after performing services for them under the Pestco name. Orkin and Pestco became involved in opposition proceedings in the Canadian Trade Marks Office. It was during these proceedings, which are still pending, that Orkin was informed for the first time that Pestco had been using the Orkin name since 1967. In 1978 Pestco applied under the *Trade Marks Act* to register the name, Orkin, alone. Shortly after it found out about Pestco's use of its name, Orkin commenced this action.

As far as the number of Orkin's Canadian customers is concerned Pestco refers to an Orkin computer listing of addresses of Canadian customers to whom Orkin has mailed billings. Pestco submits that it shows two to four customers in the Metropolitan Toronto area in 1967 and at least fourteen in 1976. However, Mr. Geiger testified that the listing by no means includes all of Orkin's Canadian customers. It does not contain customers who are billed at U.S. addresses, those who are part of a condominium group, or those who take the Orkin service on something less than an annual cycle. Furthermore, the listing does not contain past customers who are not current customers. It is not possible to determine with any degree of precision the number of Canadian customers in the years 1967 and 1976 but, in any event, as I shall indicate, the existence of customers in Ontario is one factor only in determining the extent of Orkin's goodwill in Ontario.

I turn now to Pestco. It carries on business in the Metropolitan Toronto and surrounding area and has done so since 1961. It is the third largest pest control company in Ontario. In 1967 Mr. Valder decided to adopt the names "Orkin Exterminating Company" and "Orkin" in association with Pestco's business. Mr. Valder at this time knew of Orkin, the plaintiff, and of its business in the United States. Pestco used the Orkin name in the following ways:

(1) It filed a declaration of intention to carry on business under the name of "Orkin Exterminating Company," apparently under the *Partnerships Registration Act*, now R.S.O. 1980, c. 371.
(2) It obtained an operator's license under the *Pesticides Act of Ontario*, R.S.O. 1980, c. 376, in order to carry on a pest control business under the name "Orkin Exterminating Company."
(3) It placed a listing in the yellow pages of the telephone directory for the City of Toronto for "Orkin Exterminating Company."
(4) It placed a listing in the white pages of the telephone directory for the City of Toronto for "Orkin Exterminating Company."
(5) It commenced marking salemen's forms by means of a rubber stamp with the word "Orkin" for service calls made by employees of Pestco.

As far as the continuation of these acts is concerned, Pestco did the following:

(1) It registered the name "Orkin Exterminating Company" under the *Partnerships Registration Act*, R.S.O. 1970, c. 340, in 1977 and, on the brink of trial, under the *Corporations Information Act*, R.S.O. 1980, c. 96 in 1984. Apparently both of the first two registrations lapsed before they were renewed. The application form for the 1984 registration contains the following: "The registration does not confer on the corporation any right to the name or style that it does not otherwise have."
(2) It remained registered under the *Pesticides Act* of Ontario to be permitted to carry on a pest control business under the name "Orkin Exterminating Company" every year from 1967 to 1984.
(3) It placed listings for "Orkin Exterminating Company" in the yellow pages of the telephone directory of the City of Toronto from 1967 to 1970 and from 1976 to the time of trial (in 1984). The reason for the failure to list the name during the period between 1971 and 1975, according to Mr. Valder, was a turnover in Bell Canada yellow page salesmen.
(4) It placed a listing in the white pages of the City of Toronto telephone directory for "Orkin Exterminating Company" every year from 1967 to the time of the trial except for 1975.
(5) It ceased using the rubber stamp marked with the word "Orkin" some time in 1972-73.

Apart from the use of "Orkin Exterminating Company" in the telephone directories Pestco made no public use of the name. Specifically, the name was never used on Pestco's brochures, business cards, contracts, invoices, letterhead, signs, uniforms or trucks. In fact, Pestco has conducted all of its business under the trade name "Pestco" and its own name "The Pestco Company of Canada Limited." All of its contracts, letterhead, business cards, brochures, uniforms, and signs on its trucks prominently display the name "Pestco." It also uses a logo in connection with all of its business. It is a horizontal oval with "Pestco" in capital letters inside it. It appears on all of Pestco's brochures, business cards, contracts, letter-head, uniforms and trucks.

Pestco has never actually carried on business under the name "Orkin Exterminating Company." This "company" has no assets, no employees, and no bank account. It has never entered into any contracts nor has it ever had any income. "Orkin Exterminating Company" is listed by the appellants in the telephone book as nothing more than a name. In fact, Mr. Valder admitted in evidence that it was just a name in the telephone directory used to attract the attention of potential customers.

For some time Pestco's Orkin telephone number was different from that of Pestco itself. When a potential customer called using the Orkin number, the Pestco employee taking the call would answer, simply, "Pest control." On his examination for discovery Mr. Valder said that there were at times as many as three calls a week for the Orkin Exterminating Company. He subsequently sought to qualify this statement saying that he could not say how many there were since the calls came in on a shared line.

In any event, after a customer called in on the Orkin line he or she would be served by Pestco employees with trucks, uniforms, business cards, brochures and contracts all bearing the Pestco name and logo. The customer would never have any further contact with the name Orkin Exterminating Company after initially being attracted by the name in the telephone book.

In 1976, as indicated earlier in these reasons, Pestco began to place the Orkin logo, the red diamond with "Orkin" in it, on its invoices along with "The Pestco Company of Canada Limited" and the Pestco logo. Mr. Valder knew that it was the logo that had been used by Orkin in the United States. It was taken from an Orkin brochure. Also, as I have said, in 1976 Pestco filed a trademark application in Canada indicating that it proposed to use this logo. The Pestco invoices carrying the logo are seen by customers after services have been performed under the Pestco name.

In 1972 Pestco sought to use the trademark of another large international pest control company, an English company, called "Rentokil Limited." Pestco filed a trademark application to register the exact logo of this company. Mr. Valder admitted that his purpose in attempting to register this trademark was to hamper or delay Rentokil from setting up business in Canada. The application was withdrawn on counsel's advice.

Mr. Valder, of course, did not adopt the Orkin Exterminating Company name or logo in ignorance of their use by the plaintiff. He knew of these uses. However, he gave evidence to the effect that his purpose in using the name was not to take advantage of the plaintiff's name or to deceive the public but rather to gain some advantage over one of Pestco's largest competitors, PCO, by having the name "Orkin" appear just above it in the yellow pages of the telephone directory. With respect to the logo he testified that he thought that Orkin had discontinued its use. The trial Judge said [at 270 OR, 89 DLR, 159 CPR] with respect to Mr. Valder's credibility:

> Because of the way he gave his evidence, because of the implausibility of his story, and because he attempted to adopt the name and logo of an English exterminating company to impede that company's coming into Canada, I do not accept Mr. Valder's evidence.

I shall return to some of the facts in more detail later in these reasons in the course of applying what I consider to be the appropriate principles.

Pestco submitted to the trial Judge that any goodwill in Ontario in the Orkin name and in the Orkin logo belong to Pestco and that because Orkin has not carried on business in Canada it has no protectable goodwill here. The trial Judge rejected this submission. He held that Orkin was entitled to protection on the basis that it had a reputation and customers here and intended to carry on business here in the future. Near the end of his reasons he made the following findings of fact [at 270-71 OR, 89-90 DLR, 159 CPR]:

(1) At the time of the commencement of this action the plaintiff had goodwill and customers in Canada;
(2) It is the present intention of the plaintiff to carry on business in Canada at some time in the future;
(3) The defendants acted deliberately to deceive and create confusion to make people believe that there was an association between Pestco and the plaintiff and to attract customers in that way. They also intended to impede the plaintiff from benefiting from its goodwill when it came to Canada;
(4) During the time it used the name "Orkin Exterminating Company," the defendant Pestco did not create any significant amount of goodwill for that name or for the diamond logo.

The three issues raised by Pestco in this appeal are phrased on its behalf as follows:

(1) Did Orkin have "goodwill" in the market of Pestco to succeed in a passing-off action at common law?
(2) Was the date of the commencement of the action a relevant date for determining whether Orkin had goodwill to protect?

• • •

A fundamental principle upon which the tort of passing off is based is that "nobody has any right to represent his goods [or services] as the goods [or services] of somebody else": *A.G. Spalding & Bros. v. A.W. Gamage Ltd.* (1915), 32 R.P.C. 273 at 283 (H.L.), quoted in *Hughes v. Sherriff*, [1950] O.R. 206, 12 C.P.R. 79 at 82 (at p. 86), 10 Fox Pat. C. 175 (Ont. H.C.), affirmed [1950] O.W.N. 483, 12 C.P.R. 79, 11 Fox Pat. C. 49 (Ont. C.A.). The statement of this simple principle does not, of course, amount to a statement of all the essential ingredients of the cause of action. As may be gathered from the issues raised by the appellants, this appeal is concerned not so much with the misrepresentation aspect of the claim (in fact there is no challenge raised on this appeal to the trial Judge's finding that Pestco acted deliberately to deceive and create confusion) as with the nature of the connection the plaintiff must have with Ontario to obtain relief against Pestco. Pestco submits that Orkin must prove that it has "goodwill" with respect to its business in Pestco's market area in Ontario. It submits that in order to have goodwill in this area Orkin must have carried on business here or, at least, have been involved in some form of business activity here. …

If the proposition that for Orkin to succeed it must have carried on business in Ontario fails, then Pestco submits that some cases concerned with goods, as opposed to services, have held that sales of the goods which result in the goods finding their way into the defendant's market can be the "something more" than "mere reputation" that constitutes the necessary goodwill. … Pestco says that there is no evidence of any goods of Orkin marked with the name Orkin or Orkin Exterminating Company or the Orkin logo finding their way into the Canadian market.

Further, Pestco submits that in some cases concerned with services the goodwill has been based on some business activity in the defendant's market such as a sales or booking office. …

Orkin, on the other hand, submits that goodwill should not be defined so narrowly as to require that the plaintiff carry on business or have a place of business within a particular locality. It submits that Canadian Courts have consistently afforded protection to foreign traders whose trademarks have become known in Canada, even though no business activity has actually been carried on here. The protection is against misrepresentation and deception. …

• • •

In my respectful view, Fitzpatrick J. was right in concluding that Orkin was entitled to relief on the basis that it had a reputation (built up in several different ways including having customers) in Ontario and intended to expand its business into Ontario. In saying this I do not intend to indicate that a case such as this could not be decided on more general grounds. This is an evolving field of law and I think it the better course to resolve the competing contentions on relatively narrow grounds which are responsive to the particular facts rather than, unnecessarily, on broader grounds.

I have said that the issue before us is not governed by any binding authority. However, it has been dealt with in the five British Columbia judgments cited by Orkin. None of these requires the plaintiff to be carrying on business in the jurisdiction to succeed in a passing-off action. The fact that these are Canadian decisions entitles them to favourable consideration in this Court, if, for no other reason, than the desirability of uniformity in this country in this branch of the law of trade regulation.

• • •

I should say a word about the term "goodwill." Pestco strongly argued, as I have indicated, that a plaintiff's goodwill cannot exist outside the area where it carries on business. That this reflects the "meaning" of goodwill has been affirmed in several cases, the most recent of which is *Anheuser-Busch Inc. v. Budejovicky Budvar N.P. (trading as Budweiser Budvar Brewery) et al.*, [1984] F.S.R. 413 (Eng. C.A.). This meaning would appear to be based on definitions assigned to the word in a tax case, *Commr. of Inland Revenue v. Muller & Co's Margarine Ltd.*, [1901] A.C. 217 at p. 224, but particularly at 235 (H.L.).

Virtually no words have a single fixed meaning, particularly goodwill, and, with respect, I do not think that the meaning appropriate in the *Muller* case is necessarily appropriate in a passing-off case which involves issues of remote territorial use. In this kind of case I think that the main consideration should be the likelihood of confusion with consequential injury to the plaintiff. Generally, where there is such confusion there is goodwill deserving of protection.

In the United States "goodwill" in the law of unfair competition does not have the narrow meaning urged by Pestco. In Callman, *The Law of Unfair Competition, Trademarks* *and Monopolies*, 4th ed. (1983), in s 19.20 it is recognized that actual goodwill zones (compared to potential goodwill, or expansion, zones) comprise what the author calls selling zones, advertising zones and reputation zones.

Of course, as I have implied, the issue should not, in any event, sensibly turn on one of the accepted meanings of the word "goodwill" and the applicable principles can and have been framed without using the word. I refer to the following:

> This article intends to explore the growing tendency throughout the world to recognize the protection of a mark which has not yet been used or registered in a given country.
>
> Trademark protection based upon reputation alone is in the interest of fairness to the trademark owner. It prohibits others from pirating well-known marks which have benefited from the creative efforts and financial nurturing of the trademark owner. Encouragement of international trade and the peaceful interaction between countries is a further benefit. Finally, protection serves the interests of consumers for it protects them against deception in the market place. More and more countries are recognizing the benefits of discouraging the growth of a local industry that relies upon the misappropriation of trademarks.
>
> Generally, the facts which must be proven are that the trademark owner has an established reputation in the subject country, the local infringer has usurped the trademark in bad faith, and deception of the public is likely to occur. The theories for recognizing such protection vary slightly from country to country although common threads run throughout the decisions. (Hoffman and Brownstone, "Protection of Trademark Rights Acquired by International Reputation without use or Registration," 71 The Trademark Reporter 1 at pp. 1-2 and 4 (1981).)
>
> In each case the issue is whether, in the territory in which the actor's designation is used, there are or are likely to be a considerable number of prospective purchasers of the goods or services in connection with which the trademark and the designation are used, who are likely to be confused or misled by the actor's designation.
>
> (American Law Institute, *Restatement of the Law of Torts*, Tentative Draft No. 8 (1963), at p. 113.)

I now consider the facts of the present case in light of the principles I have discussed. Orkin concedes that the competing rights of the parties have to be determined as of 1967 when Pestco started using the Orkin name in Ontario but submits that the trial Judge's reference to the "time of the commencement of this action" is an immaterial error because of the goodwill that Orkin has enjoyed in Ontario from at least 1967 to the present. *(Anheuser-Busch Inc. v. Budejovicky Budvar*, *supra*, contains useful statements on the relevant time for determining the competing interests of the parties at pp. 462, 471 and 476). I accept 1967 as the time for determining the competing rights with respect to "Orkin Exterminating Company" and "Orkin" and 1976 with respect to the logo.

In 1967 Orkin's reputation in Ontario, based on its customers in Ontario and advertising of various kinds, was in the circumstances, of sufficient strength to make Orkin's rights superior to those of Pestco. Its reputation has grown steadily since 1967.

What are the circumstances? A very cogent circumstance is Pestco's decision in 1967 to use the Orkin name in Ontario. This is evidence from which it may be inferred that the name Orkin had commercial value at that time in Ontario and is a circumstance that has been observed in several cases to be an important indication of goodwill in a "foreign" territory. See, e.g., *Athletes Foot Marketing Assoc. Inc. v. Cobra Sports Ltd. et al.* [[1980] RPC 343 at M9 (Eng H Ct)], at p. 351 (Eng. H. Ct.); *C. & A. Modes et al. v. C. & A. (Waterford), Ltd. et al.* [[1978] FSR at 128 (Ir H Ct), aff'd, [1978] FSR loc. cit. at 126 (Sup Ct Ireland)] at p. 139 (Sup. Ct. Ireland); and *Levitz Furniture Corp. et al. v. Levitz Furniture Ltd. et al.* [(1972), 5 C.P.R. (2d) 13], at p. 15, [1972] 3 W.W.R. 65 (B.C.S.C.). And see *Restatement of the Law of Torts*, Tentative Draft No. 8 (1963), at p. 113: "If he imitates the other's trademark or tradename knowingly and acts in other ways to convey the impression that his business is associated with the other, the inference may reasonably be drawn that there are prospective customers to be misled."

Related to the foregoing is the evidence of the telephone calls that came in on Pestco's Orkin line. There may not have been many of them but they were steady. There is a reasonable basis for inferring that these calls came from Ontario customers who knew the plaintiff and thought they were calling the plaintiff. I say this because, since Pestco has never advertised or otherwise publicly used the name Orkin Exterminating Company, the only way in which a customer would have been attracted to Pestco under this name would have been to look up the name in the telephone directory. The use of the name in the white pages of the directory requires prior knowledge and familiarity with the name so that it could be located alphabetically. This prior knowledge could only have resulted from Orkin's reputation and goodwill previously imbued in the mind of the customer. The alphabetical location of the name in the yellow pages, in the years that it did appear there, would most likely have been used mainly by people with some prior knowledge of Orkin.

There was no noticeable drop in the number of calls for Orkin received by Pestco during the seven-year period from 1970 to 1976 when there was no yellow page listing of Orkin by Pestco. (Mr. Valder testified that "hopefully" there would not have been such a drop. In fact, he said, there should have been an increase because of the exposure of the name of another company that shared the same line.) The only way that a customer could have called Pestco during this period would have been to look up the name Orkin Exterminating Company alphabetically in the white pages which, as I have indicated, would have required a prior knowledge of Orkin and sufficient goodwill to attract the customer.

All of the consumer witnesses who gave evidence at trial testified that if they required pest control services in Toronto they would likely look in the telephone directory for the name of a company, if not specifically for Orkin's name. Without exception, these witnesses said that if they saw the Orkin name they would immediately connect it with the plaintiff.

A further circumstance which I think is important is the way in which Pestco used Orkin's name. Not only was it dishonest because it was intended to deceive customers into thinking that there was some connection with Orkin, it was also not a bona fide use in that no real steps were taken to create in the public mind any association between "Orkin" and Pestco. The only public use of "Orkin" to attract business was that in the telephone directories and even this use was not one which connected the name with Pestco but rather merely served as a trap for the unwary customer who, after being initially attracted by the name Orkin Exterminating Company in the directory, was thereafter served by Pestco. The evidence given by Mr. Valder on cross-examination made Pestco's position clear in this regard:

Q. The name Pestco is both part of your corporate name and the trademark of your company?

A. Yes.

Q. You have a registered trademark for the name Pestco in a design?

A. Yes.

Q. This is the name and the trademark which appears on all of your literature and brochures and business cards?

A. Yes.

Q. This is also the name that you want your customers to see as being your name and as identifying your business?

A. Yes.

Q. Orkin is just a name you use to get people's attention in the telephone directory; is that correct?

A. Yes.

Q. You don't advertise the name. You don't have business cards or uniforms or trucks with the name Orkin on them?

A. No. I said earlier I think we did advertise the name in a small home directory, but I couldn't swear to that. I couldn't recall.

The trial Judge was right in finding that [the defendant] Pestco "[d]uring the time it used the name 'Orkin Exterminating Company,' … did not create any significant amount of goodwill for that name or for the diamond logo." This, in fact, is an understatement. For all practical purposes Pestco has always carried on its business under the Pestco name and logo. In short, from the very beginning of Pestco's use of Orkin in Ontario it could not be said that Orkin meant one thing in the United States market and an entirely different thing in Ontario. See *United Drug Co. v. Theodore Rectanus Co.* [248 US 90 at 100 (1918)].

In the light of all these considerations, I am satisfied that from the beginning of its "use" of Orkin in 1967 Pestco acquired no rights against Orkin and that in 1967 Orkin, if it had known of the misappropriation, could have obtained an injunction against Pestco to protect its rights in Ontario. Orkin's rights, because of its steadily increasing reputation in Ontario, were even more solidly based in 1976 when Pestco began to use the Orkin logo.

As I have said, the three issues raised by the appellant substantially overlap. I have dealt with the first two. The third issue raised by the appellants is framed as follows: should damage to the property in the goodwill, if any, be presumed to have been incurred by Orkin and if so, was that presumption rebutted? Pestco submits, quite simply, that no damage to Orkin's goodwill has occurred in Canada because Pestco and Orkin are not competitors. Without damage there is no passing off. This argument is completely answered by the assertion that Orkin has suffered damage, sufficient to support a cause of action against Pestco, by virtue of its loss of control over the impact of its trade name in Ontario and the creation of a potential impediment to its using its trademark upon entering the Ontario market—both arising from Pestco's use of the name "Orkin" in Ontario.

For these reasons I would dismiss this appeal with costs.

Appeal dismissed.

Can an entity that does minimal business in Canada but that has a website accessible to (and accessed by) Canadians establish sufficient goodwill to make out a successful action in passing off in a Canadian court? How might such a company demonstrate its reputation? The following case considered these questions.

Sadhu Singh Hamdard Trust v Navsun Holdings Ltd
2016 FCA 69

GLEASON JA: …

[4] Hamdard Trust is the owner and publisher of an Indian Punjabi-language daily newspaper called the "Ajit Daily." This paper has been published in India since 1955 and is well-known among the Punjabi population in India. An online version has been available since 2002. Only a small number of subscriptions have been sold in Canada, but several of the affiants whose affidavits were before the Federal Court on the summary trial motion lived in Canada and deposed or confirmed in cross-examination that they were aware of the Ajit Daily and its reputation as an important Punjabi paper in India.

[5] The Bains Defendants own and publish a Canadian Punjabi-language newspaper called the "Ajit Weekly," a free newspaper that has been published in Canada since 1993 and that is distributed at the front of supermarkets and other stores. An online version has been available since 1998. The Ajit Weekly has carried advertisements that Hamdard Trust believes are offensive to some of the Ajit Daily readership.

• • •

IV. The Passing Off Claim

[19] Hamdard Trust alleges that in misappropriating the Ajit Daily logo the Bains Defendants were engaged in passing off in violation of subsection 7(b) of the *Trade-marks Act*, R.S.C. 1985, c. T-13 and in violation of Hamdard Trust's common law rights.

• • •

[22] In dismissing Hamdard Trust's trade-mark claim, the Federal Court found that Hamdard Trust had failed to establish any of the three necessary elements for a claim of passing off.

[23] With respect to goodwill, the Federal Court viewed the existence of goodwill from the viewpoint of the number of Ajit Daily subscribers in Canada. The Court noted as follows at paragraph 81 of its Reasons:

> The existence of commercial goodwill is tested by looking if the party has established that its goods are known in the market by reason of their distinguishing feature. The goodwill must have been created through the exclusive use of the name or mark with its business, wares or services. The relevant market where a plaintiff proves [its] reputation is the defendant's market [citations omitted]. So I must ask myself if the people that subscribe (seven subscribers) to the Ajit Daily in Canada are likely to suffer a misrepresentation because of the Ajit Weekly's reputation in the same market.

[24] The Federal Court continued its analysis of the issue in paragraph 84 of its Reasons by stating:

> The Plaintiff's evidence falls short of demonstrating reputation in the Defendants' geographic region. There is no survey or other independent reputable evidence before me to find that the Ajit Daily has commercial goodwill in Canada or is famous in Canada as the only evidence presented to me is of seven subscribers in Canada in 2010.

[25] In analyzing the existence of goodwill solely from the perspective of those who were shown to have read the Ajit Daily in Canada, the Federal Court erred in law because use of a trade-mark in Canada is not a necessary pre-condition for the existence of goodwill in Canadian law. Rather, the requisite goodwill within a defendant's market may be shown to exist by virtue of the reputation of the plaintiff's trade-mark in the defendant's market, even where the plaintiff does not use the trade-mark in that market: *Orkin Exterminating Co. Inc. v. Pestco Co. of Canada Ltd. et al.*, [1985] O.J. No. 2536, 1985 CarswellOnt 144; *Enterprise Rent-A-Car Co. v. Singer*, 1996 CanLII 4034 (FC), [1996] 2 F.C.R. 694, 1996 CarswellNat 2506 at paragraph 52 aff'd 1998 CanLII 7405 (F.C.A.).

[26] As the Ontario Court of Appeal noted in *Orkin*, at paragraph 49:

> […] a plaintiff does not have to be in direct competition with the defendant to suffer injury from the use of its trade name by the defendant. If the plaintiff's trade name has a reputation in the defendant's jurisdiction, such that the public associates it with services provided by the plaintiff, then the defendant's use of it means that the plaintiff has lost control over the impact of its trade name in the defendant's jurisdiction.

[27] Here, there was evidence before the Federal Court to indicate that the Ajit Daily enjoyed a reputation in the eyes of several affiants in Canada as a well-known Punjabi-language newspaper published in India. There was also evidence that a number of Canadians accessed the Ajit Daily's online version by visiting its website. It was incumbent on the Federal Court to evaluate this evidence to determine whether it was sufficient to establish that the Ajit Daily had garnered a reputation among a wider group in Canada than the few subscribers who bought the paper. Had such a wider reputation been established, it would have been sufficient to establish the requisite goodwill to meet the first step in the tripartite test for passing off. The Federal Court, however, did not engage in this analysis as it erroneously viewed the issue of goodwill from the vantage point of the few Canadian subscribers who were shown to have purchased the Ajit Daily in Canada. The Federal Court therefore erred in law as it failed to apply the correct test for the assessment of goodwill.

c. *Shared Goodwill*

The previous cases explored the issue of whether a trader has established goodwill in a mark or product appearance. Where the trader has done so, it is said that the mark is distinctive of the trade source. In some cases, however, a particular name or logo may be distinctive of a certain kind or quality of goods or services that is unique to a defined group of traders. Although no single trader can claim the mark as its own, all of the traders in the group may have an interest in preventing others from using the mark to identify goods or services that are not of the same kind or quality. The concept of "shared goodwill" evolved to address such circumstances. The case below concerns the issue of shared goodwill in the term "champagne" as applied to wines produced by the prescribed method originating from the Champagne region of France.

Institut national des appellations d'origine des vins et eaux-de-vie et al v Andres Wines Ltd et al
(1987), 60 OR (2d) 316, 16 CPR (3d) 385 (H Ct J),
aff'd (1990), 74 OR (2d) 203, 30 CPR (3d) 279 (CA),
leave to appeal to SCC refused, (1991), 33 CPR (3d) v

DUPONT J:

[1] The plaintiffs seek injunctive relief restraining the defendants from using the appellation "Champagne" in the manufacture and sale of their products; they also seek damages for loss of sales, diminution of their market, and depreciation of goodwill allegedly resulting from the defendants' use of the appellation "Champagne."

[2] With regard to the assessment of damages, the plaintiffs rely upon a trade treaty between Canada and France, brought into force in Canada by the *Canada-France Trade Agreement Act*, S.C. 1932-33, c. 31, on June 10, 1933, whereas they base their claim for injunctive relief upon the common law action of passing off.

[3] The plaintiff, L'Institut National des Appellations d'Origine des Vins et Eaux-de-Vie (I.N.A.O.), is a national organization established by French law; its primary duty is to regulate the areas and conditions of production and sale of wines and spirits bearing controlled appellations of origin. Its co-plaintiffs are companies incorporated under the laws of the Republic of France and carry on business as producers of wine in geographically designated areas located in that part of France described as the Champagne District.

[4] The defendants are companies duly incorporated in Canada who for many years have been producing, advertising and selling sparkling and still wines under various names, some of which incorporate the word champagne; in particular, "Canadian Champagne."

[5] The plaintiffs claim the right to sue together on their own behalf as producers of wine in the Champagne District who are engaged in the sale of champagne in Ontario. The common interest they assert is in the goodwill associated with the word champagne; they argue that their goodwill has been detrimentally affected by the defendants' alleged improper use of the term.

[6] The defendants strongly take issue with such joint or collective action, submitting that this procedure is without precedent in Canadian jurisprudence and should be rejected.

. . .

History

[8] The sparkling wine champagne is a product of the Champagne District of France. The area's history in wine-making dates back to Roman times, in the fourth century. When the area was incorporated into France, it was geographically described as the Province of Champagne. Provinces were abolished during the French Revolution and replaced by departments. Within the Department of Marne is the administrative region of Champagne—Ardennes, about 100 miles east of Paris, within which is located the champagne wine-growing area. However, only specified parts of the District of Champagne are designated as appropriate for the production of champagne.

[9] Until the end of the seventeenth century, only still wines of a generally high quality were produced here. Some still wine houses remain in existence today. Between 1690 and 1700 the first sparkling wine was produced, and its introduction eventually transformed the entire wine industry. By way of example: by the end of the eighteenth century, 95 per cent of wines produced in Champagne were still. By the end of the nineteenth century, the reverse was true: 95 per cent of wine production was sparkling and only 5 per cent was still. Annual exports of champagne have increased from 300,000 bottles at the end of the eighteenth century to 200 million today. The percentage of exports has decreased from the end of the nineteenth century to date, from three-quarters to one-third of production.

[10] Refinement of champagne, which is a blend of red and white grapes, is a continuing process, even until today, with degrees of dryness and sweetness altered to suit the tastes of particular foreign palates.

[11] It is a matter of historical interest to note that the French champagne industry was devastated by the Phylloxeric invasion in the 1890s and early 1900s. The pest literally destroyed all the vine roots in the Champagne District. The industry was re-established by importing vine roots from California, to which French vines were grafted. As the nature of the fruit is determined by that part of the vine *above* the graft, it permitted the French champagne producers to harvest the same type of grapes produced prior to the invasion and resume champagne production as it existed previous to the infestation.

[12] It is conceded that champagne from France, which has been exported internationally since shortly after its initial production in France, has attained a high reputation as a product of unequalled quality. It is considered as a drink for important celebrations and occasions. Exports to Canada date from 1745, and by the turn of the twentieth century, a substantial amount of champagne from the leading French champagne houses, most of whom are plaintiffs in this action, was being imported into Canada for sale. Sales of French champagne in Ontario have increased steadily to date, with an interruption during the war years.

French Law Relating to Appellations of Origin

[13] Prior to 1905, the general laws of France protected the rights of producers of various products, including wine, which were qualified to use appellations of origin. Such laws, codified after 1905, provided for the designation of areas in France within which certain products were deemed appellations of origin, based on custom, usage, etc.

[14] In 1919, the term "appellations of origin" was legally defined:

> Article "A" constitutes an appellation of origin, the denomination of a country, a region or an area which designates a product which comes from that area and the qualities of which, or the characteristics of which, are due to the geographical area, which includes natural and human factors.

[15] The areas designated for the appellation champagne are located within the administrative and geographical Champagne District; in particular, Epernay and Rheims.

[16] Existing French laws pertinent to appellations of origin provide for a standard of production, a method of fermentation and a choice of grapes. The product must satisfy all these requirements in order to qualify for the use of the appellation. For example, the

selection of grapes is limited to Chardonnay, Pinot Noir and Meunier. The planting and harvesting of the grape and the subsequent production of the wine through the double fermentation process in bottles or in cuvé close is all rigidly controlled by law. The very areas designated for champagne production, featuring white chalky terrain with certain prevailing temperatures, are also determined by statutory proceedings. The resulting naturally sparkling wine called champagne is of an undisputedly high quality which, over centuries, has created considerable, and economically significant, goodwill.

[17] Infractions of the rules of production may lead to charges under penal statutes and to the withdrawal of the appellation champagne from those products which were produced in contravention of the strict rules. Therefore, the appellation champagne applies solely to wines which have met all the required conditions and standards of production as set down in the relevant laws and regulations.

• • •

Shared Goodwill

[30] There are many producers of wine in the Champagne District but not all are entitled to use the appellation of origin champagne in connection with their product. All those who do qualify are permitted to use the appellation and as a result share equally in the benefits derived from the goodwill attached to the named product. It follows that non-existent but future, qualifying producers would also share in these benefits.

[31] As indicated earlier, the laws of France provide for and protect all producers of sparkling wine whose grapes, area of growth, method of production, marketing and standards meet the stringent regulations in France; those laws permit them to advertise and market such wines as champagne. Each producer has a shared vested interest in the national and international goodwill and reputation of the name champagne. Included among such producers are the plaintiff champagne houses.

[32] A contentious issue to be determined by this Court is whether the concept of "shared goodwill" should be approved in this case, so as to allow the 16 plaintiffs to have a common cause of action.

[33] The co-plaintiffs, 16 separate French champagne producing houses, assert the right to use the name champagne in connection with the wine they produce. This right, claimed by each, severally, is nevertheless *shared* by them, together with any and all producers of French champagne. For the purposes of this suit, only 16 producers have joined in the action as co-plaintiffs. It is to be noted that each plaintiff is claiming on its own behalf, in contrast with a class action where representative claims are advanced on behalf of unnamed persons belonging to a particular class.

[34] The plaintiffs' claim against the defendants is based on the common law tort of passing off. In its classic form, the tort requires that the defendant try to pass off its goods as those of the plaintiff; that is, merchant "A" would lead the public to believe that his goods were in fact those of merchant "B." But this is not the essence of the plaintiffs' claim here, where they do *not* allege that defendants are passing off their goods as the *particular product of any one of the 16 champagne houses*. They do not maintain that the defendants are passing off their champagne as a wine manufactured by any one of the named plaintiffs. Rather, the basis of their allegation is that the defendants are passing off their wine product as champagne, whereas in fact it is not champagne, according to the plaintiffs' definition.

[35] The defendants reply that such a factual distinction is fatal to the plaintiffs' cause of action, and makes the tort of passing off, in its traditional form, unavailable to the plaintiffs in this case.

[36] There was perhaps some merit to the defendants' contention prior to the 1960s, when the common law in this area required the plaintiffs to establish a direct or indirect connection between the plaintiff's product and that of the defendant against whom the cause of action was being asserted. But the law of passing off has changed dramatically since then, and English decisions of the Court of Appeal and the House of Lords have recognized the legitimacy of extending the principles of passing off to cover the particular situation facing this Court. As I read these decisions, the fact that the plaintiffs are asserting a shared right to use the name champagne does not disentitle them to protect the name by a passing off action.

[37] The first case to define the problem at hand was *Bollinger v. Costa Brava Wine Co. (No. 1)*, [1959] 3 All E.R. 800, (sub nom. *Bollinger v. Costa Brava Wine Co. (No. 3))* [1960] Ch. 262, [1960] R.P.C. 16 (Ch. D.), the "*Spanish Champagne*" case, whose facts are very similar to those in the instant case. Twelve French champagne producers objected to the use by the defendants of the name "Spanish Champagne" for wine produced in Spain or from grapes grown in Spain. They did not claim that the defendant's product was being passed off as the wine produced by any one of the named plaintiffs. Rather, they argued that the name champagne was part of *their goodwill* which was injured by the defendant's conduct [at 25 RPC, 804 All ER]:

> [W]here a number of persons produce goods in a geographical area and these goods become known by the name of the … area and … acquire a reputation, persons who produce similar goods outside the geographical area and attach the name of the … area to their goods are guilty of … "unlawful competition" and are passing-off their goods as the goods of other persons. …

They argued further that it was not an objection that the plaintiffs had no "exclusive right to the name 'Champagne' in the sense that they share the right to use it with all other persons who produce wine in the Champagne area."

[38] As Danckwerts J. perceived, the issue was whether [at 27 RPC, 806 All ER]:

> an action lies at the suit of one or more traders who, as well as others, use or are entitled to use the particular name or description.

After an extensive review of the English and American case law on point, Danckwerts J. concluded [at 32 RPC, 810-11 All ER]:

> There seems to be no reason why such licence should be given to a person, competing in trade, who seeks to attach to his product a name or description with which it has no natural association, so as to make use of the reputation and goodwill which has been gained by a product genuinely indicated by the name or description. In my view, *it ought not to matter that the persons truly entitled to describe their goods by the name and description are a class producing goods in a certain locality, and not merely one individual*. The description is part of their goodwill and a right of property. I do not believe that the law of passing off, which arose to prevent unfair trading, is so limited in scope. [Emphasis added.]

The plaintiffs' shared goodwill in the name or description champagne was thereby protected.

[39] The "*Spanish Champagne*" case was approved by Cross J. in *Vine Products Ltd. v. Mackenzie & Co. (No. 2)*, [1969] R.P.C. 1, [1967] F.S.R. 402 (Ch. D.), the "*Sherry*" case, in which Spanish Sherry producers objected to the use of the term "British Sherry" used by English producers of Sherry. Although Cross J. refused to grant an injunction for other reasons, the case is important because it recognized that the law of passing off was extended due to the "*Spanish Champagne*" case. In discussing the latter case, Cross J. explained [at 22 RPC]:

> [I]t could not be said that the word "Champagne" was a trade name or description in which each producer has an individual right of property of such character that he could license its use by someone else.

[40] *John Walker & Sons Ltd. v. Henry Ost & Co.*, [1970] 1 W.L.R. 917, [1970] 2 All E.R. 106, [1970] F.S.R. 63, [1970] R.P.C. 489 (Ch. D.), followed the trend established by the "*Spanish Champagne*" case. An action for passing off was brought by 12 companies, all blenders and exporters of Scotch Whisky, against two companies, the first for selling labels and bottles to enable the second to pass off in Ecuador, as Scotch Whisky, liquor which was in fact a mixture of whisky and local cane spirit. Without much discussion of the issue, Foster J. simply relied on the precedent cases [at 505-6 RPC, 117 All ER]:

> I agree with the decisions [of both cases] and I propose to follow them. In my judgment, the plaintiffs do fall within the principle enunciated in [that] case. …

[41] This case in turn was followed by *H.P. Bulmer Ltd. & Showerings Ltd. v. J. Bollinger S.A. & Champagne Lanson Père et Fils*, [1978] R.P.C. 79 (C.A.), an action involving the use by English Cider producers of the terms "Champagne Cider" and "Champagne Perry."

[42] Buckley L.J. began with first principles, explaining that the proprietary right protected by the law is not a right in the name itself, but rather, in the reputation or goodwill of which "the name is just the vehicle or badge." Therefore, what is susceptible to damage is that goodwill or reputation—something which the plaintiff is entitled to have protected. In this case the champagne houses, once again, alleged that they had acquired goodwill attached to the name and description champagne.

[43] Buckley L.J. then went on to describe the distinctive features of this case [at 96]:

> First, the word "Champagne" is not distinctive of the product of any one Champagne House … . [S]econdly, none of the Champagne Houses … could object to a new manufacturer of sparkling wine made according to the Champagne method setting up business in the Champagne District and describing his wine as Champagne. …
>
> These considerations … suggest [the question]: … have all [Champagne Houses] collectively, a status to sue in respect of the use of a descriptive word to the use of which none of them has an exclusive right?

[44] In answering this question, Buckley L.J. relied exclusively on Danckwerts J.'s decision *Bollinger v. Costa Brava Wine Co.*, *supra* [at 98]:

> I propose … to assume … the decision was correct. … . [It] seems to me that he did accept each Champagne House had a separate goodwill in the word "Champagne." …

Quoting Danckwerts J.'s judgment, Buckley L.J. explained [at 98]:

> This language seems to me to be consistent only with the view that each Champagne House was entitled to the goodwill in the word "Champagne" which constituted part of that House's own goodwill in its business. … The ability of any one Champagne House to describe its produce as Champagne is of value to it not in relation to the Champagne market but in relation to the wider wine market distinguishing their products from other wines. Anything which would be likely to depreciate the value of that ability would tend to damage the particular Champagne House in its trade.

[45] The issue of the validity of the concept of shared goodwill was finally dealt with by the House of Lords in *Erven Warnink BV v. J. Townend & Sons (Hull) Ltd.*, [1979] A.C. 731, [1979] 2 All E.R. 927 at 929, [1980] R.P.C. 31 at 89 (H.L.), the "*Advocaat*" case. Lord Diplock, in his opening remarks, immediately defined the case as:

> an action for "passing off," not in its classic form of a trader representing his own goods as the goods of somebody else, but in an extended form first recognised and applied by Danckwerts J. in the *Champagne* case.

[46] According to Lord Diplock the issue for determination was clear [at 90 RPC, 929 All ER]:

> … whether this House should give the seal of its approval to the extended concept of the cause of action for passing off that was applied in the *Champagne*, *Sherry* and *Scotch Whisky* cases.

In its decision, the House clearly gives its seal of approval.

[47] First, Lord Diplock noted the special features of a shared goodwill claim [at 94-95 RPC, 934 All ER]:

> The features that distinguished it from all previous cases were (a) that the element in the goodwill of each of the individual plaintiffs that was represented by his ability to use without deception … the word "champagne" to distinguish his wines from sparkling wines not made by the champenois process from grapes produced in the Champagne district of France, was not exclusive to himself but was shared with every other shipper of sparkling wine to England whose wines could satisfy the same condition and (b) that the class of traders … was capable of continuing expansion, since it might be joined by any future shipper of wine who was able to satisfy that condition.

[48] Lord Diplock had no difficulty in concluding that Danckwerts J.'s decision was correct:

> I would hold the *Champagne* case to have been rightly decided and in so doing would adopt the words of Danckwerts J. …

Conclusion

[49] Although the concept of shared goodwill in a single name or mark seems novel, it is clear that the principle has received lengthy and repeated consideration by the highest Courts in England. Originally raised and elaborated in both the High Court of Justice and the Court of Appeal, the notion of an extended cause of action for passing off was, finally, given the "seal of approval" by the House of Lords.

[50] As all the judgments discussed make clear, the absence of a connecting identity between the defendants' goods and those of the plaintiffs is not fatal to the latter's claim for passing off; the defendants need not have passed off their goods as those of any one of the 16 plaintiff champagne houses. For the plaintiffs are claiming damage to the goodwill and reputation they share with all French champagne houses in the legitimate use of the name champagne. The proprietary right is not a right in the *name* itself, but in the reputation or goodwill associated with it. As such, their claim is based on the alleged damage to this goodwill which each shares jointly with the other qualifying producers of the Champagne District.

[51] Given the nature of the claim, which is peculiar to this kind of situation, it is clear that the law of passing off was forced to expand. Since the classic form of the passing off action could not help protect these appellations of origin, such expansion was necessitated in order to cover them. What is clear is the English Courts' unwillingness to *limit* the principles of passing off to only those situations where there is a direct or indirect connection between the goods of the plaintiffs and the defendants and where ownership of the goodwill in a mark resides in one plaintiff only. As Danckwerts J. wrote [*Bollinger v. Costa Brava Wine Co.*, *supra*, at 31 RPC, 811 All ER]:

> [I]t ought not to matter that the persons truly entitled to describe their goods by the name and description are *a class producing goods in a certain locality, and not merely one individual.* The description is part of their goodwill and a right of property. *I do not believe that the law of passing off, which arose to prevent unfair trading, is so limited in scope.* [Emphasis added.]

[52] In conclusion, there seems to be no basis for ignoring the strong precedent set by the decision of the House of Lords in the "*Advocaat*" case. The fact that no Canadian Court has considered the question is no reason for this Court to shy away from following and applying the English judgments to what it considers an appropriate case.

Note that the concept of "shared goodwill" was indirectly approved by the Supreme Court of Canada in *Consumers Distributing Co v Seiko*, [1984] 1 SCR 583 (considered below). The common law concept of shared goodwill has its registered trademark counterpart. Sections 23-25 of the *Trade-marks Act* deal with the registration of "certification marks," which play a role similar to that of shared goodwill.

d. Loss of Reputation

It is possible for acquired reputation to be lost. This can happen through acquiescence over time to competitors using an identical or similar trademark such that it is no longer distinctive of the plaintiff as a trade source. It can also happen when a mark becomes generic—that is, when it is treated by consumers as the name of the product itself rather than as a mark indicating a particular trade source for the product. Goodwill can also be lost when the distinctive name for a product or service is no longer used—for example, when the source company ceases trading. But what if the closure of a business is only meant to be temporary and the plaintiff intends to reopen his or her business? In the case below, consider what factors led the court to conclude that goodwill still existed in the plaintiff's unused mark.

Ad-Lib Club Limited v Granville
[1971] 2 All ER 300, [1971] FSR 1 (Ch D)

PENNYCUICK V-C: …

By the motion now before me the plaintiff company seeks an interlocutory order restraining the defendant from carrying on business as a proprietor of a discotheque night club or other place of entertainment under the name or style AD-LIB or under any other name or style including the words AD-LIB and from in any other manner passing off or causing to be passed off the defendant's business as and for the business of or concerned with the plaintiff.

• • •

The plaintiff company was incorporated in 1964, one of its main objects being to establish and carry on a members' club and on 4th February 1964,

> "the plaintiff company commenced carrying on business as proprietors of the AD-LIB CLUB at premises which they leased on the fourth floor of Charles House, 7 Leicester Place, London, W.1. This club was a discotheque club restricted to members.
>
> "5. By September 1964 the AD-LIB CLUB had become a widely known and successful night club as will be seen from two articles" which are exhibited. I need not refer to those 1964 articles, because on the evidence before me it is perfectly clear that the plaintiff company had by the end of the year 1965 established a substantial goodwill to which, of course, the name AD-LIB was attached.
>
> "6. The AD-LIB CLUB remained at the premises in Charles House until January 1966 and throughout this period continued to enjoy immense success as one of London's most popular night clubs. Within two months of the plaintiff company commencing business the membership of the AD-LIB CLUB was about 500, by the end of 1964 it had increased to approximately 4,000 and immediately prior to its closure in January 1966 it was a figure in excess of 4,000.
>
> "7. On the 5th January, 1966, the plaintiff company was forced to discontinue running the AD-LIB CLUB at its premises in Charles House on account of the noise emitting to neighbouring premises, and on the 10th January 1966 a permanent injunction was granted against the plaintiff company to this effect.
>
> "8. Until 20th December 1966 the plaintiff company continued to pay the rent of the said premises in the hope of being able to make them sufficiently soundproof to enable the AD-LIB CLUB to recommence and on or about the 20th December 1966 the plaintiff company arranged with the landlords of these premises to be released from further obligations under their lease by making" a specified payment.
>
> "9. Since that date the plaintiff company has been seeking alternative premises in order to re-open the AD-LIB CLUB but so far without success."

He then exhibits an article in "Daily Express" for 13th November 1970 from which it appears that the defendant is intending to reopen the original AD-LIB CLUB run by the plaintiff company on the same premises as before. The article does indeed use the expression "reopen." It says: "The AD-LIB, first and most successful of London's swinging discotheques of the 1960s will reopen this month."

• • •

The basis of the present action, to quote the words of Lord Parker in the case of *Spalding (A.G.) & Brothers v. A.W. Gamage Limited*, (1915) 32 R.P.C. 273, is a proprietary right not so much in the name itself but in the goodwill established through use of the name in connection with the plaintiff's, here, establishment. I have no doubt that on the evidence the plaintiff company had by the end of 1965 established a substantial goodwill to which the name AD-LIB CLUB was attached and that that name had become distinctive of the plaintiff company's establishment. It follows beyond a doubt that if at the end of 1965 any other person had sought to use the name AD-LIB in connection with a club of this character that would have been a plain invasion of the plaintiff company's goodwill. The question which is raised by the present action is simply whether by the interval of some five years which has passed since the plaintiff company's club was closed the plaintiff company must be regarded as having ceased to have any goodwill to which this name could fairly be said to be attached.

The matter is put in Halsbury's Laws of England, third edition, volume 38, page 59, in these terms:

> Since the right of action for passing off is based on injury to goodwill, a person who has ceased to carry on the business in which a mark or name was used, or has discontinued the use of the name or mark in his business, cannot maintain an action for passing off in respect of the name or mark, unless, it seems, he can prove that the name or mark retains a residual renown as denoting his goods.

In support of that statement there is cited the case of *Norman Kark Publications Ltd. v. Odhams Press Ltd.*, [1962] 1 All E.R. 636, [1962] R.P.C. 163 in which the first paragraph of the headnote reads:

> In an action to restrain the use of a magazine or newspaper title on the ground of passing off the plaintiff must establish that, at the date of the user by the defendant of which the plaintiff complains, he has a proprietary right in the goodwill of the name, viz, that the name remains distinctive of some product of his, so that the use of the name by the defendant is calculated to deceive; but a mere intention on the part of the plaintiff not to abandon a name is not enough.

Wilberforce, J. went at length into the principles underlying proprietary right in goodwill and annexation of a name to goodwill and the laws of the right to protection of a name and on the facts of that particular case he held that the plaintiff company had lost its right in respect of the name TODAY as part of the title of a magazine.

It seems to me clear on principle and on authority that where a trader ceases to carry on his business he may nonetheless retain for at any rate some period of time the goodwill attached to that business. Indeed it is obvious. He may wish to reopen the business or he may wish to sell it. It further seems to me clear in principle and on authority that so long as he does retain the goodwill in connection with his business he must also be able to enforce his rights in respect of any name which is attached to that goodwill. It must be a question of fact and degree at what point in time a trader who has either temporarily or permanently closed down his business should be treated as no longer having any goodwill in that business or in any name attached to it which he is entitled to have protected by law.

In the present case, it is quite true that the plaintiff company has no longer carried on the business of a club, so far as I know, for five years. On the other hand, it is said that the plaintiff company on the evidence continues to be regarded as still possessing goodwill

> to which this name AD-LIB CLUB is attached. It does, indeed, appear firstly that the defendant must have chosen the name AD-LIB CLUB by reason of the reputation which the plaintiff company's AD-LIB acquired. He has not filed any evidence giving any other reason for the selection of that name and the inference is overwhelming that he has only selected that name because it has a reputation. In the second place, it appears from the newspaper cuttings which have been exhibited that members of the public are likely to regard the new club as a continuation of the plaintiff company's club. The two things are linked up. That is no doubt the reason why the defendant has selected this name.
>
> It will be observed that there is no question here of a name referring to a locality, type of activity or anything of that kind, unless one considers AD-LIB as a form of activity.
>
> I think that the proper inference to be drawn from the evidence is that the plaintiff company has indeed a residual goodwill to which this name is attached and that that goodwill is an asset of value in the hands of the plaintiff company which it is entitled to exploit, if it is so minded, in future and which it cannot be said to have abandoned. That being the position, the name is something which it is entitled to have protected by injunction.
>
> When one comes to the balance of convenience, there is a balance which, so far as I can see—and I have only the plaintiff company's evidence before me—is wholly in favour of granting immediate interlocutory relief. It is pointed out and it is plainly right that if the defendant once opens his club under the name of AD-LIB CLUB the plaintiff company's goodwill in that name will be gone and gone for good. On the other hand, apart from, I suppose, such promotion expenditure as has been incurred it cannot be any hardship to the defendant to be restrained from carrying on his new club under a name which he can only have selected because of the reputation in that name which resulted from the successful activities of the plaintiff company.

Canadian cases that have addressed the issue of abandonment include *CCH Canadian Ltd v Butterworths*, [1992] 1 FC 3 and *Franklin Supply Co v Midco Supply Co*, 1995 CanLII 9185 (Alta QB).

As noted above, a name or product appearance must be distinctive of a particular trade source. It is possible for a product name to be used over time in such a way that it comes to be associated with the particular type of consumer good, and not with a particular trade source. This is usually referred to as a product name becoming "generic." It is not always easy to determine when a term has lost its distinctiveness and become generic. The issue arose in *Institut national*, a case we have already considered above, in Section II.B.1.c, "Shared Goodwill."

Institut national des appellations d'origine des vins et eaux-de-vie et al v Andres Wines Ltd et al
(1987), 60 OR (2d) 316, 16 CPR (3d) 385 (H Ct J),
aff'd (1990), 74 OR (2d) 203, 30 CPR (3d) 279 (CA),
leave to appeal to SCC refused, (1991), 33 CPR (3d) v

DUPONT J: …

General Use of the Term Champagne

[151] The high reputation of French champagne is well established throughout most of the world. These champagnes are associated with the highest quality and excellence in sparkling wines. In the view of wine experts and authors who write on the subject, champagne has but one and admits of no other meaning; it is a sparkling wine product originating from a delimited area in the Champagne District of France, produced from grapes grown there and elaborated by methods dictated by French law. It is universally acknowledged that it is associated with success, festivities and celebrations. The following two extracts of published articles are indicative of the prevailing views of many authors who write on this topic.

[152] In a *Chatelaine* feature, "Holiday Bubbles," by Margaret Swaine (Ex. 92, tab 5) she writes:

> Real Champagne comes from only one very specific area in northeast France, although it has many excellent sparkling cousins.

In another article, "The Champagne Route" by Richard Hinton (Ex. 92, tab 7) he writes:

> Champagne; the very word is synonymous with elegance, taste and quality and conjures images of festivity and celebration. The word also defines an area approximately 100 miles northeast of Paris wherein some of the world's finest wines are produced.

[153] Plaintiffs filed Ex. 91 which contains dictionary definitions, particularly those of French or other European origin, which describe champagne as uniquely a white sparkling wine made in the old province of Champagne in France. The exhibit includes several Canadian publications as well. For example, *The Winston Canadian Dictionary for Schools* (1960), which states:

> Champagne
>
> (1) a light, sparkling almost colourless wine made originally in the northeast part of France;
> (2) in careless use, any sparkling wine

In the publication *Vigne et Vin au Canada* by Georges Masson, the author writes:

> *Bien que le champagne rest toujours le meilleur des mousseux, il a été imité dans toutes les regions et pays viticoles. Les imitations les plus connues sont Le Saumur et Vouvray en France, L'Asti Spumante en Italie, Sekt en Allemagne, New York State et California "Champagne" et le "Champagne" canadien. Leur qualité varie du bon au pire, dependant des variétés de raisins.*

[154] The defendants contend that the term champagne has become generic. In support of their argument defendants have tendered evidence that both nationally and

internationally the term has for many years been used increasingly in connection with many different commercial products to suggest high quality or excellence.

[155] A significant example of this kind of use is the description of a brand of ginger ale as the "Champagne of ginger ales." The word is also used to describe a colour, which resembles the colour of the actual wine. The evidence reveals that the term is also currently used to describe a *type* of wine which is sparkling or bubbly as a result of a double fermentation process occurring in the bottle. I have no doubt that this is a misuse of the term which originally and to a meaningful degree still describes only the product coming from the District of Champagne which is made according to the strict rules of production as set down in the laws and regulations pertaining to the appellation of origin champagne.

[156] However, I also have no doubt that the term has been misused and effectively diluted for a considerable time. The adulteration over the years of the word champagne is due in large measure to foreign production of sparkling wine under the label champagne, albeit with a qualification indicating that the product's origin is not France. Many American wines labelled champagne are and have been marketed for many years in the United States.

[157] The evidence given by Mr. Agostini and by the present and former directors of the C.I.V.C. confirms that the French champagne houses' monopoly of the use of the term champagne to describe their wine products has suffered serious international setbacks. Notwithstanding legal proceedings and/or diplomatic intervention over the years, sparkling wines have in the past and still are, being marketed under the name champagne in several countries, including the U.S., Argentina, Brazil, India and Australia.

[158] Not insignificant contributors to the problem are at least two champagne houses who are plaintiffs in this action. I refer in particular to Moet et Chandon who, as indicated earlier, for 25 years in Argentina and 10 years in Brazil, have either directly or indirectly as shareholders of wine-producing companies in these countries been involved in the production of sparkling wines; the grapes are grown in those countries and sold there as champagne. The labels use the name "Chandon," a name internationally associated with French champagne.

[159] Moet et Chandon is the largest producer of French champagne in the world and as such has a deep vested interest in maintaining the integrity and purity of the term champagne internationally.

[160] As I mentioned earlier, the chairman of the board of directors, Mr. Benard, explained that there was no other way for Moet et Chandon to benefit from the wine market of those countries, where the governments had by law prohibited imports of champagne and required all bottles of sparkling wine produced domestically to be labelled champagne. Similar activities were undertaken more recently by another plaintiff, Mercier.

[161] Moet et Chandon is also interested in the production of sparkling wine in California and lends its name to the product. In advertising its American product, it does not hesitate to use the term champagne as descriptive of a *type* of wine. For example, Ex. 79, an advertisement from *Gourmet Magazine* (December 1986) is for a California champagne called "Chandon." It describes the involvement of Moet in the development and production of this wine, made in California's Napa Valley at a vineyard named "Domaine Chandon." The advertisement asks, "After you've made great champagnes in France, where

do you go from there?" The answer provided is: "Here. You can buy some of the world's finest vineyard land in California's Napa Valley. (And Moet did exactly that.)" The text is peppered with the word champagne, and is used to describe a type of wine which is made in France and can obviously also be made in California.

[162] A similar misuse of the term, by attributing to it generic characteristics, is revealed in Ex. 81, a periodical entitled *Wines & Vines*. It quotes from an interview with an official of the French champagne house Piper Heidsieck, a plaintiff in this action. The passage is revealing:

> Marquis Francois d'Aulan, president of Piper Heidsieck Champagne Co., who in an interview said of the controversy over use of the word: "Really, what difference does it make?" and added: "It could well be that the less expensive 'California champagne' and 'New York State champagne' help popularize sparkling wines in the U.S. If Americans enjoy California or New York State champagne, they may, in time, and certainly on occasion, turn to the pleasures which French champagnes provide. People know that the U.S. champagnes are not French champagne. They know there is a difference. So you see, in the long run, it can help us."

[163] In support of their contention that the meaning of the word champagne has altered over the years and that its original, historical definition as an appellation of origin of France is no longer universally accepted as the sole definition, defendants filed Ex. 73; it is a consolidation of 38 dictionary definitions of the word champagne and was submitted as evidence of the current meaning of the word. They were all basically consistent in their definition. I quote from five dictionary entries:

1. *The Houghton Mifflin Canadian Dictionary of the English Language* (1980)—
   1) a sparkling white wine produced in Champagne France, or any similar wine made elsewhere;
   2) pale orange yellow to grayish yellow or yellowish grey—adj. of, for, or pertaining to this wine or color.
2. *Webster's New International Dictionary* (1934)—
   1) properly, a white sparkling wine made in the old province of Champagne, France, chiefly about Reims and Epernay, in the present department Marne. Champagne is bottled within a few months of the vintage and securely corked; fermentation proceeds within the bottle, generating carbon dioxide which renders the wine sparkling;
   2) any wine of the same type as champagne proper; loosely, any effervescent wine;
   3) a color, red-yellow in hue, of low saturation and high brilliance;
   4) v. i; —pagned; pagning. To drink champagne.
3. *The Concise Oxford Dictionary* (1984)—

   White (esp. sparkling) wine from Champagne or elsewhere; pale straw colour, [… former province in E. France]
4. *Webster's New Twentieth Century Dictionary* (1975)—
   1) originally, any of various wines, sparkling or still, white or red, produced in Champagne, France;

2) now, any highly effervescent, white wine, the effervescence being caused by fermentation in the bottle and the consequent generation of carbon dioxide: regarded as a symbol of luxurious living.

5. *Collins Dictionary of the English Language* (1980)—

1) a white sparkling wine produced around Rheims and Epernay, France;
2) any effervescent white wine;
3) a colour varying from a pale orange-yellow to a yellowish-gray.

[169] All this evidence does support the defendants' contention that the word champagne has assumed generic characteristics and that it is associated, generally, with wine of a sparkling or bubbly variety. Several authors on matters of wine bear witness to this perhaps regrettable but nevertheless undeniable adulteration. Mr. Tony Aspler, noted Canadian wine consultant and author who testified as an expert on behalf of the plaintiffs, admitted to his own misuse of the term. While strongly of the view and convinced that the term refers only to sparkling wines from the Champagne District, in his own publication, *International Guide to Wine*, he writes of "champagne style wine" in describing sparkling wines from Tasmania. He admitted that champagne can refer to a style of wine which would include Canadian champagne. In his publication *Vintage Canada*, he writes about Barnes Wines, a defendant in this action, and states, at p. 39:

> Apart from the obligatory German-style white, Weinfest and an excellent sturdy red called Beauvoir, the company also lists four champagnes … .

[170] Additionally, at p. 167, under "Leading Champagne," he lists three Canadian products sold as Canadian champagne. In other similar passages in his books he uses the term champagne to describe a style of wine as opposed to the wine made only in the Champagne District. At p. 139 of *Vintage Canada*, he reviews a certain Canadian product as "a terrific Canadian champagne." He stated emphatically that such use of the word champagne, even in his own publication, is improper.

[171] I have no doubt of Mr. Aspler's expertise as a wine consultant. I found him to be a true believer in the word champagne in its purest, unadulterated sense; he refuses to admit, or admits with much reluctance when faced with compelling evidence, that usage of the term, rightly or wrongly, has over the years, in various parts of the world including Ontario, developed and changed so that at present it has attained a secondary or more generic meaning. Such reluctance to admit the obvious, and his general demeanour in answering several questions, reflected negatively on his objectivity. When answering questions he had difficulty distinguishing between what he believed should exist and what the situation is in fact presently in relation to the use of the term. As late as May 30, 1987, in his column in the Toronto *Star*, he wrote: "At the recent Intervin International Wine Competition, Hillebrand won a silver medal for its Canadian Champagne.

[172] In an effort to ascertain the meaning of the word champagne to the Ontario public, the plaintiffs had a public survey taken. Approximately 500 households in Ontario were canvassed, the choice of which represented a cross-section of the Ontario population. The results were tendered in support of the plaintiffs' contention that the word champagne, for most people, is still associated with France or more particularly, the Champagne District of France.

[173] The survey, conducted by telephone within the last 60 days, posed the following questions to interviewees who were all at least 19 years old:

1. What, if anything, does the word *Champagne* mean to you?
2. When you think of *Champagne* do you think of any particular country or countries, or not?
3. What country or countries do you think of?

The following two tables, 1 and 3, from Ex. 24, show the results of the survey.

Table 1 Knowledge of Champagne

Base	Total respondents: 501	
	#	%
Wine	79	16
A drink/good drink/delicious drink	77	15
Bubbly/bubbles (wine)	70	14
Celebration	54	11
Special occasion (wedding, party etc.)	42	8
Alcoholic beverage	37	7
Beverage	29	6
Sparkling wine	24	5
(A) colour	18	4
Expensive wine/drink	17	3
Booze	13	3
Liquor/alcohol	12	2
France/French	11	2
Specific brands	6	1
Other mentions	54	11
Nothing/don't know	61	12

Table 3 Country Associated

• • •

	#	%	#	%	#	%
France	256	88	240	83	16	6
Canada	65	22	25	9	40	14
Italy	35	12	10	3	25	9
United States	33	11	7	2	26	9
Germany	24	8	1	*	23	8
Spain	14	5	1	*	13	4
England	5	2	–	–	5	2
Europe	5	2	2	1	3	1
Other Country	9	3	4	1	8	3
No other mention	–	–	–	–	157	54

[174] The purpose of the survey was to determine what people associate with the term champagne and whether, in their minds, it is connected to any particular country. The survey was not at all concerned with ascertaining the champagne purchasing habits of the public. Certainly the results support the plaintiffs' contention that a meaningful

> percentage of the population does associate champagne with France. Although the survey did relate to the issue of the reputation of French champagne, such reputation is undeniable and was not disputed by the defendants. Of greater concern are the plaintiffs' allegations of confusion and deception—issues which were neither addressed nor clarified by the survey. Questions directed more precisely to that issue would have been more helpful. By way of example, it would have assisted the Court if the following question had been asked as well: "What do you understand by the term 'Canadian Champagne'?"
>
> [175] Indirectly, the plaintiffs' survey sheds light on the defendants' allegation that the term has become generic because of its use in describing high quality commercial products or simply sparkling wines from anywhere in the world.
>
> [176] All the evidence in this regard has been compelling and the Court has no difficulty in finding that the word champagne has acquired generic attributes. It is widely used to describe a style or type of wine, and, outside of the wine industry, it is employed to denote unique character, high quality and excellence. However, in the Court's view, notwithstanding this evidence, the word has, at most, become "semi-generic," that is, has attained a secondary meaning.
>
> [177] I am not persuaded that the word has degenerated to the extent that it refers merely to a class or genus of products. The evidence clearly indicates that champagne simpliciter is still in part considered and accepted as referring to a particular and unique sparkling wine produced in France. Therefore, the fact that the term is also used to describe other wines or, more generally, to denote high quality in various products, is of limited consequence. Despite the considerable onslaught, the word champagne has resisted the pull; in the Court's opinion, it has not yet fallen into complete generic use.

Genericism is also an issue for registered trademarks, as will be seen in Chapter 4. A generic term (that is to say, a term that is the name of a product, product class, or service) is not registrable as a trademark, and a trademark that becomes generic at some point after registration is liable to be invalidated for loss of distinctiveness. Because registered trademarks are protected on a national basis, the *Trade-marks Act* bars the registration of a trademark that consists of "the name *in any language* of any of the goods or services in connection with which it is used" (s 12(1)(c)) [emphasis added]. But goodwill in passing off must be established in the particular geographic region where the mark has acquired a reputation through use. What languages should therefore be considered for genericism in passing-off cases? Should it be all languages, or only languages spoken or understood in the particular region where the issue arises? How should a court assess genericism in a language with which the court is unfamiliar? See *Yee Hong Centre for Geriatric Care v Grace Christian Chapel*, 2006 FC 650.

2. Misrepresentation or Confusion

The second element of the *Ciba-Geigy* test for passing off is misrepresentation or confusion. This is a crucial element. The plaintiff must be able to establish that the defendant misrepresented his or her goods or services as those of the plaintiff in a manner that was likely to cause consumer confusion. It is not necessary to show actual confusion; it is possible to get an injunction to prevent anticipated confusion if a product were allowed to enter the market.

Institut national des appellations d'origine des vins et eaux-de-vie et al v Andres Wines Ltd et al
(1987), 60 OR (2d) 316, 16 CPR (3d) 385 (H Ct J),
aff'd (1990), 74 OR (2d) 203, 30 CPR (3d) 279 (CA),
leave to appeal to SCC refused, (1991), 33 CPR (3d) v

DUPONT J: …

Common Law of Passing Off

[84] The elements of the common law tort of passing off are:

1. reputation or goodwill in the product;
2. a misrepresentation leading to or capable of leading to deception;
3. that such misrepresentation is likely to lead to damage to that goodwill or reputation.

[85] It is beyond contention on the evidence before the Court that there is associated with the term champagne as a product of the Champagne District a high reputation widely recognized in the world, including Ontario. As indicated earlier, each plaintiff has a vested shared interest in the goodwill associated with the name champagne.

[86] In order to succeed, the plaintiffs must establish that the defendants misrepresented their products as being sparkling wines known as champagne and produced in France; that such misrepresentation is calculated or likely to deceive the wine-consuming public into thinking that the Canadian product is champagne, and that such conduct has or is likely to injure the goodwill of the plaintiffs' business.

[87] While the conduct described as "unfair competition" has not in clear terms specifically been advanced by the plaintiffs as a basis for their claim for damages, cross-examination by plaintiffs' counsel of officials of defendant producers seems to have been directed to this issue. Cross-examination obtained several admissions that defendant corporations were benefiting from the use of the term champagne in describing their sparkling wine. The paucity of evidence of actual or likely deception might lead to the inference that reliance upon such economic benefits per se may constitute a valid cause of action. Such a contention amounts to saying that liability flows *without* the need to prove misrepresentation leading to actual or potential deception. I know of no such tort at common law, although the "*Spanish Champagne*" case may have at one time been interpreted as having extended the tort of passing off to that point. As Cross J. wrote in the "*Sherry*" case [at 23]:

> In truth the decision went beyond the well-trodden paths of passing off into the unmapped area of "unfair trading" or "unlawful competition."

[88] A close examination of the authorities, however, has revealed that unfair trading simpliciter is not a cause of action at common law unless it encompasses all elements of the tort of passing off as described earlier.

[89] It is perhaps appropriate at this point to examine the case law in this area, especially as it relates to the tort's requirement of misrepresentation resulting in a likelihood of deception.

[90] In its simplest form, the common law action of passing off, as it developed in the eighteenth and nineteenth centuries, concerned claims by plaintiff sellers or producers of a product who alleged having suffered damages as a result of [the] defendant's misrepresenting his goods as the goods of the plaintiff.

[91] Misrepresentation has always formed the basis of an action for passing off. As Lord Parker stated in *A.G. Spalding & Bros. v. A.W. Gamage Ltd.* (1915), 32 R.P.C. 273 at 284 (H.L.):

> [T]he basis of a passing off action being a false representation by the defendant, it must be proved in each case as a fact that the false representation was made. … The more common case is where the representation is implied in the use … of a mark, trade name, or get-up. … In such cases the point to be decided is whether … the defendant's use of such mark, name or get-up is calculated to deceive. …

The likelihood of deception, caused by such misrepresentation, is the nature of the damage to its business or goodwill against which the plaintiff seeks protection. It is the misrepresentation which damages or is likely to damage the goodwill of the plaintiff's business.

[92] This point is clearly made in the second "*Spanish Champagne*" case, *J. Bollinger v. Costa Brava Wine Co. (No. 2)*, [1961] 1 All E.R. 561, (sub nom. *Bollinger v. Costa Brava Wine Co. (No. 4))* [1961] 1 W.L.R. 277, [1961] R.P.C. 116 (Ch. D.). When dealing with the substantive issues of the case, Danckwerts J. immediately raised the central question of whether confusion would result between champagne imported from France and sparkling wine from Spain labelled "Spanish Champagne" [at 125 RPC, 565-66 All ER]:

> The suggestion is … that in the present case the Spanish wine is so like champagne that it is not improper to call it "Champagne" with the adjective "Spanish." But *for the purpose of the question which I have to decide—which is whether the name is calculated to deceive* … it seems to me that close resemblance makes the counterfeit not less *but more calculated to deceive*. …
>
> • • •
>
> I have now to consider whether the defendant's methods of advertising and selling their wine, which is not champagne, is calculated to deceive the public … into thinking that it is champagne.

[Emphasis added.]

[93] Danckwerts J.'s perception of the tort necessarily requires likelihood of public deception or confusion resulting from a misrepresentation by the defendants. Consequently, in concluding that the defendants had indeed "passed off" their goods as those of the plaintiffs', Danckwerts J. relied on the evidence of public deception to arrive at his decision [at 127 RPC, 567 All ER]:

> There is thus, in my view, a considerable body of evidence that persons whose life or education has not taught them much about … wine, but who from time to time want to purchase "Champagne," as the wine with the great reputation, are likely to be misled by the description "Spanish Champagne."

• • •

[100] "Misrepresentation" is recognized by the House as a fundamental feature; it is the first element in Lord Diplock's list, as it was for the Court of Appeal in the "*Champagne Cider*" case. The kind of misrepresentation which occurred in the "*Advocaat*" case differed

from the previous cases discussed above. It involved the use of the term "Advocaat" to a product whose composition differed completely from that of the "real Advocaat" from Holland. The original Advocaat was made of eggs and spirits; the defendant's drink was a mixture of eggs and wine. The misrepresentation was glaring, for it involved the representation of a wine-based drink as a spirit-based one. All the Advocaat imported from Holland, produced by a variety of companies, was subject in Holland to strict regulatory control as to its ingredients. The defendants, who produced their product in England, were not subject to any such controls in England. Hence the disparity between the two products.

[101] Lord Diplock found that no actual confusion between the products had resulted; however, the defendant's misrepresentation was nevertheless calculated to deceive the public and had damaged the plaintiff's goodwill. Upon such facts, the plaintiffs had a cause of action for passing off [at 91 RPC, 930-31 All ER]:

> [M]embers of the public believe and have been deliberately induced by Keeling to believe that in buying their "Old English Advocaat" they are in fact buying advocaat … . Keeling's deception of the public has caused and, unless prevented, will continue to cause, damage to Warnink in the trade and the goodwill of their business both directly in the loss of sales and indirectly in the debasement of the reputation attaching to the name "Advocaat" if it is permitted to be used of alcoholic egg drinks generally and not confined to those that are spirit based.

Lord Diplock considered that these facts disclosed a case of "unfair trading" for which the law ought to provide a remedy to those traders whose goodwill was injured by it. It is presumed that his use of the term "unfair trading" clearly included the element of misrepresentation in view of the five elements previously set out.

• • •

[103] The "*Advocaat*" case was considered in yet another beverage passing off action heard by the English Court of Appeal. In *Anheuser-Busch Inc. v. Budejovicky Budvar N.P. (trading as Budweiser Budvar Brewery)*, [1984] F.S.R. 413 (C.A.), the plaintiffs, brewers of beer in the U.S., and the defendants, brewers in Czechoslovakia, both claimed the right to use the word "Budweiser" in connection with beer they sold in England. The plaintiffs sought an injunction preventing the defendants from selling beer by the name "Budweiser"; the defendants sought the same by counterclaim. Both the High Court and the Court of Appeal held that neither party was disentitled to use the word.

[104] In the High Court, Mr. Justice Whitford explained that the feature which distinguished this case from the *Advocaat* case was the fact that the parties had each developed a separate goodwill and reputation in their products. The plaintiffs sold beer mainly in U.S. military and diplomatic establishments in England, whereas the defendants sold theirs more generally to the public at large. Acknowledging that misrepresentation is at the root of the action, Whitford J. wrote [at 441-42]:

> Lord Diplock is dealing with cases in which the misrepresentation is a false suggestion as to origin or quality. The difficulty in this case … is that at all material times there were two representations in this country … . [N]either party can claim that the other party made a misrepresentation. In putting the word "Budweiser" on their respective beers neither party was making a misrepresentation for they each had a valid claim to be entitled to do so. In passing off neither can succeed as against the other.

[105] In the Court of Appeal, Oliver L.J. referred to the "*Advocaat*" case and quoted both Lord Diplock's and Lord Fraser's formulations of the five characteristics necessary to establish a claim for passing off. Defendants had argued that since they had not misrepresented their product, Lord Diplock's "test" had not been met and the plaintiffs should fail in their claim. Oliver L.J. stated, in response [at 463]:

> I am certainly prepared to accept that the first defendants were acting honestly, but the proposition that because they were doing no more than using their own business name which they had previously used in Europe, there was no misrepresentation, begs the question. If the plaintiffs had in fact an established reputation and goodwill in the name in England, *the use of the same name by the first defendants*, however honest and however much used elsewhere, *constitutes a misrepresentation if it leads people to believe that their goods are the goods of the plaintiffs*. [Emphasis added.]

What this suggests is that misrepresentation necessarily occurs if confusion or deception of the public results from the concurrent sale of the two products. The passage also defines the nature of the misrepresentation required to establish the first element of the cause of action: misrepresentation which leads to confusion.

Canadian Case Law

...

[107] Although the [*Orkin*] case dealt primarily with the existence of the plaintiff's goodwill in Ontario, the Court of Appeal did consider the general nature of the tort of passing off and clearly stated that in its view, misrepresentation leading to confusion was a requisite element of the action. Quoting from *Spalding v. Gamage*, *supra*, Morden J.A. wrote [at 442 CPR, 12 CCLT]:

> A fundamental principle upon which the tort of passing off is based is that "nobody has any right to represent his goods … as the goods … of somebody else."

Later on, he explained [at 450 CPR, 21 CCLT]:

> In this kind of case I think that the main consideration should be the likelihood of confusion with consequential injury to the plaintiff.

[108] The Supreme Court of Canada has also approved of the principle that misrepresentation is the underlying basis for an action in passing off. In *Consumers Distributing Co. v. Seiko Time Can. Ltd.*, the respondent, the authorized dealer of Seiko watches for Canada, sued the appellant for passing off on the ground that the appellant, who purchased genuine Seiko watches from an authorized dealer, sold the watches without warranty, point of sale service or instruction booklet. The respondent argued that without these additional features, the watches could not be sold as "Seiko" watches. It had been established by evidence that once the appellant posted a notice declaring that it was not an authorized dealer, that the watches were not purchased from the appellant and were not internationally guaranteed, no instance of public confusion had ever occurred.

[109] The absence of confusion was considered critical by the Supreme Court because of its conception of the basis of the tort [at 16 CPR, 314-15 CCLT]:

> [T]he passing off rule is founded upon the tort of deceit, and while the original requirement of an intent to deceive died out in the mid-1800s there remains the requirement at the very least, that confusion in the minds of the public be a likely consequence by reason of the sale … by the defendant of a product not that of the plaintiff's making, under the guise or implication that it was the plaintiff's product or the equivalent.

Concluding that the respondent had failed to make out "the classic action of passing off," it considered the "extended action" as it was known in the English cases discussed above. Estey J. referred to *Spalding v. Gamage*, and to Lord Diplock's words in the "*Advocaat*" case to make the point that the defendant's use of the plaintiff's mark in a passing off action—extended or not—must be such that "deception or confusion is a reasonably foreseeable consequence of the conduct in question." Later on, Estey J. again refers to the "*Advocaat*" case for the following proposition [at 24 CPR, 323 CCLT]:

> The *Warnink* elements of passing off, at minimum, require an initial misrepresentation calculated to injure the business or goodwill of a trader in the same market, or which may be a reasonably foreseeable consequence, and which causes damages to the other trader.

[110] At several points throughout the judgment, the Court referred to legal authors who have written on the subject who are all unanimous in their perception of the tort as requiring that misrepresentation likely to confuse or deceive be established by the plaintiff. It is also clear that the "extended form" of the tort has not obviated the need for proving this factual element.

[111] In its judgment the Supreme Court of Canada quoted and approved of the following passage which defines the nature of passing off:

> It consists of the making of some false representation to the public … likely to induce them to believe that the goods … of another are those of the plaintiff. … The test laid down in such cases has been whether … the defendant's conduct results in a false representation, which is likely to cause confusion or deception, even though he has no such intention.
>
> (Prosser, *The Law of Torts* (4th ed., 1971), pp. 957-58)

This test is found, in various formulations, throughout reported cases. There seems no doubt that for both the House of Lords in England and the Supreme Court in Canada, a necessary, constitutive element of the tort of passing off, the very thing which causes damage to the plaintiff's goodwill, is the defendant's misrepresentation of its product which is likely to cause confusion in the public's mind between the defendant's goods and those of the plaintiff. Although the misrepresentation may take a variety of different forms, as indeed it does in each particular case, it must nevertheless exist and be established through admissible evidence by the plaintiff in order for the plaintiff to succeed in an action for passing off. In a sense "passing off" is a synonym for "misrepresentation" or "false description."

Evidence of the Sale of Both French and Canadian Champagne in Ontario

[112] During the course of this action it has become very apparent that both the plaintiffs and the defendants have been selling sparkling wines in Ontario since the 1920s to the present. Much time and effort was spent by the parties in establishing this fact, the

significance of which should not be underestimated. The evidence in this regard has demonstrated that a great number of French and Canadian wine producers have marketed sparkling wines under a variety of labels in Ontario since at least the beginning of the twentieth century.

[113] Prior to the establishment of the Ontario Liquor Control Board, sale of alcoholic beverages in Ontario was regulated and processed through Ontario Government Dispensaries under the direction of a Board of Licensing Commissioners. Copies of its price lists for 1919, 1922, 1924 and 1926 filed as exhibits, reveal that under the heading "Champagne" in 1919 or "Wine Champagne" in 1922, 1924 and 1926, the champagne products of several of the plaintiffs in this action were listed for sale. Other exhibits filed go as far as to demonstrate that champagne from France was sold in Canada as early as the mid-nineteenth century.

[114] Defendants also produced two L.C.B.O. listings which show that French and Canadian champagnes have been sold in Ontario since 1927 when the board was established. They are historical, chronological charts which illustrate the steady sale of both products in Ontario.

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[117] A comparison of the two listings clearly reveals that a viable Canadian champagne industry has existed in Ontario, alongside the French champagne imports to Ontario, since the 1920s. Both countries have been selling their wines consistently since that time and continue to do so presently.

• • •

Evidence That French Champagne Sales Have Continued to Grow in Spite of the Canadian Champagne Industry's Development

[119] The plaintiffs have produced in Court Ex. 37, which is evidence of the plaintiffs' sales of champagne in Canada from 1963 to 1986. The figures clearly demonstrate a steady increase in the sale of French champagne in Ontario over this 20-year period. It would seem then, that the concurrent sale of domestic champagnes in Ontario has not resulted in a *decline* in the sales of the French product.

[120] For example, in 1963, total sales in Ontario were 60,719 bottles of Champagne of 26 different labels. In 1967, total sales were 104,498 bottles. In 1972, total sales were 228,025. In 1977, sales were 249,276. In 1982, the total is 1,099,363. Finally, in 1986, the total is up to 1,349,935 bottles.

Canadian Policy Regarding Use of the Term Champagne

[121] On January 3, 1956, the Canadian Food and Drug Directorate issued a directive requiring that Canadian producers use the word "Canadian" as an integral part of the name of their domestic wines, including champagne. The trade information letters filed as exhibits reveal that the directive was issued in response to complaints received by the directorate, presumably from France. The inclusion of the qualifier "Canadian" was considered a fair and effective solution to the problem of possible confusion between the French and the domestic product.

[122] Trade information letter No. 130, dated January 3, 1956, reads:

> The manner in which the origin of domestic wines, such as … Canadian Champagne … is indicated on the label has been under review due to receipt of complaint by this Directorate.
>
> It has been decided that in the interests of informative labelling, and to prevent the creation of an erroneous impression, the word "Canadian" shall be an integral part of the name of such wine and shall be in identical type and identically displayed with such name.

[123] The directive was made effective as of May 1, 1957, by subsequent trade information letters which also provided that the ruling in the January 3, 1956, letter was applicable to wines of the same types imported from other foreign countries as well, such as Australia and South Africa. These directives were obviously issued at a time when the 1933 Act was still in effect.

[124] The present, relevant sections of the *Food and Drugs Act* are ss. 5(1) and (2):

> (1) No person shall label, package, treat, process, sell or advertise any food in a manner that is false, misleading or deceptive or is likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety.
>
> (2) An article of food that is not labelled or packaged as required by the regulations, or is labelled or packaged contrary to the regulations, shall be deemed to be labelled or packaged contrary to subsection (1).

[125] Regulation excerpts and guidelines issued by the Department of Consumer and Corporate Affairs, dated January, 1978, were filed as Ex. 56. They confirm that the policy directives contained in the trade information letters discussed above were still in effect at that time. Under the heading "Domestic," the guideline reads:

> T.I.L. 130, still in effect, requires that the word "Canadian" shall be an integral part of the name of such domestic wines as Port, Sherry, Champagne, Tokay, Claret, Sauterne and Rosé and shall be shown in identical type and identically displayed with such name, e.g.

Canadian Sauterne	Sauterne Canadien
or Canadian	Sauterne
Wine	Vin

[126] The evidence suggests that the federal government's policy in this regard has remained unchanged. Canadian wine producers have continued to comply with the policy.

[127] The wine industry is rigidly controlled by both provincial and federal government departments or agencies. All labels of Canadian champagne must be submitted to the appropriate federal department for consideration and comment. These comments must then be submitted to the L.C.B.O. for approval. All products, including Canadian champagne, before being listed with the L.C.B.O., must survive tasting and laboratory tests performed by L.C.B.O. committees or personnel. Only then will they be considered for L.C.B.O. listings. All producers must meet the standards and operational rules of the L.C.B.O. By way of example, since 1977-78, the L.C.B.O. has adopted the contents of a report by the Ontario Grape and Wine Standards Committee dated December 15, 1977, filed as Ex. 104. It provides the following under the heading of "Champagne":

> To be labelled Champagne the wine must undergo a secondary fermentation in the bottle or in a closed tank under CO2 pressure. Artificially carbonated wine cannot be labelled

> Champagne. The method of production must be stated on the label, i.e. Charmat Process, Fermented in Bottles, Fermented in this Bottle.

[128] Ontario wine producers are subject to the terms of and regulations under the *Wine Content Act*, R.S.O. 1980, c. 534, which, among other matters, controls the quantity of wine that may be produced from a given quantity of grapes. Thus, between provincial and federal department and agencies such as the L.C.B.O., all phases of the wine industry are regulated, in particular, as to advertising, labelling, sale and listing in L.C.B.O. stores. The use of the term "Canadian Champagne" to describe specific sparkling wines, has, for a period in excess of 50 years, received both provincial and federal approval.

[129] Defendants argue that Ontario wine producers have always labelled their champagne in a manner which clearly disclosed the fact that the wine was a product of Ontario. As evidence of their good faith in this regard, the defendants point out that the labels were never confusing with respect to the origin of the champagne and always revealed that the wine was indeed a domestic product.

[130] In support of their contention, defendants produced Ex. 45, a binder of Canadian champagne labels dating from the 1920s to the present. Tracing the labels of a few wine producers reveals that, if anything, the labels have become *clearer* in this respect. The words "Canadian Champagne" are more prominent and of equal type face on recent labels as a result of the 1956 directive whereas the older labels are more confusing.

[131] As an illustration of this development towards clarity, I have chosen to describe the labels of Jordan, Chateau-Gai and T.G. Bright, who have been producing champagnes for many years.

[Only one description is provided.]

(c) Bright

[138] The same progression is found in Bright's labels. A 1940s label reads: "Du Barry" in large script; underneath is the word "Champagne" in large, flowing script; at the bottom, in tiny lettering, "Niagara Falls, Ontario."

[139] A label in use until 1955 read "Bright's" in small script; underneath it "President" in large block letters; below it the word "Canadian" in very small letters; below that, "Champagne" in large, flowing script.

[140] Then, in the late 1950s the label changes. Below "President," in large, bold type are the words "Canadian Champagne" written on the same line, in the same lettering and in the same size. A label in current use is identical, except that below the words "Canadian Champagne" is the equivalent in French, "Champagne Canadien," again in the identical lettering and size.

[141] The chronological presentation of the labels in Ex. 45 is a graphic representation of the facts the defendants have established in Court; Canadian champagne has been clearly labelled as such since 1957. In so doing the wine producers have obeyed the directive of the Food and Drug Directorate whose goal was to avoid confusion in the marketplace between champagne imported from France and the domestic Ontario product. Thus, the latter had to be clearly identified on its label as a *Canadian* product. It should also be noted that the L.C.B.O. has always and continues to approve all labels affixed to bottles, including all advertising in the written media.

[142] Volumes of exhibits have been filed revealing how, over many years, French champagne, sparkling wines and Canadian champagne have been featured on menus, wine lists or the L.C.B.O. listings, and how the products were and still are physically placed within the L.C.B.O. stores. There is no standard practice. Sometimes Canadian and French champagne and sparkling wines are listed together; other times they are listed separately. The Canadian champagnes are on occasion listed with other sparkling wines, imported and otherwise, while the French Champagnes are listed separately. The term "Champagne Type" is also used.

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[148] The collection of menus and miscellaneous articles filed demonstrate that in most cases in Ontario Canadian champagnes are listed under the headings "Champagnes," "Canadian Champagne" or "Sparkling Wines."

[149] The defendants are permitted by Ontario law and do operate their own respective wine stores. Bright operates in excess of 60 such stores. They are restricted to the sale of their own products. In other words, they cannot offer for sale in their stores any wine products other than their own. The evidence establishes that generally any consumers who enter such stores are aware that only products of that store's owner are offered therein for sale. A customer requesting a bottle of champagne in such a store can be presumed to understand and know that as no imported products are sold there, his order must refer to a Canadian champagne.

[150] The evidence has convinced me that the Canadian champagnes compete with other Canadian champagnes generally in the same price range, and with imported sparkling wines. Because of the substantial difference in price, and perhaps other features, the competition between French and Canadian champagnes is minimal.

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Evidence of No Confusion Between French and Canadian Champagne

[178] I must determine on the evidence whether the defendants' conduct can be justifiably described as being such as to mislead those members of the public who will or may on occasion be concerned with the purchase of sparkling wines, into believing that the defendants' champagne is either a product of the champagne-producing area of France, or connected with such champagne-producing industry directly or indirectly; and, whether this deception is likely to adversely affect the plaintiffs' goodwill and reputation in the champagne produced in France.

[179] The defendants admit that the reputation of French champagne is high and its quality premium, and that they benefit from such reputation by using the term champagne to describe their sparkling wine which is produced from their highest quality grapes and by the double fermentation process similar to that employed by the French champagne houses of France. However, they submit that there is no misrepresentation in the process. The Canadian champagne is basically marketed as a Canadian product, as is clearly revealed by the label, and it is advertised as such.

[180] It is alleged that since the turn of the century and up to the initiation of these proceedings, a viable market has developed for a distinct, cheaper sparkling wine marketed as Canadian champagne in Ontario. The extent of this market is revealed by the fact that the defendant Bright's sales of President's Champagne alone represent approximately 50 per cent of sales of all champagne from whatever source in Ontario. In most

cases, Canadian champagnes have been produced by either the "Charmat" or "Methode Champenoise" method of double fermentation. Both methods are used by French houses, depending on the size of the bottles produced for sale.

[181] Total Ontario sales of Canadian champagne in 1968 was 388,260 bottles. These sales generally, but with one or two exceptions, increased annually, so that during 1986, Ontario sales of Canadian champagne were 22,484,580 bottles. Thus the product has been marketed on a large scale for many years.

[182] Undoubtedly, Ontario producers adopted the term "Champagne" to describe their sparkling wines in order to benefit from the reputation of high quality internationally associated with the term which stems from the superior quality of sparkling wines produced in France under that appellation. That in itself does not constitute the tort of passing off, provided there is no attempt on the part of Canadian producers to pass off their product as a product of the French champagne industry in France, or to associate or connect the Canadian product with the French industry or engage in conduct which may reasonably give rise to confusion as to whether the Canadian product is in any way associated with the French champagne industry.

[183] It is argued by the defendants that the term "Canadian Champagne" has attained a status as a product separate and distinct from champagne produced by the French champagne houses of France. Furthermore, they submit that it is perceived as such by the Ontario purchasing consumer, who is therefore not confused by the concurrent existence of the two products.

[184] The Ontario general public is more knowledgeable today about wine products, due to increased public exposure, educational exercises or publications on the subject, and mass media advertisements that prevail on a daily basis. It is alleged that the average member of the public, possessed only of minimum knowledge, is aware that as far as champagnes are concerned, there are the real, high quality expensive French champagnes and the much lower priced Canadian champagnes, and that the public is not likely to confuse the two, separate products.

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[187] There has been no reliable direct evidence of confusion. Mr. Arnold testified, however, that in his opinion, the less than knowledgeable purchaser does examine labels carefully and is likely to buy a bottle that contains the words that represent what he is looking for. In other words, he is likely to buy any bottle that contains the word champagne without reading the label to see whose product he has chosen. Is the Court to conclude therefore that a substantial portion of the public have been or are likely to be misled and confused?

[188] Mr. Diston has been associated with the Ontario wine industry for 30 years and Mr. J.K. Ward, president of Barnes Wines Limited, for 13 years. Both have been personally involved in processing any complaints received from members of the public or elsewhere. Neither has ever become aware or heard of, in any way, any complaint about deception or confusion caused by the use of the term "Canadian Champagne" in Ontario. They have not received complaints from other producers or their representatives, nor have any such complaints ever been received from any consumer organizations or wine clubs.

[189] If the marketing of Canadian champagne is deceptive or reasonably capable of leading to confusion, is it not reasonable to expect that, given the number of years of production and sale of Canadian champagne, plaintiffs would have introduced some evidence

of such confusion? A similar thought occurred to Buckley L.J. in the "*Champagne Cider*" case [*H.P. Bulmer*], etc., *supra*, where he stated at p. 106:

> In the absence … of any reliable direct evidence of public confusion, was the learned trial judge justified in inferring that a substantial portion of the public have been, or are likely to be misled … . If there were any real likelihood of confusion, it seems to me inconceivable that the defendants would not have been able to adduce direct evidence of it. Not a single witness from the general public was called to say that he had been confused or misled. Not a single publican was called to say that he had experience of customers who had been confused.

[190] The plaintiff, on the other hand, submits that a purchaser who is ignorant about wines but nevertheless aware of the general reputation of champagne, although not aware of its actual origin, may choose a Canadian champagne under the mistaken belief that he is buying the champagne of high repute. The point is that even though he may have known at the time of purchase that he was buying a Canadian sparkling wine, he assumed he was buying the champagne with the highest and best international reputation. Therein lies the deception and confusion, according to the plaintiffs.

[191] That may be so. But in view of the public's increased awareness and knowledge about wine, and the evidence touching this issue, purchasers in that category are probably rare. This inference is supported by the complete lack of evidence of complaints with regard to deception or misrepresentation notwithstanding the many years that the Canadian product has been sold on a large scale.

[192] Exhibits filed have revealed the extent of development of the American champagne industry. Part of Ex. 114 lists in excess of 60 producers of American champagne in 10 different states who all ferment their product either in the bottle or by the charmat method. Several produce up to 500,000 cases annually. Evidence has been tendered that the American wine industry exerts a strong influence on the Canadian scene. This is understandable in view of the extent of American media exposure in Canada. It would certainly contribute to general public knowledge or belief that in North America there exist products marketed as champagne which originate from areas other than France.

[193] The issues before the Court particularly as to the public's understanding of the term champagne and Canadian champagne must relate to the Ontario scene. The Court, however, cannot overlook the American situation which is constantly before the Ontario public. The proximity of the province of Ontario to the United States and its mass market and media are factors that must be considered in assessing the Ontario public's understanding and view.

[194] The fact that "Canadian Champagne" has been used by Canadian wine producers for in excess of 60 years by various companies, and the extent to which its production is now marketed in Ontario, while not determinative of the main issues before the Court, are certainly relevant. They must be taken into account when considering alleged misrepresentation and/or deception or likelihood thereof and the nature of the status attained by the Canadian product on the Ontario market.

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Conclusion

[235] A detailed consideration of the evidence brought before the Court has led me to conclude that Canadian champagne is a distinct Canadian product not likely to be confused or even compared with French Champagne. This conclusion is based on the following evidence: the many years during which the defendant wine producers marketed Canadian champagne in Ontario; the manner in which the defendants' products are labelled, with the word "Canadian" displayed as prominently as the word "Champagne," in compliance with government directives, so as to clearly identify the products as Canadian; the way the Canadian product has, for many years, been physically separated from French champagnes in L.C.B.O. stores and listed separately by them as well as by restaurants on their wine lists; the vast body of evidence confirming that Canadian champagne has attained a reputation of its own in Ontario.

[236] The evidence further establishes that the Ontario public concerned with or interested in wines, as purchasers or otherwise, have not been misled and do not confuse the French and the Canadian products. The purchaser who is completely ignorant about wine and wishes to purchase a bottle of champagne for a special occasion will very likely realize the difference between the two products either by the clear labelling of both, or the difference in listing and physical location at the L.C.B.O. stores, or, finally, by the vast price differential between the products.

[237] The evidence indicates quite clearly that the high regard and reputation of French champagne has not been affected by Ontario sales of Canadian champagne and remains well-established in this province. This is supported by evidence illustrating the constantly growing sales of French champagne notwithstanding its dramatic price increases, while the price of Canadian champagne, by comparison, has remained basically stable.

[238] I cannot agree with the plaintiffs' submission that the defendants have and continue to engage in conduct designed or likely to deceive the public; they do not misrepresent their Canadian product as one originating from the Champagne District of France or produced by any French champagne houses, nor one which is in any way connected or associated with French champagne. The marketing, advertising, labelling and general reputation of Canadian champagne, and the evidence as a whole in this regard, has satisfied the Court that deception and confusion are not likely to occur in Ontario.

[239] The evidence in support of the parties' submissions, as well as the exhibits illustrating and clarifying them, has been copious. While I have not dealt with each in this judgment, I have considered them all in order to draw justifiable inferences of fact to permit the Court to arrive at a decision.

[240] This Court has concluded, for the reasons detailed throughout this judgment, that the plaintiffs have not established the defendants' misrepresentation and have therefore failed to prove all the elements which constitute the tort of passing off.

The test person for assessing confusion or likelihood of confusion is important. The degree of attention paid by the test person may vary depending on the nature of the goods or services at issue. For example, in *Ciba-Geigy*, above, the Supreme Court of Canada indicated that the test person for confusion is the "average" or "ordinary" consumer for the wares or services at issue. If the product is an inexpensive, mass-market item, and one that is usually part of a shopping expedition for multiple items, the consumer is more likely to take it quickly from the shelf and toss it in his or her shopping cart. In such circumstances, similarities in product appearance are more likely to lead to confusion. On the other hand, if the item in question is an expensive, luxury item, one might expect the consumer to take a great deal more care in inspecting the item, the product literature, the labels, and brand names.

Who is the test person in *Institut national*? How does the court approach its analysis of confusion taking into account the typical consumer for the products at issue?

Recall that the Supreme Court of Canada in *Ciba-Geigy*, excerpted above, had to consider whether the ultimate consumer of prescription pharmaceuticals could even be considered a test person for a passing-off analysis. The court's decision was that he or she could. Gonthier J wrote:

> [84] For consumer products in general, present-day commercial organization is such that the consumer rarely obtains products or goods directly from the manufacturer or producer. Strictly speaking, whatever the sphere of commercial activity, the customers of producers or manufacturers are the retailers through whom the producers or manufacturers seek to supply as many goods as possible with the greatest possible profit. In my opinion, pharmacists occupy the same place in this organizational chain, correspond to the same link, as other merchants. Apart from the prescription drugs field, there is no doubt that the customers concerned in a passing-off action include both retailers and consumers. If one reasons by analogy, patients should be included among the customers, as well as health care professionals of course.

Thus, the test person for passing off is the average or ordinary consumer for the goods or services at issue, who may be found at any point in the chain of consumption.

Bristol Conservatories (below) stands for the proposition that there is such a thing as "reverse passing off." With regular passing off, the defendant misrepresents his or her goods or services as those of the plaintiff. With reverse passing off, the defendant is representing the plaintiff's goods or services as his or her own. In the case that follows, consider how reverse passing off manifests itself differently from regular passing off.

Bristol Conservatories Ltd v Conservatories Custom Built Ltd
[1989] RPC 455 (CA)

GIBSON LJ:

This matter came before the court as an application for leave to appeal which had been adjourned to the full court by order of Kerr L.J.; leave was granted in the course of the hearing. The appeal is brought by Bristol Conservatories Ltd., the plaintiffs, from an order striking out their statement of claim as disclosing no reasonable cause of action. The order was made on 3 March 1988 by His Honour Judge Fallon Q.C. sitting as a judge of the High Court in Bristol.

The respondents to the appeal are the three defendants. Conservatories Custom Built Ltd (to whom I shall refer as "Custom Built"), Mr. Jonathan Rickard and Mr. Dennis Bell. The plaintiffs and Custom Built are competitors in the supply of conservatories. Mr. Rickard, from 9 April 1986, worked for the plaintiffs as a salesman. He left the plaintiffs in August 1987 and joined Custom Built, then a new firm. He had in his possession an album of photographs of conservatories designed and built by the plaintiffs. This case is concerned with the use which, as the plaintiffs allege, Mr. Rickard and the other two defendants have made of all or some of the photographs in that album.

The present appeal is concerned only with the question whether the allegations in the statement of claim do or do not reveal a reasonable cause of action in law.

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The allegations of the plaintiffs can, I think, be summarised as follows. The plaintiffs design, manufacture and construct ornamental conservatories. Custom Built act as retailers of ornamental conservatories. Mr. Rickard and Mr. Bell, at the time of the matters complained of, were working for Custom Built. For a time before August 1987 Mr. Rickard worked as a salesman for the plaintiffs. During the time that the plaintiffs had been in business they had designed, manufactured and constructed for various clients ornamental conservatories. After Mr. Rickard started work for Custom Built as a salesman he used a portfolio of photographs to assist him in his work. The portfolio contained photographs of conservatories designed and manufactured by the plaintiffs. Nothing in the portfolio referred to the plaintiffs, and nothing in the portfolio indicated that the conservatories of which there were photographs in the portfolio were not designed or constructed by Custom Built. Copies of the portfolio were made available to the three other salesmen employed by Custom Built in addition to Mr. Rickard and Mr. Bell. Mr. Rickard and Mr. Bell and the other salesmen were "passing off the photographs of conservatories in the portfolio which had been designed, manufactured and constructed by the plaintiffs as conservatories constructed by Custom Built." The plaintiffs had in consequence suffered loss and damage.

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Judge Fallon dealt with the application before him on one ground only, namely that of no reasonable cause of action. After reference to the *Erven Warnink* case in the House of Lords [1979] A.C. 731, he observed (at page 196):

> As Mr. Davies for the defendants rightly submitted, at no place in the statement of claim is there any allegation that any member of the public looking at any photograph would associate any conservatory with the plaintiffs. There was nothing in any photograph to link the conservatory there depicted with the plaintiffs in any way, and there is no allegation that it could. There is no allegation that by showing the photograph there would be any confusion in the minds of the public, nor indeed is there any allegation that the plaintiffs have a goodwill which was affected by the showing of the photograph. This case comes nowhere near to the "*Advocaat*" or the "*Champagne*" types of case.

Next, after reference to *The Pub Squash* case *Cadbury Schweppes Pty Ltd. v. Pub Squash Co. Pty. Ltd.* [1981] R.P.C. 429 and also [1981] 1 W.L.R. as establishing the principle that there must be a link injurious to the plaintiff between his goods to which goodwill attaches and the defendant's goods, Judge Fallon held that there was nothing in the statement of claim which came anywhere near setting up a case of passing off.

Before Judge Fallon it was conceded for the plaintiffs that there was nothing in the statement of claim alleging that the defendants passed off their goods as the plaintiffs' goods. But it was submitted that there was included within the concept of tortious passing off the form sometimes known as "reverse passing off" where the wrongdoer misrepresents the goods of the plaintiff as his own. Judge Fallon was dismissive of this "novel proposition," as he called it. He referred to *Copydex Ltd. v. Noso Products Ltd* (1952) 69 R.P.C. 38 and distinguished it. In that case the defendants were offering their adhesive as that which had been demonstrated (without naming it) on B.B.C. television, when in fact the adhesive demonstrated had been that made by the plaintiffs, whereas in this case "there was nothing at all even remotely to confuse a purchaser into thinking he was buying the plaintiffs product." Judge Fallon therefore concluded that the statement of claim disclosed no cause of action of passing off. It should, I think, be noted at once that in the *Copydex* case there had been no mention of the plaintiffs either in the T.V. programme or in the defendants' offending notice.

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Mr. Prescott's contention was that the substance of the plaintiff's case is clearly within the established principles of the tort of passing off. He summarised that case on the alleged facts in this way, at paragraph 5 of his outline of argument.

> The heart of [the plaintiffs'] complaint is simple: the defendant's use albums of photographs of conservatories designed and installed by [the plaintiffs] to show their prospective customers, falsely claiming that the photographs show conservatories of their own design and work. Customers are thereby misled into believing that the defendants are the company which produced the conservatories; that their designs are the same as in the album (which they are not); and that the defendants have a well-established business (which they have not).

Mr. Goudie did not suggest that the summary was unfair or inaccurate.

Mr. Prescott relied upon a series of cases: *Bullivant v. Wright* (1897) 13 T.L.R. 201 (Kekewich J.); *John Henderson Ltd. v. A. Munro* (1905) 7 F. 636 (Court of Session); *Samuelson v. Producers Distributing Co. Ltd* (1931) 48 R.P.C. 580 (Court of Appeal); *Plomien Fuel Economiser Co. Ltd. v. National School of Salesmanship Ltd* (1943) 60 R.P.C. 209 (Court of Appeal); *Copydex Ltd. v. Noso Products Ltd.* (1952) 69 R.P.C. 38, (Vaisey J.). I agree that these cases provide support for his submission. I do not think it is necessary for this court to examine all of them in detail. We are concerned to decide whether a reasonable cause of action has been alleged and not to determine the precise limits of the tort of passing off in the general context of the facts of this case. I shall examine the grounds of decision of some of these cases having regard to the fact that Mr. Goudie has sought to uphold the decision of Judge Fallon, first on the judge's own reasoning and, in addition, on the ground that upon a correct reading of the decision of the House of Lords in *Warnink* the tort of passing off is limited to that tort in its classic form, that is to say that the defendant passes off his goods as the plaintiffs' goods: see per Lord Diplock at page 739 at C, and in the only alternative extended form established in the *Champagne* case, *Bollinger v. Costa Brava Wine Co.* [1966] Ch. 262; the *Scotch Whisky* case, *John Walker Ltd v. Henry Ost* [1970] 1 W.L.R. 917, and the *Sherry* case, *Vine Products Ltd. v. Mackenzie Ltd* [1969] R.P.C. 1, and defined in the speech of Lord Fraser in the *Warnink* case itself.

I shall take first the case of *Samuelson* cited by Mr. Prescott. The facts were these. The plaintiff wrote a theatrical sketch. It was performed before the King and Queen at a Command Performance and received good press notices. The defendants made a film similar in some respects to the plaintiff's sketch, but it was a new composition. The defendants advertised their film by deliberate modification of the press notices so as to make them appear to refer to the film. There was no reference to the plaintiff in the advertisement. It was submitted for the defendants that the claim could not lie in passing off because that form of action required a representation whereby other persons are induced to believe that the goods or the production of the defendants are the goods or production of the plaintiff. I interpose that that submission is the same as that made by Mr. Goudie before us save that Mr. Goudie acknowledges, as he must, the existence of the extended form of the action mentioned above. Lord Hanworth in *Samuelson* rejected that submission. I read from his judgment at page 588, where he said:

> It appears to me quite idle to say that this is not a passing off. What was the purpose of what I have described as a moulding of the observations contained in "—and I am now altering the words to shorten them—" [the press notices] … they were adducing the success as appropriate to and belonging to their film … when in truth and in fact it belonged to the plaintiff and his sketch … That seems to me to amount to a notice or invitation: "Come and see our film and when you have seen our film you will have seen the sketch which has been spoken of in the manner which is stated in the passages which appear in the advertisement." It appears to me quite clear that this was an attempt to pretend that the defendants' sketch was the same as the sketch which had made Her Majesty the Queen laugh … . It is a passing off action and the ground on which I think the plaintiff is entitled to complain is that, as I have said, in substance he remains the author of this sketch … and, if he was entitled to the authorship and the copyright and to the reproduction of his sketch, then the defendants have attempted to pass off and to make use of the atmosphere which belonged to the plaintiff, in favour of their production; and therefore it was right for the plaintiff to take proceedings.

Lawrence L.J. in that case agreed but put the matter in a way closer to the classic form of the action. He said, at page 592:

> It is said that there was no passing off here, because the plaintiff had not yet made a film version of his sketch and therefore he had no goods which could have been represented by the defendants as being his. The plaintiff and his licensees had the exclusive right of making a film version of the sketch, and the defendant company, in effect, by the advertisement, said that their production was a film version of the plaintiff's sketch, thereby misleading the public concerned into the belief that the defendants' production was a production which was one which the plaintiff alone could have produced; in other words, that it was the plaintiff's production. To put it in other words, they were passing off on to the public their film production as being a film production of the plaintiff's sketch.

Romer L.J. at page 593 said this:

> It is said that there has been no passing off. It is true there has been no passing off in fact, or indeed perhaps threatened, in the sense in which the [term] "passing off' is used in what are popularly known as passing-off actions; that is to say, the defendants have never contended that the film which they were producing or going to produce was a film prepared or made by or on behalf of the plaintiff. But the cases in which the court has restrained passing off in the popular and usual sense, are merely instances of the application by the court of a much wider principle, the principle being that the court will always interfere by injunction to restrain irreparable injury being done to the plaintiff's property. In the present case, if, as we hold to be the case, the plaintiff was entitled to his copyright in "The New Car" [his sketch], he was, by virtue of the Copyright Act, entitled to the sole right of producing the sketch in film form. That was an item of his property, and how it can be said that these advertisements

> might not cause irreparable damage to that property of the plaintiff passes my comprehension.

In my judgment, the principles applied by this court in that case are well capable of application to the facts alleged by the plaintiffs here. Lord Hanworth described the substance of the defendants' misrepresentation in *Samuelson*, as set out above, that if the persons to whom the advertisement was directed went to see the defendants' film, they would see the sketch which had been spoken of favourably in the press notices, but in fact they would not. In this case the substance of the misrepresentation by the defendants, as alleged by the plaintiffs, is fairly capable of being expressed thus: "If you order a conservatory from us you will be getting a conservatory designed, manufactured and constructed by the people who have earned the goodwill and reputation that properly belongs to the party which secured the orders and designed, manufactured and constructed the conservatories shown in these photographs. The conservatories shown in the photographs indicate the skill, the experience and the reputation of the party who designed and made them. That party is Custom Built." But, of course, it was not. Just as Lord Hanworth considered that Samuelson was entitled to take proceedings, so, if the facts alleged are proved, the plaintiffs, in my judgment, should be entitled to take proceedings for relief.

Similarly as concerns Romer L.J.'s judgment, and the protection of a right of property which was likely to be injured by the misrepresentation alleged to have been made by Custom Built, that right of property was the right the invasion of which (to quote Lord Diplock in the *Warnink* case at page 741C) is the subject of passing off actions, namely "the property in the business or goodwill likely to be injured by the misrepresentation." Lord Diplock continued:

> The concept of goodwill is in law a broad one which is perhaps best expressed in words used by Lord Macnaghten in *I.R.C. v. Muller* [1901] A.C. 217, 223-224, "It is the benefit and advantage of the good name, reputation and connection of a business. It is the attractive force which brings in custom."

There can, I think, be few better ways of demonstrating the good name and reputation of a business of designing and selling conservatories specially built to fit particular houses or buildings than a collection of photographs showing the work which the owners of the business have done. Romer L.J.'s view of the extent of the principle is also, in my judgment, capable of application to the facts alleged in this case.

Next, the *Plomien Fuel Economiser* case was also a decision of this court. The facts of that case can be described as follows.

> The plaintiffs are manufacturers of a fuel economiser which has been marketed under the name "Plomien." The defendants, who at one time acted as sale agents for the plaintiffs … broke that relationship and started themselves to market an economiser which was manufactured for them. It was in respect of their transactions in connection with the marketing of that economiser that the passing off action was brought … . [T]he defendants engaged in a deliberate attempt to deceive by putting foward their economiser as being the same as the plaintiffs' … they represented that certain tests which had been made were tests in connection with the defendants' economiser, whereas in fact they were tests in connection with the plaintiffs' economiser. They represented that certain economisers which had been fitted for

> a number of purchasers, and which were in fact the plaintiffs' economiser, were the defendants' economiser.

It was argued that no passing off had been shown notwithstanding the facts to 50 [of] which I have referred.

Lord Greene, in a judgment with which Luxmoore L.J. and du Parcq L.J. agreed, said, at page 214 of the report:

> It is perfectly true that there is no evidence that a single person who purchased an economiser from the defendants had ever heard of the plaintiffs; but in passing off there is no necessity that the person who is deceived should have known the name of the person who complains of the passing off. In many cases the name is not known at all. It is quite sufficient, in my opinion, to constitute passing off in fact, if a person being minded to obtain goods which are identified in his mind with a definite commercial source is led by false statements to accept goods coming from a different commercial source.
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> Now in the present case what was it that these defendants did? They deliberately induced customers to come to their shop for the purpose of purchasing goods of the same manufacture as those supplied to the satisfied customers named on the list which they circulated. That was quite clearly their intention, because otherwise what was the use of circulating that list?
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> Having got them in their shop, what do they do? They do not sell those customers the goods which those customers have come to buy; they sell them goods of their own manufacture, which are quite different, in the sense that they are not the required manufacture. If that is not passing off, I really do not know what is. It is perfectly true, and I am willing to assume, that not one single customer who went to the shop (I use the word "shop" of course metaphorically, it was not a shop at all; it was done by orders by post and by travellers and so forth) had ever heard of the plaintiffs or ever heard that they put on the market an economiser. That, to my mind, matters not one bit when it is realised that those customers were coming with the intention of getting goods from a particular source, namely, the same source as those from which the satisfied customers had got their goods.

The principle applied in that case seems to me to be well applicable to the facts alleged by the plaintiffs. Custom Built, by their misrepresentations, were seeking to induce customers to purchase conservatories from them in order to get a conservatory from the commercial source which had designed and constructed the conservatories shown in the photographs. That was the purpose of Custom Built in showing the photographs and in claiming to have designed and made the conservatories there shown. If a customer ordered a conservatory from Custom Built in response to the misrepresentation—as it was the intention of Custom Built that he should—Custom Built would supply conservatories not of the stated commercial source but of their own manufacture. Lord Greene thought that would be passing off. With respect, so do I.

Lastly, I would mention the earlier Scottish case of *John Henderson v. A. Munro*, a decision of the Lord President Lord Dunedin, Lord Adam, Lord McLaren and Lord Kinnear. In that case also the defendants claimed, to an extent falsely, that the past work of the plaintiffs was the work of themselves. Mr. Munro had been managing director of Henderson Ltd. who were drillers of artesian wells and had, while Munro was with them, successfully sunk a large number of such wells. He left them to form his own business. He published a circular listing the work done "by our Mr. Munro," without saying that it was all work done by Henderson while he was there. Lord Dunedin, at page 639, said:

> I do not think I am pressing anything unduly when I say that many people would think on reading the circular that Munro & Company had executed this work. If they took that meaning out of it, it would be misleading and untrue, and the natural result would be that they might go to Munro & Company upon seeing their large experience in the past. If they did so, injury would result to the complainers because of the attribution of the experience of Henderson & Son to Munro & Company.

Lord Adam, Lord McLaren and Lord Kinnear concurred with the judgment of the Lord President.

Mr. Prescott submitted that the law of Scotland on passing off was the same as the law of England and Mr. Goudie did not argue to the contrary. If it is assumed that the facts are as Lord Dunedin saw them, namely an untrue statement claiming for a new firm the experience and record of the plaintiff company in order to win the potential customers of the plaintiff, then I would [respectfully] follow Lord Dunedin's conclusions. As Lord Diplock said in *Warnink* at page 740 at C, if the defendants in a case do what Munro was held to have done in that case, or if the defendants did what the plaintiffs say they did in this case, the conduct is "unfair, not to say dishonest trading of a kind for which a rational system of law ought to provide a remedy to other traders whose business or goodwill is injured by it."

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I would therefore, subject to the point made by Mr. Goudie based on the *Warnink* case, have concluded without hesitation that the decision of Judge Fallon was wrong. I do not intend to decide whether there is a form of the tort to be known as reverse passing off. It is sufficient, I think, to hold that the facts alleged can properly be regarded as within the tort of passing off.

To deal further with the judgment of Judge Fallon, the claim in passing off, on the facts alleged, is not, as the judge says it was, ruled out because it is not alleged that any member of the public, looking at any of the photographs, would associate any conservatory with the plaintiffs. No person affected by the misrepresentation in Samuelson's case, or in the *Plomien* case, or in the *Henderson* case would have known who the plaintiff in any of those cases was. That did not stop the plaintiff being injured in his property rights in his business or goodwill. Nor would it matter if there was nothing in any photograph to link the conservatory there depicted with the plaintiffs in any way. Next, it would not matter that there was no allegation that there would be any confusion in the minds of the public. The concept of confusion, in my view, is irrelevant when the misrepresentation leaves no room for confusion. The prospective customer here is not left to perceive the difference between two allegedly similar products, he is told simply and untruthfully that Custom Built designed and constructed the conservatories which provide the evidence for the experience, skill and reputation of the plaintiffs. Lastly, the judge was wrong, I think, to proceed on the basis that the plaintiffs were not alleging that they have a goodwill which was affected by the use of the photographs. In truth, as Mr. Presctott submitted, the goodwill was asserted and demonstrated as the photographs were shown and was at the same moment misappropriated by Custom Built.

. . .

Making the assumption to which I have referred—namely, that the case of the plaintiffs cannot be got without Lord Fraser's essential facts—I would reject Mr. Goudie's submissions. I see no reason to hold that their Lordships in the *Warnink* case expressly or by implication ruled that the tort of passing off outside the extended form approved and established by the actual decision in the *Warnink* case should be limited to the classic form of a trader representing his own goods as the goods of somebody else. Of the cases relied upon by Mr. Prescott, only *Samuelson* was cited in the *Warnink* case. It is mentioned in the speeches of their Lordships. At page 748 Lord Diplock said that the presence of the five characteristics listed by him at page 742 "is enough, unless there is also present in the case some exceptional feature which justifies, on grounds of public policy, withholding from a person who has suffered injury in consequence of the deception practiced on prospective customers or consumers of his product a remedy in law against the deceiver." It was not submitted to us that any such exceptional feature is demonstrated. Lord Diplock had earlier said, at page 743 at B:

> Nevertheless, the increasing recognition by Parliament of the need for more rigorous standards of commercial honesty is a factor which should not be overlooked by a judge confronted by the choice whether or not to extend by analogy, in circumstances in which it has not previously been applied, a principle which has been applied in previous cases where the circumstances, although different, have some features in common with those of the case which he has to decide. Where over a period of years there can be discerned a steady trend in legislation which reflects the view of successive Parliaments as to what the public interest demands in a particular field of law, development of the common law and that part of the same field which has been left to it ought to proceed upon a parallel rather than a diverging course.

I am unable to accept that Lord Diplock, or their Lordships who agreed with him, can be taken to have intended to exclude from the protection of the law a trader injured by the sort of dishonest trading alleged or proved in such cases as *Samuelson*, or the *Plomien Fuel Economiser* case, or in this case. Nor do I think that Lord Fraser is to be taken as having intended to lay down essential requirements which would exclude from the ambit of the tort such cases which were not under consideration in the *Warnink* case itself. In *Lego System A/S v. Lego M. Lemelstrich* [1983] F.S.R. 155 Falconer J., after reference to Lord Diplock's list of characteristics and to Lord Fraser's five essential facts, said at page 185, "In so stating the essential facts to be established by the plaintiff in a passing off action, I think that Lord Fraser was, in essentials (1) to (4) inclusive, stating his formulation in the context of the case he was actually considering." We have been referred to other expressed views of the relationship between the two speeches, but it was not argued that those other views were matters of decision so as to be binding on this court. For my part, I agree with Falconer J.'s view of the matter.

Accordingly, I do not accept that the decision in the *Warnink* case of the House of Lords requires this court not to follow the guidance or authority provided by the cases of *John Henderson v. Munro*, *Samuelson v. Producers Distributing Co*, and *Plomien Fuel Economiser*. The allegations of the plaintiffs, therefore, do, in my judgment, contain a reasonable cause of action and their claim should be allowed to proceed to trial, subject, of course, to the outstanding application to strike out the proceedings or to set aside the injunction on other grounds. I would allow the appeal.

In the Internet context, the practice of framing is sometimes argued to be a form of reverse passing off. For example, consider two competing newspapers, each of which has a site that frames its content (individual newspaper articles) with its own masthead and trademark information, and with ads and other sponsorship features. If newspaper A provided a link to a newspaper story contained on newspaper B's site, and the link opened the article inside A's frame, readers might well assume that the article was part of A's newspaper. Thus B's content would be passed off as A's.

The Supreme Court of Canada's decision in *Consumers Distributing v Seiko* (below) is interesting in a number of respects. The case involved the sale of Seiko watches outside of the authorized distribution network. The plaintiff (respondent) had to establish the elements of the tort of passing off, but stumbled at the first step, which was the need to establish goodwill or reputation in a mark. Why was it not possible for the plaintiff (respondent) to establish goodwill in the Seiko mark? In what did it try to establish goodwill instead? What public policy considerations motivated the court to find that it was not possible to establish goodwill in the circumstances? The court was also not persuaded that consumers were likely to be confused once the disclaimer prescribed in the initial injunction was put in place. Consider how the court, in reaching its decision, balanced the public policy objectives of preventing consumer deception and providing consumers with different consumption options.

Consumers Distributing Co v Seiko
[1984] 1 SCR 583

ESTEY J:

The respondent instituted an action in the Supreme Court of Ontario to restrain the defendant-appellant from marketing Seiko watches in Canada, at least for so long as the appellant is not an authorized dealer of the respondent. The Seiko watch is a quartz watch manufactured by, or on behalf of, K. Hattori & Company Limited in Japan and marketed by Hattori around the world through a distribution system consisting of authorized distributors and, in turn, their authorized dealers. In Canada the authorized distributor is the respondent whose parent company, Seiko Time Corporation, performs a like role in the Seiko distribution system in some or all of the United States. Seiko Time Corporation, in turn, is a wholly-owned subsidiary of Hattori. Thus the respondent is owned and controlled by Hattori through Hattori's American distributor. Hattori is the registered owner of the trade mark "Seiko" with reference to the wares "watches, clocks, time recorders, switching means, and parts thereof." The trade mark was renewed on June 30, 1976, after the respondent had been appointed as an authorized distributor by Hattori for Canada (by letter of June 23, 1975). The letter from Hattori appointed its sub-subsidiary the

> … exclusive distributor of "SEIKO" watches and clocks in Canada, and as such has the sole right to distribute "SEIKO" watches and clocks in Canada to authorized dealers and to appoint such dealers in Canada.

Hattori did not appoint the respondent a registered user of the trade mark under the *Trade Marks Act*, R.S.C. 1970, T-10, nor is Hattori, the owner of the trade mark, one of the plaintiffs in this action. The respondent, of course, has not appointed the appellant, Consumers Distributing Company Limited, as an authorized Seiko dealer in Canada.

Some time in 1978, the appellant began to import Seiko watches and sell them in the retail market. These watches had been obtained lawfully from a source outside Canada, which, according to the record, is an authorized distributor of Hattori but who was selling Seiko watches outside the authorized distribution network, that is to say, to others, such as the appellant, who were not authorized Seiko dealers. The record refers to this distributor as a "diverter." The watches, it is agreed, originate with Hattori or its authorized manufacturer and supplier in Japan, and reach the appellant in the original packaging, along with a warranty issued in the name of Hattori, and a user's booklet. In short, these watches are identical with the Seiko products distributed by the respondent.

The warranty, packaged in the individual containers in which the watches reach the appellant, is described in the record as a warranty for the distribution and sale of Seiko watches in the United States. The guarantee reads:

> Your SEIKO Quartz watch is guaranteed for one year from the date of purchase.

The warranty document goes on to notify the purchaser that repair service is available only "at SEIKO Service Centres listed on the following page." One of the Service Centres so listed is:

> Canada 285 YORKLAND BOULEVARD,
> WILLOWDALE, ONTARIO M2J 1S8
> Tel: (416) 496-2221—TELEX: 06-966801
> CABLE: TORSEIKO TORONTO

This is apparently the address of the respondent's place of business.

It is relevant to note that the Certificate of Guarantee accompanying each watch as received by the respondent was issued under the name of Hattori and provides as follows:

> We certify that your SEIKO watch was manufactured by the SEIKO industrial group, and is guaranteed for one year from the date of purchase. Within that period, repair service is available without charge against defects in materials and workmanship, excluding damage caused by accidents or lack of care. If your SEIKO watch needs servicing, please take it or sent it to the nearest authorized SEIKO service centre or agent, stating date of purchase and nature of service required.

The certificate then concludes with the following notice:

> IMPORTANT
>
> . . .
>
> 2. This certificate is not valid unless properly filled out by the dealer.

The warning is differently phrased in the instructions contained in the booklet received by the appellant with the watches in question (and passed along to the retail purchasers). It is said to be Guarantee Form 101, which is a Hattori form for use in the United States. This warranty reads as follows:

> To qualify for service under the warranty, present your watch together with the warranty repair coupon, page 13 of this booklet, properly filled in by the authorized SEIKO dealer from

> whom the watch was originally purchased, or other proof of date of purchase, to any member of the SEIKO Worldwide Service Network.

The repair arrangements are, according to the evidence at trial, available at the Service Centre only if the booklet is completed by an authorized dealer at the time of sale. The repair centers are told by the respondent to reject other watches. The record indicates that, apart from watches sold in Canada, there is no certain way for the respondent to determine whether the watch was actually sold by an authorized dealer somewhere in the world. The respondent bears the cost of servicing the warranty for watches sold in Canada. The respondent apparently has the right to reimbursement from Hattori for the cost of service of watches sold by authorized dealers elsewhere, but in practice has not exercised this right. The record is silent as to whether the respondent has sought reimbursement from Hattori for the performance of the guarantee in respect of Seiko watches sold by the appellant, or others, who were not authorized Seiko dealers.

In the result it is clear that, while the source of the diverted watches sold at retail in Canada by the appellant is not revealed, the uncontested evidence is that these watches came from within the Seiko worldwide distribution system through a vendor outside of Canada, that the watches are genuine Seiko watches produced by Hattori or its suppliers, and that the appellant is not an authorized Seiko dealer appointed by the respondent for the sale of Seiko watches in Canada.

Proceedings were instituted by the respondent in January 1979 wherein the respondent sought two forms of injunction as follows:

> (a) an interlocutory and a permanent injunction restraining the Defendant from acquiring, advertising and selling "Seiko" watches;
> (b) in the alternative, an interlocutory and a permanent injunction restraining the Defendant from holding itself out as an authorized dealer of the Plaintiff by advertising and selling "Seiko" watches as internationally guaranteed; …

An interlocutory injunction was issued in the month of February 1979, and modified in the month of March, whereunder the appellant, until trial or other final disposition of the action:

> (a) was restrained from holding itself out as an authorized dealer of the respondent by advertising and selling Seiko watches as internationally guaranteed;
> (b) was ordered to post a permanent notice in all showroom catalogues and on counters where the appellant displayed Seiko watches, as well as in any future advertising for those purposes, to the effect that the defendant was not an authorized dealer, that the Seiko watches sold by the appellant had not been purchased from the respondent and were not internationally guaranteed by the respondent; and
> (c) was ordered not to issue or distribute any Seiko warranty booklets. (This provision does not appear in the permanent injunction issued after trial.)

The actual form of notice directed in the amended injunction to be posted by the appellant was as follows:

> Consumers Distributing is not one of the "authorized dealers" appointed by Seiko Time Canada Ltd. to market Seiko watches in Canada. The Seiko watches sold by Consumers Distributing consist of models although similar to those distributed in Canada by Seiko Time

> Canada Ltd. or by Seiko distributors in other parts of the world are not purchased from Seiko Time Canada Ltd. and are not "internationally guaranteed" by Seiko Time Canada Ltd. which has refused to honour any form of Seiko guarantee accompanying our Seiko watches.

The matter proceeded to trial in April 1980 and evidence was then taken as to the effect in the market place of the sale of Seiko watches by the appellant on the business of the respondent, and of the confusion occasioned by the appellant's activities, both within the respondent's distribution network and amongst the burying public at large. There was no evidence of any confusion amongst the members of the buying public after compliance began on March 31, 1979 by the appellant with the interlocutory injunction set out above which commenced on March 31, 1979.

As the opening of the trial, the appellant took the position that it was agreeable to the interlocutory interim injunction being made permanent. The appellant further abandoned any argument that watches sold by the appellant would qualify for servicing within the warranty period by the respondent so long as the warranty repair coupon on p. 13 of the warranty booklet was duly completed by showing "other proof of date of purchase." Judgement at trial was granted in favour of the respondent as follows:

1. A permanent injunction was ordered restraining the appellant from:

   > … holding itself out as an authorized Seiko dealer of the Plaintiff by advertising and selling "Seiko" watches as internationally guaranteed;

2. The appellant was permanently enjoined from:

   > … advertising or selling "Seiko" watches in Canada;

3. Damages in the amount of $5,500 were awarded to the respondent.

On appeal to the Court of Appeal, the appellant took no appeal against the injunction described in paragraph 1 above or from the award of damages, confining the appeal entirely to the injunction described in paragraph 2 above.

The Court of Appeal judgment was given by endorsement on the record [(1981), 128 D.L.R. (3d) 767, at p. 768]:

> Appeal dismissed with costs for the reasons given by the trial Judge and in particular the conclusion he reached that the product marketed by the plaintiff was not simply a watch alone. We are satisfied that in this case an injunction merely in the terms of para. 1 of the judgment would allow the appellant to continue trading on the good will of the plaintiff and would permit a deception of the public.

While the statement of claim framed the action on the basis of false representation, or holding out by the appellant that it is an authorized dealer of the respondent, as well as passing off contrary to the *Trade Marks Act,* s. 7(c) and contrary to the *Combines Investigation Act*, R.S.C. 1970, c. C-23, s. 36(1)(a) and (c), the position taken by the respondent in this Court has been confined entirely to the action in tort of passing off. The respondent puts its position both on the basis of the classic action in passing off, as well as in the modern variation of that action, sometimes referred to in the cases as the "extended version" of the doctrine of passing off. In taking this position, the respondent relies upon a series of findings by the learned trial judge to the general effect (and particulars shall be mentioned later) that the Seiko watch, as marketed by the respondent, is a composite or packaged product consisting of four elements:

1. the watch;
2. the point of sale service and instruction booklet;
3. the warranty properly filled out by an authorized dealer; and,
4. the after sale service.

Consequently, the trial judge concluded [(1980), 112 DLR (3d) 500] that, by marketing the bare watch without the other three elements, the appellant was creating confusion in the market place and damage to the goodwill, which the respondent had built up on the sale of its complete or composite product through its extensive distribution and service network. The trial judge found that the appellant, on the other hand, was not advertising or selling this product, but was simply selling the bare watch with the result, "That confusion in the eyes of the public is likely …" The basis of the plaintiff-respondent's success at trial is the finding that the respondent established goodwill in connection with the Seiko watch by reason of the sale and distribution of that product in the manner outlined above. The respondent did so by means of service centers, sales training programs, the appointment of "only fine jewellery stores or large department stores" as authorized dealers, and the expenditure of "a substantial amount of its money annually for national advertising and has financial aided its authorized dealers in local advertising undertaken by the dealers." The respondent's success is indicated in the financial statements in the record. On the other hand, the trial judge found that the appellant had no point of sale or adjustment service for its customers, no repair facilities, and carried a small line of only eleven models of the Seiko watch as against 250 models carried by authorized dealers. The learned trial judge went on to find that:

> It was this product with all its components which developed the reputation of Seiko in Canada and the goodwill which thereby arose between the plaintiff, its dealers and the consuming public.

In contrast to the product so marketed by the respondent, the learned trial judge found:

> The defendant is not advertising or selling this product as the defendant has no sales personnel knowledgeable about this watch, has no point-of-sale service, cannot deliver a valid warranty, and offers no after-sale service. I find that the product advertised and sole by the defendant is a different product. The defendant is not an authorized dealer and cannot complete the warranty booklet. That confusion in the eyes of the public is likely, is clear. Accepting the fact that the very watch and warranty booklet being sold and distributed by the defendant are of those of K. Hattori, the plaintiff's product is nonetheless a different product because of the various items comprised in the plaintiff's product.

Earlier in his judgment, the learned trial judge had found:

> Persons acquiring Seiko watches from Consumers could well believe that they were buying the "product" offered by an authorized Seiko dealer and that Seiko Time Canada had so authorized Consumers.

The judgment at trial strays somewhat from this theme, as regards the right to use the word "Seiko," when the Court observes:

> This plaintiff has established to my satisfaction that it has business or goodwill in the use of the name “Seiko” as developed through its marketing practices which is worthy of protection even though it does not own this name. It is nonetheless one of a class entitled to make use of the distinctive name “Seiko” as descriptive of its product and this is a valuable part of the goodwill which has been generated to the plaintiff by the method of marketing which it has employed.

It was the marketing technique or scheme which, in the end, appears to have given rise to the recognition of the right in the respondent which was to be protected by the injunction which issued. The judgment concluded:

> In the present case I find:
>
> (1) by holding out, as it has in its catalogue and stores, that the watches being advertised or sold by it are Seiko watches (i.e., including all the components which I have found have become attached to that name) the defendant is misrepresenting the product it is selling to the consuming public; …

The respondent is, of course, not a registered user nor an assignee of the trade mark, Seiko, and the distribution of a trade marked product lawfully acquired is not, by itself, prohibited under the *Trade Marks Act* of Canada, or indeed at common law. In passing, it should also be observed that the finding as to the four elements in the respondent’s product appears to be based upon a duplication between the warranty and the after sales service, elements three and four. The after sales service is provided during warranty without charge unless the watch is known by the respondent’s staff to have been sold outside the authorized distribution system. Thereafter, service is presumably based on normal charge for service. There seems to be no valid distinction between the warranty properly filled out and the after sales service. Indeed, if Hattori assumed the cost of the performance of the warranty issued at the time of the initial sale of the watch by Hattori, no issue would have arisen here, except possibly the question of a right accruing by reason of the point of sale activity by the respondent’s authorized dealer. It is difficult to find the origin of such a right in law, and indeed, none was advanced by the respondent.

The time which concerns us, in the analysis of the marketing practices of the parties to this appeal, divides itself into two periods. The first period commences with the beginning of sales by the appellant of Seiko watches, by catalogue and in the stores of the appellant, and ends with the issuance of the interlocutory injunction on February 14, 1979, or at the latest, March 20, 1979, when it was revised. The second period continues thereafter up to and including the trial. It is not contested by the appellant that the Seiko watches, complete with warranty and packaging, all as received from the unknown distributor, were sold to the public in the first period without any notice that the warranty included in the box with the watch and issued over the name of Hattori, may not be enforceable in Canada, and that it sold these watches to the public in Canada without any notice that the appellant was not an authorized dealer of the respondent or of Hattori. The appellant conceded at trial that the injunction claimed in the statement of claim, paragraph 16(b) (and described above as the final injunction in the judgment at trial), whereby the appellant was permanently enjoined and restrained from “… holding itself out as an authorized [Seiko] dealer of the Plaintiff by advertising and selling “Seiko” watches as internationally guaranteed;” should continue permanently. Neither has the appellant appealed from the award of $5,000 damages, relating, as that award apparently did, to the sale of these watches during period one.

In this Court, the appellant argued that no evidence was introduced at trial to show that, after the injunctions of February and March 1979, any confusion was created in the market place by the conduct of the appellant in selling the bare Seiko watch in the manner permitted under the interim injunction. The respondent did not direct this Court to anything in the record which might be described as evidence to the contrary. Counsel for the appellant asserted that this submission was made in the Court of Appeal below. That court may have been responding to that argument when it stated:

> … an injunction merely in the terms of para. 1 of the judgment would allow the appellant to continue trading on the goodwill of the plaintiff and would permit a deception of the public.

This conclusion, however, is entirely unsupported in the evidence.

What, then, is the issue now presented by this appeal? It is said by the appellant that the only complaint made by the respondent, which is supported by evidence, is that Seiko watches were presented for sale to the Canadian public, under circumstances wherein that public was aware that these watches were not supported by an international guarantee by the respondent, and that the appellant was not an authorized dealer of the respondent. The respondent contends, nonetheless, that sales, even in these circumstances, do indeed result in confusion or deception of the public, and accordingly, argues that the unlimited injunction, prohibiting sales of Seiko watches by the appellant under any circumstances or conditions, is a valid exercise of the authority of the Court, under the doctrine of "passing off."

From a factual viewpoint, the position advanced by the respondent, if it should be adopted, would have the following consequences:

1. The Canadian public would be deprived of the right, or option, to purchase the Seiko watch, a product of Hattori of Japan, on the alternative basis that the watch would be unsupported by the marker's warranty; and,
2. A monopoly would be effectively established by the application of the doctrine of passing off in these circumstances, equivalent to that normally authorized by the issuance of a patent of invention under the *Patent Act* of Canada, except that here the monopoly would be for an unlimited term.

These startling results themselves call for an examination of the principles of tort law to determine whether or not there is indeed, in these circumstances, room for the application of the doctrine of passing off, sometimes referred to as a branch of injurious falsehood. The common law principles relating to commerce and trade generally proceed on the basis of a recognition of perceived benefits to the community from free and fair competition. This is variously illustrated in the older authorities, for example, in *Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co.*, [1894] A.C. 535 (H.L.), *per* Lord Macnaghten, at p. 565:

> The true view at the present time I think, is this: The public have an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraint of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void.

Later, in *Attorney General of Australia v. Adelaide Steamship Co.*, [1913] A.C. 781, Lord Parker of Waddington, discussing this same principle, stated, at p. 794:

> Monopolies and contracts in restraint of trade have this in common, that they both, if enforce, involve a derogation from the common law right in virtue of which any member of the community may exercise any trade or business she pleases and in such manner as he thinks best in his own interests.

There are well-known and important exceptions to this general rule where the law countenances, and indeed sometimes imposes, restrictions on this right to free competition and trade, including restrictions imposed by purchasers of goodwill upon vendors, deceitful trade practices calculated to injure others, defamation of trade and profession, improper or unfair use of trade information of a former employee, the protection of trade secrets, monopolies granted by patent including Letters Patent on inventions, and statutory monopolies or regulated trades and professions. Any expansion of the common law principles to curtail the freedom to compete in the open market should be cautiously approached. This must be the path of prudence in this age of the active legislative branch where the community's trade policies are under almost continuous review. This by no means class for judicial abdication of the role of adjusting the common law principles relating to proper trade practices to the ever-changing characteristics and techniques of commerce. Reticence to curtail this general rule, however, is found even in *Erven Warnink BV v. J. Townend & Sons (Hull) Ltd.*, [1979] 2 All E.R. 927, where Lord Diplock stated, at p. 933:

> … but in an economic system which has relied on competition to keep down prices and to improve products there may be practical reasons why it should have been the policy of the common law not to run the risk of hampering competition by providing civil remedies to everyone competing in the market who has suffered damage to his business or goodwill in consequence of inaccurate statements of whatever kind that may be made by rival traders about their own wares. The market in which the action for passing off originated was no place for the mealy mouthed: advertisements are not on affidavit; exaggerated claims by a trader about the quality of his wares, assertions that they are better than those of his rivals, even though he knows this to be untrue, have been permitted by the common law as venial 'puffing' which gives no cause of action to a competitor even though he can show that he has suffered actual damage in his business as a result.

In the most recent edition of *Salmond on Torts* (17th ed.), at pp. 400-01, the learned author discusses passing off in these terms:

> 149. INJURIOUS FALSEHOOD: PASSING OFF.
> To sell merchandise or carry on business under such a name, mark, description, or otherwise in such a manner as to mislead the public into believing that the merchandise or business is that of another person is a wrong actionable at the suit of that other person. This form of injury is commonly, though awkwardly, termed that of passing off one's goods or business as the goods or business of another and is the most important example of the wrong of injurious falsehood, though it is so far governed by special rules of its own that it is advisable to treat it separately. *The gist of the conception of passing off is that the goods are in effect telling a falsehood about themselves*, are saying something about themselves which is calculated to

> mislead. The law on this matter is designed to protect traders against that form of unfair competition which consists in acquiring for oneself, by means of false or misleading devices, the benefit of the reputation already achieved by rival traders. Normally the defendant seeks to acquire this benefit by passing off his goods as and for the goods of the plaintiff. … [Emphasis added.]

At page 403, the learned author examines the basis for the concept of passing off:

> The courts have wavered between two conceptions of a passing-off action—as a remedy for the invasion of a quasi-proprietary right in a trade name or trade mark, and as a remedy, analogous to the action on the case for deceit, for invasion of the personal right not to be injured by fraudulent competition. The true basis of the action is that the passing off injures the right of property in the plaintiff, that right of property being his right to the goodwill of his business.

He concludes, at p. 404:

> Indeed, it seems that the essence of the tort lies in the misrepresentation that the goods in question are those of another; …

The role played by the tort of passing off in the common law has undoubtedly expanded to take the present-day community. The simple wrong of selling one's goods deceitfully as those of another is not now the core of the action. It is the protection of the community from the consequential damage of unfair competition of unfair trading. Professor Fleming, in his work the *Law of Torts* (6th ed.), reviews this development at p. 674:

> The scope of the tort has been increasingly expanded to reach practices of "unfair trading" far beyond the simple, old-fashioned passing-off consisting of an actual sale of goods accompanied by a misrepresentation as to their origin, calculated to mislead the purchaser and divert business from the plaintiff to the defendant.

and the learned author later resumes the discussion at p. 676:

> But not all harmful competition is unfair or unlawful. Most important, *the countervailing public interest in free competition* often demands priority: most prominently in the claim to use one's own surname honestly in business even at the cost of some confusion with a competitor, and in the use open to all of generic and descriptive, as distinct from fanciful, terms unless they have acquires a so-called secondary meaning by exclusive association with the plaintiff. [Emphasis added].

• • •

It is difficult, at first blush, to bring the conduct of the appellant within the concept of passing off. The appellant is selling precisely the same watch, coming from the same source, as the respondent. The watch is protected by a guarantee not in the respondent's name but in the name of the maker, Hattori. The quality of the product must have some bearing on the respondent's success and consequent development of business and goodwill in the trade. The watches sold in each branch of the trade, of course, were only and always those of Hattori. The respondent purports to bring itself within the classified definition of the doctrine by associating with the watch features which are unique to the selling technique employed by the respondent. The respondent is able to do this, so the argument goes, because of its contractual relationship with the supplier of Seiko watches, Hattori, which in turn supplies the respondent with the power of limiting the manufacturer's warranty to watches sold by dealers authorized by the respondent. Axiomatically, the appellant and persons (such as Woolco and K-Mart) who, according to the evidence, carry on a like business, are unable to merchandise the watches in this manner, as they are not authorized dealers. The problem facing the respondent is that the logical extension of this proposal grants to a vendor, in the position of the respondent, a monopoly on the sale in Canada of a product to the same extent as it would enjoy if the product were subject to a patent of invention issued to the respondent under the *Patent Act* of Canada. A second *cul-de-sac* into which such a submission necessarily leads is that the common law, in its personal property sector, would thereby be recognizing a right to entail and control the sale of personal property, however legitimately acquired, where another person, in the position of the vendor, was also marketing the identical item of personal property. Such a principle is foreign to our law. This right to control resale would, it follows, flow not only to the respondent and all others upon whom the manufacturer wishes to bestow this protection, but to the manufacturer Hattori which, on terms presumably satisfactory to itself, released these watches into the distribution stream which eventually carried them to the appellant. Ironically, the manufacturer, with the profits from its sale of these watches in its pocket, could then, if this is the law, restrain the appellant from reselling these watches. A third consequence would be an inevitable collision between such a result, on one hand, and the common law doctrine with respect to restraint of trade and free competition, on the other hand.

The style of marketing employed by the respondent might, indeed, have produced market goodwill in the respondent in relation to its establishment, and in the business and undertaking carried on by its authorized dealers. Efficiency, organization and energy no doubt will always, when coupled with what the record describes as an essentially good and sound product, produce a competitive edge, sometimes referred to as goodwill. Here, that commercial truism, if permitted, would run away with the principle of passing off. The appellant, put in its worst light, is offering to the Canadian public the alternative of buying a genuine Seiko watch unsupported by a manufacturer's warranty. Presumably, the appellant is able to offer a watch in such condition at a lower price than some or all of the authorized Seiko dealers, and this is one possible source of anxiety on the part of the respondent. That is not to say that the respondent would not have a legitimate trade interest in stifling this competition because of the respondent's business at its repair depots. There, the respondent, according to the record, has received for repair under a claimed warranty right, "spurious" watches, that is, Seiko watches which had been sole outside the Seiko distribution network. No doubt there is some cost in rejecting these applications for service. There is, however, no evidence on the record that any such activity occurred during what we have referred to above as the second period when the interim injunction was extant. Nor is any argument made that the respondent cannot recover such warranty service costs from Hattori.

If anything further need be said to distinguish the commercial activity of the appellant from that condemned by the rule in passing off, attention should be drawn to the fact that the passing off rule is founded upon the tort of deceit, and while the original requirement of an intent to deceive died out in the mid-1800's, there remains the requirement, at the very least, that confusion in the minds of the public be a likely consequence by reason of the sale, or proffering for sale, by the defendant of a product not that of the plaintiff's making, under the guise or implication that it was the plaintiff's product or the equivalent. See: *Millington v. Fox* (1838), 3 M. & Cr. 338, at p. 352; *Perry v. Truefitt* (1842), 6 Beav. 66, at p. 68, 49 E.R. 749, at p. 750; *Cellular Clothing Co. v. Maxton & Murray*, [1899] A.C. 326, at p. 334. Here, nothing of that nature is present. Indeed, once the interim injunction commenced to operate, it is difficult to understand how the watch-buying public would purchase a watch from the appellant and leave their premises with the idea that Hattori, or its agent the respondent, or its agents the authorized dealers, would somehow service the watch. Indeed, the injunction was designed by the respondent and adopted by the Court below for that very purpose. The article of commerce sold by the contending parties hence is identical. The peripherals of presentation of the product to the public, in some circumstances, might support some exclusive rights in the market as against others seeking to supply the same product to the market, but in the circumstances of this case, no support in the law for such relief has been exposed.

A moment should be devoted to a discussion of the other element said to distinguish the "product" of the respondent from that of the appellant, and I refer to "point of sale service." This had to do with the help offered by the jeweller, as an authorized dealer of the respondent, in adjusting the bracelet and in informing the purchaser as to the workings of the watch. There is nothing in the record to indicate that this service was of any commercial value, but in the circumstances, a court should perhaps incline in favour of the plaintiff (here respondent) without emphasis on the onus of demonstration. On the other hand, if this minimal service were deleted from the "package" offered by the respondent, then it is a simple question as to whether sale of a watch with a warranty and sale of the same watch without a warranty is a different product, or whether it is one and the same product. If one were to elevate the point of sale service to the level of being an element of a product, then a quasi-monopolistic protection under the doctrine of passing off would arise in one who adopts any merchandising style, or in the modern vernacular "gimmick," which had theretofore not been adopted in his neighbourhood by a competitor when selling a "name-brand" product. No case drawn to our attention extends the passing off umbrella to those limits. I therefore conclude that the classic action of passing off is not here available to the respondent.

But the respondent goes on to urge that the circumstance here demonstrated fall within a doctrine referred to in argument, and, indeed, in some of the literature on the subject, as the "extended action" in passing off. This doctrine is said to have evolved from the progressive discussions of the action for passing off in three cases in the United Kingdom: *A.G. Spalding & Bros. v. A.W. Gamage Ltd.* (1915), 32 R.P.C. 273; *Bollinger v. Costa Brava Wine Co. (No. 1)*, [1959] 3 All E.R. 800, [1960] R.P.C. 16, and *(No. 2)*, [1961] 1 All E.R. 561; [1961] R.P.C. 116; and *Warnink*, *supra*.

In the *Spalding* case, the House of Lords considered a course of commercial conduct by a defendant in the marketing of a discontinued product of the plaintiff (soccer balls), as the "improved" product recently brought to the market by the plaintiff. the defendant thereafter sought to rectify and harm done by its first advertisement by a second advertisement, which made reference to a description of the discarded balls using terms which the Court found had been long associated by the public with the plaintiff's product. Lord Parker of Waddington discussed the tort of passing off, at p. 284, as follows:

> A cannot, without infringing the rights of B, represent goods which are not B's goods or B's goods of a particular class or quality to be B's goods or B's goods of that particular class or quality. The wrong for which relief is sought in a passing-off action consists in every care of a representation of this nature.
>
> My Lords, the basis of a passing-off action being a false representation by the defendant, it must be proved in each case as a fact that the false representation was made.

and then described the test to determine the presence of the tort of passing off on the same page as:

> … whether the defendant's use of such mark, name, or get-up is calculated to deceive.

It should be added at this point that "calculated to deceive" means, in the words of Lord Diplock, that such deception or confusion is a "reasonably foreseeable consequence" of the conduct in question. See *Warnink*, *supra*, at pp. 932-33.

On the facts of *Spalding*, the trial judge and the House of Lords concluded that the acts of the defendant were "hardly consistent with fair or honest trade" and concluded: "There is nothing in the subsequent advertisements pointing to a desire on the part of the Defendants to undo the harm they had done by their first advertisements. Indeed, I am not sure that the subsequent advertisements are not so framed as to strengthen a belief induced by the first … [advertisements]."

This is hardly the situation here. The corrective measure was designed by the plaintiff-respondent and adopted by the Court on the interlocutory application of the respondent to enable the buyer to ascertain precisely the terms of the offered sale; and to protect the respondent's trade pending the disposition of the action. The soccer balls had been discarded by the plaintiff-manufacturer as waste material and excluded from public sale. Here the manufacturer had placed the watches in question in the market stream just as was done by the manufacturer with the watches sold to the public by the respondent.

The principles of passing off were said to have been further expanded or modernized in the United Kingdom in the decision of Danckwerts J. in *Bollinger v. Costa Brava Wine Co. (No. 1)*, *supra*, where the issue was whether plaintiffs associated with the marketing of champagne produced in the district of France bearing that name could obtain an injunction prohibiting the marketing in the United Kingdom of a Spanish wine said to have similar characteristics, under the name "Spanish Champagne." Unlike the *Spalding* case, the defendant was not faced with an allegation of marketing the discarded goods of the plaintiff under a deceptive description indicating to the buying public that the goods were regular products of the plaintiff. Moreover, the defendant did not represent that the goods were identical with, or the same as, the goods which the plaintiffs were marketing in the U.K. In *Bollinger (No. 1)* the defendant advised the public that the wine came not from France but from Spain. The key issue was whether the defendant could arrogate to its wine the word "Champagne," and thereby succeed to any benefits which had accrued to the plaintiffs by reason of the word "Champagne" having become known in the market as associated with wine produced by the plaintiffs from grapes grown in the District of Champagne in France. In meaning this issue, Danckwerts J. discussed the inclusion of the concept of unfair competition in the action of passing off at p. 805:

> The well-established action for "passing off" involves the use of a name or get-up which is calculated to cause confusion with the goods of a particular rival trader, and I think that it

> would be fair to say that the law in this respect has been concerned with unfair competition between traders rather than with the deception of the public which may be caused by the defendant's conduct, for the right of action known as a "passing-off action" is not an action brought by the member of the public who is deceived but by the trader whose trade is likely to suffer from the deception practised on the public but who is not himself deceived at all.

As to the immediate issue of the right in the plaintiff's to prevent the defendant from using the geographical name, which had been used without any special right or grant in law by the plaintiffs, the Court in finding for the plaintiffs stated at pp. 810-11:

> There seems to be no reason why such licence should be given to a person, competing in trade, who seeks to attach to his product a name or description with which it has no natural association so as to make use of the reputation and goodwill which has been gained by a product genuinely indicated by the name or description. In my view, it ought not to matter that the persons truly entitled to describe their goods by the name and description are a class producing goods in a certain locality, and not merely one individual. The description is part of their goodwill and a right of property. I do not believe that the law of passing off, which arose to prevent unfair trading, is so limited in scope.

Danckwerts J. found the plaintiffs had developed a goodwill or reputation in the market by associating its product with the region of origin. Deliberate employment of this name by another trader for the purpose of enhancing the trade operations of such other trader was, in the Court's view, the appropriation of another's right of property, namely his goodwill. This term goodwill is used in the sense that the word was used by Lord Macnaghten in *Inland Revenue Commissioners v. Muller & Co.'s Margarine, Ltd.*, [1901] A.C. 217, at p. 224: "It is the attractive force which brings in custom." In reaching this result, the Court in *Bollinger* relied upon *Draper v. Trist*, [1939] 3 All E.R. 513, where Lord Goddard stated at p. 526:

> In passing-off cases, however, the true basis of the action is that the passing off by the defendant of his goods as the goods of the plaintiff inures the right of property in the plaintiff, that right of property being his right to the goodwill of his business.

That extension of the action of passing off, if it is an extension, does not reach the circumstances of this appeal. In *Bollinger*, the defendant did not pass off his goods as those of the plaintiffs, but directed attention unfairly to his goods by associating them with those of the plaintiffs, by the deliberate use of a name which had become associated in the market with the goods of the plaintiffs. The desired impression on the mind of the wine-buying public was that the product of the defendant was of the same standard of quality and acceptance as the wine of the plaintiffs. Here, the appellant sold the watches of Hattori under the Hattori trademark, Seiko, to which the respondent had no more right in law than did the appellant. Had the appellant attempted to sell these watches after removing the Seiko trade mark, other rights would be offended and causes of action against the appellant would arise in someone but, perhaps, not including the respondent. The better analogy here would be to the buyer of a Chevrolet from an authorized dealer or source, who then sells the car without dealer or source, who then sells the car without any status of dealership from the manufacturer. Assuming title to the car was lawfully acquired and that no misrepresentation of the condition of the vehicle and the right of warranty was made, would a duly authorized dealer of the manufacturer, or the manufacturer itself, or anyone else, have recourse to injunction to prevent such a sale of the Chevrolet? Clearly not, and the answer is the same whether the car be new or used. See *Morris Motors, Ltd. v. Lilley*, [1959] 3 All E.R. 737. Different considerations might apply where the action may be founded in trade mark legislation. No authorities were advanced by the respondent where such restriction on disposition of personal property was upheld.

• • •

Only a moment's consideration is required to recognize that none of this "extended doctrine" has even a remote connection to the conduct complained of here. The watches are not, in the words of Lord Fraser, "falsely described" (p. 944) by the appellant. Indeed, they are sold under the original, and only, trade mark. Both parties, as vendors, gave the retail buyer a form of guarantee issued by a third party, Hattori. In each case, the buyer faced the enforcement of a guarantee to which the vendor was not a party. There is nothing before us to indicate that the respondent gave the buyer a legally enforceable assurance that its policy of recognition of Hattori's guarantee would continue through each guarantee period. Likewise there is nothing to show, in a legal sense (albeit hopelessly enforceable by any purchaser. There is nothing to show that Hattori was able to recoup, through the respondent's price to the authorized dealer, the cost of the service of the warranty. Nor is there any evidence that Hattori had or had not done so when making the sale of the watches in question to the appellant's supplier, wherever and whenever that transaction took place. Finally, there is nothing in the record obliging either Hattori or the respondent to service the warranty issued to the retail purchaser over the name of Hattori.

Another practical consideration is the trade name on all the watches, "Seiko." These watches were inseparable from the Seiko trade mark in respect of which neither the respondent nor the appellant could acquire any rights. The trade mark itself distinguished the product from all others, and the "goodwill" likewise attached to the trade mark by reason of the inherent quality of the product. The respondent could not acquire a right (which could accrue under *Warnink*, *supra*) to prohibit the sale of identical products by others. Can the principles of passing off, either classic or extended, be stretched further by the point of sale activities of the respondent or by the voluntary assumption of the performance of the Hattori covenant of guarantee? This has become academic with the issuance, pending trial, of the interim injunction. The purchaser who buys from the appellant is left to his own devices should his watch require service during the warranty period. A purchaser might attempt to enforce the Hattori guarantee or attempt to obtain repair services elsewhere. That is the assumed risk of the purchaser, undertaken in full knowledge of the silent facts. Without a price benefit, it is difficult to see why a purchaser would take this risk. In any case, it is a transaction which cannot be interrupted by any action in passing off, classic or extended.

The transaction on which this appeal rests should be examined from one additional viewpoint. The record does not contain any contract between Hattori and the respondent with respect to performance of the international warranty. If the respondent is not, in law, bound to perform the Hattori covenant to repair, what assurance is there that, once insulated from any competition by the continuance of the interlocutory injunction, the respondent would continue to honour the Hattori guarantee until the expiration of the successive warranties which commence with each retail sale? This situation exists so long as the respondent honours the Hattori warranty only because it is a wholly-owned subsidiary of Hattori. That consideration would, of course, end if Hattori decided to dispose of its interest in the respondent. In any case, if the respondent's performance of the guarantee is gratuitous, what cognizance should the Court take of its complaint that the appellant does not do likewise?

On the other hand, if Hattori has secured a covenant from it distributors to perform its warranty in exchange for a price reduction or other consideration, then the remedy lies with Hattori to enforce the covenant against the appellant through the diverter-distributor. If Hattori failed to protect itself in this, or any other way, it would be surprising to find that the law would come to its aid by affording a parallel remedy through Hattori's wholly-owned subsidiary, the respondent. Indeed, if such a recourse exists, Hattori would then be selling watches to the diverter, without price discount but withe the diverter's covenant to perform the guarantee, and thus would recover a greater profit than Hattori would realize on the sales to its distributor, the respondent. With this profit in hand, Hattori, if the respondent's submissions carry the day, could then block the sale of such watches by the diverter's purchasers, and thereby keep its distributors and authorized dealers satisfied. The record is silent as to whether such a price differential exists in the Hattori distribution structure.

Either way, nothing supports the extension of a remedy in the field of passing off to the respondent. Hattori launched these watches into world commerce with a warranty attached in its own name. Hattori has already benefitted from the law by the Court's making permanent the interlocutory injunction because, in the result, Hattori is thereby freed from the obligation to perform, at least through Canadian facilities, its guarantee to repair during the warranty period. As a practical matter, because of the cost of enforcement relative to the probable cost of repairs to these watches, Hattori is freed of most, if not all, of the warranty cost in respect of sales through the diverter. The courts, in the circumstances of this case, should leave to the retail purchaser and Hattori the settlement of the question as to who is responsible for the performance of the warranty. It is a long jump from there to the judicial recognition of a monopoly in the marketing of these watches in a vendor in the authorized distribution chain, particularly in the absence of trade mark or patent considerations.

The *Warnink* elements of passing off, at minimum, require an initial misrepresentation calculated to injure the business or goodwill of a trader in the same market, or which may be a reasonably foreseeable consequence, and which causes damage to the other trader. I am unable to find in this record any misrepresentation during the second period, which is essential to found a right in the respondent to enjoin the appellant generally from the selling of Seiko watches in any manner whatsoever. It must be remembered that the second injunction, and the only one under appeal, is expressed in these terms: the defendant (appellant) is "hereby permanently enjoined and restrained from advertising or selling 'Seiko' watches in Canada." To grant such an injunction, a court must conclude that the seller of personal property identified by a registered trade mark owned by a third party may not do so, if someone else is selling that property in some different mode, or with some different characteristic such as here, a one-year warranty to repair. For the reasons already mentioned above, I find no such right in our law.

I do not want to leave this subject, dealing as it does with the marketing of manufactured goods identified by a registered trade mark, without stating that nothing was advanced herein by the respondent with reference to any rights flowing to it by way of a trade mark registered in the name of Hattori under the *Trade Marks Act* of Canada, R.S.C. 1970, T-10. Indeed, Hattori would be a requisite plaintiff if any such claim were made. Perhaps the respondent, if it held an appointment as a registered user of the registered trade mark, registered under the *Trade Marks Act* of Canada, would have the requisite status. See *Fox on Copyrights* (2nd ed. 1967), at pp. 440-41. Neither condition here exists. We therefore are not confronted with the situation before the Exchequer Court in *Remington Rand Ltd. v. Transworld Metal Co.*, [1960] Ex. C.R. 463.

For these reasons, I therefore would allow the appeal and direct that the order issued at trail be amended by the deletion therefrom of paragraph 2. The interlocutory injunction, granted on February 14, 1979, included an order to the appellant not to issue or distribute any Seiko warranty booklets. This provision did not subsequently appear in the permanent injunction issued after trial. The respondent apparently did not seek the restoration of this aspect of the injunction. This seems to be a proper result because it was Hattori, and not the respondent, who issued the guarantee, and Canadian purchasers should be left with their chances of forcing Hattori to perform this obligation. The appellant shall have its costs here and in the Court of Appeal, but shall have no costs with reference to the counterclaim. I would not vary the order as to the cost at trial because it is not entirely clear that the appellant gave, before the commencement of trial, the consent and undertaking with reference to the continuance of the interlocutory injunction which would have made the prosecution of the action through to judgment at trial unnecessary.

Appeal allowed with costs.

Consumers Distributing stands for the proposition that parallel importation or grey marketing is not per se trademark infringement or passing off. This is in large part because grey market goods are legitimate and not counterfeit goods. Their trade source is that which is indicated by the trademarks they bear. As the Federal Court of Appeal stated in *Coca-Cola Ltd v Pardhan* (1999), 85 CPR (3d) 489, 1999 CanLII 7852 (FCA), "the resale of goods manufactured by a trade mark owner, bearing the trade mark of the manufacturer, cannot realistically be said to be a use by the vendor to deceive the purchaser as to the provenance of the goods" (at para 20). The *Pardhan* decision reflects the principle of "exhaustion." In the words of the Federal Court of Appeal, "once the [trademark owner's] goods, bearing the [trademark owner's] trade-mark, were sold by them in the course of trade, subsequent resale of those same goods bearing the same trade-mark could not constitute use or actionable use" (at para 12). The principle of exhaustion in the context of imported goods has been given expression in the *Trade-marks Act* following the enactment of the *Combating Counterfeit Products Act*, SC 2014, c 32. New s 51.03 of the *Trade-marks Act* provides:

> 51.03(1) Goods shall not be imported or exported if the goods or their labels or packaging bear—without the consent of the owner of a registered trade-mark for such goods—a trade-mark that is identical to, or that cannot be distinguished in its essential aspects from, that registered trade-mark.
>
> (2) Subsection (1) does not apply if
>
> (a) the trade-mark was applied with the consent of the owner of the trade-mark in the country where it was applied;

> (b) the sale or distribution of the goods or, in the case where the trade-mark is on the goods' labels or packaging, of the goods in association with the labels or packaging would not be contrary to this Act; …

In spite of the principle of exhaustion, companies that establish authorized distribution networks to sell their products in multiple markets object strenuously to parallel importation. Certainly, parallel importation has the potential to create competition between the grey goods and the authorized goods by offering consumers a lower price option. According to the Supreme Court of Canada in *Consumers Distributing*, this is a good thing for consumers, and not something that the law of passing off should be used to suppress. Trademark owners will argue that their authorized distribution networks do more than just allow them to control the price point for their goods. Such networks may be used to ensure that consumable goods (such as chocolate bars) are fresh and are not sold close to or past their best-before dates. Point-of-sale service may also help maintain an aura of quality or luxury associated with certain goods. Are there circumstances in which grey market goods may cause confusion with goods within an authorized distribution network because of differences (real or perceived) in quality? See *Sharp Electronics of Canada Ltd v Continental Electronic Info Inc* (1988), 23 CPR (3d) 330, 1988 CanLII 3340 (BCSC). What kinds of differences should be considered material?

In some cases, different tastes between one country and another may lead to differences in recipes of food products sold under the same trademark but manufactured for different markets. In *Nestlé Enterprises Ltd v Edan Food Sales Inc* (1991), 37 CPR (3d) 480, [1991] FCJ No 801 (QL) (FCTD), the court found that instant coffee imported into Canada from the United States as a grey market good could be sold in Canada as long as there was sufficient labelling to make consumers aware of the differences between the US product and that sold under the same mark in Canada.

Where reconditioned goods are sold, the seller must take care not to lead consumers to believe that they are purchasing new goods under the trademark owner's mark. See *Sony du Canada Ltée v 173968 Canada Inc* (1991), 39 CPR (3d) 414 (Qc SC). As long as it is clear to consumers that they are purchasing reconditioned goods, is there any basis on which the trademark owner can object? Should there be?

The Supreme Court of Canada's approach to parallel importation in *Consumers Distributing* clearly favours free competition and consumer choice. Yet how do these principles fare in our contemporary context where commerce is increasingly globalized and a great deal of manufacturing is outsourced? Assume that a designer clothing company that has outsourced its manufacturing to a company in a developing (or majority world) country. The designer company later rejects a batch of clothing delivered by the manufacturer. The clothing has been made to its specifications and bears its trademarks. It has been rejected on the basis that (in the rapidly changing world of fashion) the clothing was not delivered on time. If these clothes end up in the grey market, should the trademark owner be able to prevent their sale in Canada? Does it make a difference if they were rejected on the basis that they were not up to the trademark owner's standards as specified in the contract? Should it? Does it matter if the contract between the designer and the manufacturer provides that rejected goods must be destroyed and cannot be sold? What if the contract provides that rejected goods may be sold by the manufacturer only in countries in which the brand owner has no commercial presence? If these goods are then purchased in one of those countries by a company that then imports them for sale in Canada, is there a basis for a passing-off claim? In such a context, how can one distinguish between counterfeit goods and parallel imports?

Technological changes have created other challenges for the law of passing off. The following case deals with standard passing-off questions in the Internet context.

BCAA et al v Office and Professional Employees' Int Union et al
2001 BCSC 156

SIGURDSON J:

[7] The Canadian Automobile Association ("CAA") is an organization well known for services that it provides to the motoring public. It also provides services to member organizations, of which the plaintiff BCAA is one.

[8] CAA evaluates and certifies businesses that cater to travellers. BCAA became a regional association in May 1975.

[9] BCAA sells and otherwise provides services and products to its members in its region and to the public at large. These include emergency road services, travel agency services, the sale of insurance, travellers cheques, magazines and travel books. The plaintiff also provides information and services at its internet website.

[10] Under an agreement with CAA, BCAA is licensed to use the National Association's trade-marks and to license others to do so. CAA and BCAA carry on business in association with a number of trade names, trade-marks and certification marks. Since at least 1975 and continuing to the present day, BCAA has used the acronym "CAA" as a trade name and trade-mark, and "BCAA" as a trade name and trade-mark.

[11] The BCAA and CAA trade-marks and the CAA Logo are registered in the Canadian Intellectual Property Office as trade-marks in association with services and products and as certification marks certifying standards for wares and services.

[12] BCAA has used the trade-marks and the certification marks extensively in association with its products and services since at least as early as April 1983. BCAA displays the BCAA and CAA trade-marks and the CAA Logo prominently in its advertising, promotional material and publications, on its internet website and on material and information published on its internet website.

[13] BCAA has approximately 24 offices. The Union represents approximately 170 office employees of BCAA. The plaintiff employed a total of 943 people as of 1998. Mr. Tuckwood was the president of the Union from about January 1999 until April 30, 1999.

[14] In January 1999, BCAA employees represented by the Union took strike action at ten unionized offices. The dispute concerned the negotiation of a first collective agreement.

. . .

[34] BCAA first took steps towards going on the internet in July 1992. It registered the domain name "bcaa.bc.ca" with the .CA Domain Name Registry. In November 1997, BCAA registered the domain names "bcaa.com" and "bcaa.org" with the InterNic Registry.

[35] Through their website BCAA allows people to apply "on-line" to become members or to renew their memberships, subscribe for travel packages, purchase merchandise, and to link with other websites.

[36] There have been three different designs of BCAA's website. The original design was implemented in March 1996 and is not in issue in this action because a newer version was in place by the time the Union put a website on the internet. Since March of 1996, members of the public have been able to access the BCAA website using the URL "www.bcaa.bc.ca."

. . .

[38] The second version, or the BCAA 1997 website, came into existence in March 1997 and is of primary importance in this litigation. In November 1997 the public could also access the BCAA website using the URLs "www.bcaa.com" and "www.bcaa.org."

[39] In March 1999 the Union established a website. It registered the domain names "bcaaonstrike.com" and "picketline.com" with the InterNic Domain Name Registry. The website was accessible by "www.bcaaonstrike.com" and "www.picketline.com."

[40] In July 1999, following the Union's first two websites on the internet, the BCAA 1997 version was replaced with the plaintiff's current website.

[41] There have been three different designs on the Union website. The first, or original design, was used from March 1999 until about April 26, 1999. For the following six months, between approximately April 26, 1999, and October 15, 1999, the Union adopted a second, and somewhat different version of the original Union website. On October 18, 1999, the current version was implemented.

[42] On February 8, 2000, the Union registered the domain name "bcaabacktowork.com" and, shortly thereafter, the Union website could also be accessed by the URL "bcaabacktowork.com" in addition to "bcaaonstrike.com."

[43] The plaintiff claims that the original version of the Union website included fundamental design elements copied from the 1997 BCAA website design, including: the shape, structure, colour scheme and lay-out of the website; the placement of the CAA Logo (although inverted in the Union website design); the appearance, placement and juxtaposition of the words "BCAA ON-RAMP" (although the Union website design replaced "ON" with "OFF"); and the format, lay-out and colour scheme of the materials that appeared within the frames of the website.

[44] The original version of the Union website had the title, "Greetings, BCAA is on strike."

[45] On April 19, 1999, BCAA's lawyers asserted that the Union was using their client's intellectual property on their website and demanded that they stop.

[46] In response, on April 26, 1999, the Union changed its original website in the following way:

(a) the CAA Logo was removed;
(b) the acronym BCAA was changed from upper case, as it appeared on the plaintiff's website, to lowercase; and
(c) the message "Greetings, BCAA is on strike" was repositioned so that most of the wording was not seen on a standard screen.

[47] Subsequently, on October 18, 1999, the Union altered the second version of its website and their meta tags in the following manner:

(a) the Union replaced their website with a third version or new website;
(b) the Union amended its website meta tags so that they no longer included, *inter alia*:

(i) the trade-mark "BCAA" by itself;
(ii) the trade-marks "CAA" and "AAA,"
(iii) the phrase "BCAA Off-ramp";
(iv) and it substituted the words "British Columbia, Automobile, Association" for "British Columbia Automobile Association"; and
(v) it substituted "BCAA On Strike" for "BCAAonstrike"; and

(c) the Union also substituted the phrase, "Greetings, OPEIU is on strike against the BCAA" for the phrase "Greetings, BCAA is on strike."

[48] The third or current Union website continued to reproduce a substantial part of the BCAA website meta tags. This website could be accessed at "www.bcaaonstrike.com"; "www.picketline.com"; and "www.bcaabacktowork.com."

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Passing-Off—The Current Union Site

[53] First I will discuss the passing-off action in relation to the current site. Here the allegation relates to the domain names and the meta tags. This, and the alleged trade-mark infringement are the current friction points between the parties.

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The Law of Passing-Off

[55] The tort of passing-off can occur in different ways. In *National Hockey League v. Pepsi-Cola Canada Ltd.* (1992), 42 C.P.R. (3d) 390 (B.C.S.C.), affd. (1995) 59 C.P.R. (3d) 216 (B.C.C.A.), the Court indicated that passing-off cases fall into two broad categories. At trial, Hardinge J., whose judgment was affirmed by the Court of Appeal, said that the first type of case is:

> … those where competitors are engaged in a common field of activity and the plaintiff has alleged that the defendant has named, packaged or described its product or business in a manner likely to lead the public to believe the defendant's product or business is that of the plaintiff.

A second type, which is perhaps a more common type of passing-off was described to exist:

> … [where] a defendant has promoted his product or business in such a way as to create the false impression that his product or business is in some way approved, authorized or endorsed by the plaintiff or that there is some business connection between the defendant and the plaintiff. By these means a defendant may hope to "cash in" on the goodwill of the plaintiff. [at page 401]

[56] Stromberg-Stein J. in *Greystone Capital Management v. Greystone Properties Ltd.* (1999), 87 C.P.R. (3d) 43 (B.C.S.C.), heard a case concerning an allegation of passing-off in the business association or business connection sense. She summarized the leading authority this way:

> The tort of passing-off concerns misrepresentations by one party which damage the reputation or goodwill of another party. It is necessary to establish three components to succeed

in a passing-off action, either at common law or pursuant to statute. Those components were set out in *Ciba-Geigy Canada Ltd. v. Apotex Inc.* (1992), 44 C.P.R. (3d) 289 (S.C.C.):

1. The existence of reputation or goodwill at the relevant time. This includes consideration of whether the plaintiff was recognized by the trade name and whether the trade name was distinctive within the relevant field of activity.
2. A misrepresentation leading the relevant public to believe there is a business association or connection between the parties. This includes consideration of whether the defendants' use of the trade name is likely to deceive the relevant public. Any misrepresentation need not be deliberate and proof of intent is not necessary. Evidence of likelihood of confusion, leading to the possibility of lost business opportunity, is relevant. However, the establishment of actual confusion is not required.
3. Damage or potential damage flowing to the plaintiff as a result of any misrepresentation due to loss of control over its reputation is presumed. [at page 50-51]

• • •

Why the Current Union Website Is Alleged to Be a Passing-Off

[60] The plaintiff says that the use of the domain names "bcaaonstrike" and "bcaabacktowork" and the words in the meta tags constitute a passing-off. This assertion is made independent of the look of the website. It is asserted that the defendant is intercepting people intending to search for BCAA, that such conduct is confusing and constitutes the tort of passing-off. The plaintiff argues that the question of whether there is a misrepresentation must be assessed on the basis of first impression and general recollection of the computer user. They say that if you show likely confusion, that is enough and actual confusion is not necessary.

[61] The plaintiff argues that the use of the meta tags, which contain references to the plaintiff and its business, is to trick searchers for the BCAA website to go to the Union website. The plaintiff's objection is not to the reference to BCAA as such but to the use of the term or word BCAA as an "indicator of source." For example, they point out that the meta tags of the Union website begins with the following phrase,

> The British Columbia Automobile Association (BCAA) is a member services organization serving over 700,000 members in British Columbia and the Yukon. BCAA is an affiliate of CAA and AAA.

This, they submit, implies that it is a BCAA site, or is somehow sponsored or connected with BCAA.

[62] The meta tags, as I said in the description of the internet, provide search engines with key words associated with a website and a brief description of the website. The defendant described its use of the meta tags in the following way:

> One has to display the HTML source code in order to see the tags. (The Union) viewed the BCAA meta tags before creating the meta tags for the Union website. (They) incorporated the BCAA meta tags into the Union Website's meta tags. … [F]rom time to time additions were made to the Union's meta tags. The intention with respect to the meta tags was to make the Union site popular with search engines so that it would achieve a high rank in search results. A high score on search results is the primary way of bringing an internet site to the attention of the public.

It should be noted that the meta tags used by the defendant have varied somewhat over time.

[63] In October 1999 the Union website was substantially amended to delete many of the references to the trade-mark BCAA and other trade-marks within the Union website meta tags. The meta tags in the Union site no longer include the trade-mark BCAA by itself, the phrase BCAA "off-ramp," the acronyms CAA and AAA and substitute the words "British Columbia, Automobile, Association" for British Columbia Automobile Association, and BCAA ON STRIKE.

[64] Notwithstanding these deletions, the plaintiff says the nature of the meta tags used by the Union is descriptive of the defendant Union's intention. The plaintiff argues that the current websites have the domain names "www.bcaaonstrike.com" and "www.bcaabacktowork.com," but have nothing that indicates to the unsophisticated user of the internet that these websites belong to anyone other than the British Columbia Automobile Association. Therefore, the plaintiff says there is a misrepresentation that the Union website is either a British Columbia Automobile Association website or is affiliated or supported by it and the use of the trade-mark BCAA in the website domain name or in the meta tags is an "indicator of source" and a passing-off.

[65] The plaintiff argues that there is likely confusion. It argues that people searching for BCAA will get mixed up and be diverted to the wrong site. It contends that the terms "BCAA On Strike" and "Greetings BCAA Is On strike" are inherently deceptive given that only a small portion of the workers were on strike and the company itself cannot be on strike.

[66] The defendant, not surprisingly, disagrees. It says that there is no possibility that the Union website could have misled or deceived anyone in the public either that the website was that of the British Columbia Automobile Association or that the BCAA approved of the site or endorsed, authorized or had some connection with it. The Union says that the use of BCAA in the domain name is not likely to result in confusion. It notes that BCAA On Strike is different from the simple term BCAA in its domain name. Most importantly, the defendant says that the use of BCAA in the domain name simply identifies a labour relations issue with BCAA and is not a misrepresentation that it is related or connected to the plaintiff, or the plaintiff's site, as required for the tort of passing-off.

[67] The Union says that the test is whether a reasonably prudent user would be confused that the site was linked or endorsed by BCAA. While the defendant is prepared to acknowledge that, particularly in commercial cases, the use of similar meta tags might be an element of the tort of passing-off, it says that there is no passing-off here. The Union points out, correctly, that: BCAA is not only used by the plaintiff but is an acronym used by other organizations sharing the same initials, such as the British Columbia Archery Association; that the domain name and meta tags provide no hindrance to people trying to access the BCAA site by guessing; and, that the Union meta tags do not impede people from finding the BCAA website easily. The defendant says that, unlike in many commercial passing-off cases, here the Union has a legitimate reason to refer to the term BCAA.

Discussion of Passing-Off Cases Dealing with Domain Names and Meta Tags

[68] Although the concept of passing-off was developed long ago, the suggestion of passing-off by way of domain names or meta tags is obviously of recent origin. In order

to consider this issue in its full context I will discuss cases I have been referred to that were decided in Canada, the United Kingdom and the United States dealing with domain names and meta tags.

[69] I am mindful that the American authorities are not binding but I think they are of some guidance to me in considering the elements of the tort of passing-off in the internet context.

[70] I will then consider whether the fact that the current website is used not for commercial purposes, but rather in connection with a labour relations dispute, has bearing on the question of whether there is a passing-off. I will also then consider the cases dealing with free speech or commercial criticism and their impact on the principles that I should apply in this case.

[71] In *British Telecom plc. v. One in a Million Ltd.*, [1998] 4 All E.R. 476, the English Court of Appeal held that the registration of a distinctive internet domain name could amount to passing-off. There the appellants were dealers in internet domain names. The respondents objected to the registration of domain names comprised of well-known and trade-marked names.

[72] An injunction application was brought in five actions. The court held that some names, such as Marks & Spencer, clearly represented to others that the registrant of the domain name was connected or in some way associated with the registered name and others, like Virgin or Sainsbury, could be used in ways that were not inherently confusing or deceptive. However, the court concluded that the appellants had registered the names without any distinguishing words for the purpose of capitalizing on the goodwill attached to the names. …

[73] If someone uses a person's trade-mark as the domain name, such as Marks & Spencers.com or McDonalds.com, without any other words or letters, that is likely to confuse members of the public who type in the domain name looking for the website of Marks & Spencers or McDonalds and then come to something else. They will think the website has some connection with the site they were seeking.

[74] The case at bar does not involve the use of a trade-mark alone in the domain name, rather it deals with a website that contains the name and trade-mark BCAA as part of a more complete description, such as in bcaabacktowork.com.

[75] One interesting case is *Brookfield Communications Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999). Brookfield Communications sought an injunction against West Coast Entertainment for its use of the domain name Moviebuff.com. West Coast had registered that domain name on February 6, 1996, and claimed to have used the phrase "Movie Buff" to promote goods and services available at its video stores since 1988.

[76] In 1998 Brookfield was issued a federal trade-mark and service mark registration of "MovieBuff" for use in association with services and software for professionals in the entertainment industry and had obtained California trade-mark registration for that mark relating to computer software in 1994. When Brookfield discovered in October 1998 that West Coast intended to launch a searchable database similar to the software produced by Brookfield on the moviebuff.com website, it objected.

[77] The court concluded that Brookfield was entitled to trade-mark protection for the "MovieBuff" trade-mark. The second question was whether the West Coast "movie buff.com" website would cause the public to associate the source or sponsorship of the

site to Brookfield. The court considered a number of factors including: similarity of conflicting designations; relatedness or proximity of the two companies' services or products; strength of the Brookfield mark; marketing channels used; degree of care likely to be exercised by purchasers in selecting goods; West Coast's intention in selecting its mark; evidence of actual confusion and the likelihood of expansion in product lines.

• • •

[79] [Concerning intent in the selection of the mark:] Notwithstanding that West Coast did not apparently intend to deceive customers as to the source of its website, an assessment … supported the conclusion that West Coast's use of "moviebuff.com" website would cause such confusion and they were prohibited from using this domain name.

[80] The court also considered the use of the phrase "moviebuff" in its HTML code or meta tags. The court distinguished between the use of domain names and meta tags and concluded that the latter was less likely to cause the traditional form of confusion.

> … First, when the user inputs "MovieBuff" into an Internet search engine, the list produced by the search engine is likely to include both West Coast's and Brookfield's web sites. Thus, in scanning such list, the Web user will often be able to find the particular web site he is seeking. Moreover, even if the Web user chooses the web site belonging to West Coast, he will see that the domain name of the web site he selected is "westcoastvideo.com."… [I]t is difficult to say that a consumer is likely to be confused about whose site he has reached or to think that Brookfield somehow sponsors West Coast's web site. … [at page 1062]

[81] According to this American case, the use of meta tags containing the trade-mark phrase could cause another type of injury to a trade-mark holder: initial interest confusion. This type of confusion would cause consumers initially interested in a plaintiff's website to use a defendant's website instead. As a result West Coast was prohibited from including any term confusingly similar with Brookfield's mark in its meta tags. However, it was permitted to use the words "Movie Buff" because they were sufficiently descriptive of a motion picture enthusiast and did not provoke confusion with Brookfield's products. They could only use the phrase "MovieBuff" to refer directly to their competitors' products.

[82] Subsequently, another court on particular facts declined to apply this concept of initial interest confusion in the context of the internet: *BigStar Entertainment, Inc. v. Next Big Star, Inc.*, 105 F. Supp. 2d 185 (S.D.N.Y. 2000). In this decision of the United States District Court for the Southern District of New York, BigStar Entertainment Inc. sought an injunction to restrain Next Big Star, Inc. from using a name that the plaintiff contended infringed on BigStar's prior trade-mark rights. … BigStar's business was the sale of videos and free information about the film industry. … Next Big Star was launched to conduct an entertainment talent search. The court held that the plaintiff had not met the burden of proving it was entitled to a preliminary injunction. It considered the plaintiff's argument that there was the likelihood of initial interest confusion when an initially interested consumer searched for the plaintiff's BigStar.com website using a search engine for assistance and was drawn instead to the defendant's www.nextbigstar.com site. The court distinguished *Brookfield*:

> Here, defendants' domain name ("nextbigstar.com") is not "virtually identical" to plaintiff's trade-marks or website ("bigstar.com"). … Instead they are using "nextbigstar.com," a domain

> name which, when examined in the light of the entire context relevant here … is neither identical to the BigStar marks in terms of sight, sound or meaning, nor one the ordinary, reasonably informed relevant purchaser could not regard as exactly the same.
>
> … [P]laintiff's reliance on *Brookfield* and its initial interest analysis fails also because of the identity or close relationship between products involved there and in other cases applying the doctrine. These cases … found strong competitive proximity between the products offered by the rival claimants. [The court then distinguished *Brookfield* since the parties in the present case were not in direct competition with one another.] [at page 209-210]

[83] For those reasons … the application was dismissed.

[84] In *Jews for Jesus v. Brodsky*, 993 F. Supp. 282 (D.N.J. 1998), affd. without opinion, 159 F. 3d 1351 (3d Cir. N.J. 1998), the United States District Court granted a preliminary injunction when the owner of the common law service mark "Jews for Jesus" sought a preliminary injunction to enjoin the defendant from using the internet domain names "Jews for Jesus.org" and "Jews for Jesus.com."

[85] The court held that as the domain name used by the defendant was nearly identical to the mark of the plaintiff, consumers were likely to be confused as to the source of the domain name. …

[86] The court concluded that both types of confusion, source confusion and initial interest confusion, were probable given the defendant's use of the plaintiff's organization's name in its domain name. The court held that it was a "bogus Jews for Jesus" site intended through deceit to intercept the audience seeking the plaintiff's site. Although the court concluded that the defendant should be enjoined from using the plaintiff's marks in a deceptive and confusing manner, it was free to publish critical comments about the plaintiff organization on a website as long as the mark was not used in a confusing or deceptive manner.

[87] In *Planned Parenthood Federation of America v. Bucci*, 1997 U.S. Dist. LEXIS 3338; 42 U.S.P.Q.2D (BNA) 1430 (S.D.N.Y. 1997), affd. 1998 U.S. App. LEXIS 22179 (2d Cir. N.Y. 1998), the plaintiff Planned Parenthood Federation of America owned a registered trade-mark of that name. It sought a preliminary injunction against the defendant's use of the domain name "Planned Parenthood.com." The defendant posted anti-abortion literature on that site and acknowledged that it selected the plaintiff's mark as a domain name specifically to attract "pro-abortion" internet users because of their misapprehension of the site source.

[88] The court considered that … the use of the trade-mark in the domain name was likely to cause confusion as to the source of material of the website … [and] granted the injunction.

[The court then reviewed three cases where the parties disputed over domain names that were virtually identical to trademarks or other domain names. First, in *Edgar Online Inc v Dan Parisi*, Civil No 99-2288 (BNA) (DNJ 1999), the plaintiff owned the trademark and operated a website under the registered domain name "Edgar-Online.com" and the defendant subsequently registered a website under the domain name "EdgarOnline.com." Second, in *Washington Speakers Bureau, Inc v Leading Authorities, Inc*, 33 F Supp 2d 488 (ED Va 1999), the defendant registered multiple domain names, some of which incorporated the word "speakers" with geographical locations. The plaintiff objected to the use of the domain name "washingtonspeakers.com." In both cases the defendants' use of the domain name was prohibited on the basis that it was likely to cause confusion. However, in *Network Network v CBS Inc*, 2000 US District LEXIS 4751, 54 USPQ (2d) (BNA) 1150 (CD Cal 2000), the plaintiff was granted a declaration that the Internet domain name "TNN.com" was appropriate given the plaintiff's long-standing use of "TNN" and because the goods and services offered by the parties were wholly distinct, which resolved the initial interest confusion.]

[93] Let me turn to some cases where the defendant has used another's trade-marks in the meta tags of the allegedly offending website.

[94] In *Brookfield*, *supra*, the court held that the use of the domain name "MovieBuff.com" in meta tags would result in what was described as initial interest confusion.

[95] In *Niton Corporation v. Radiation Monitoring Devices, Inc.*, 27 F.Supp.2d 102 (D. Mass. 1998), Niton Corporation was in competition with the defendant, Radiation Monitoring Devices, in the business of detecting lead in paint. The plaintiff discovered that the internet source code or "meta" descriptions of the defendant's websites were identical to those of the plaintiff's website. The meta tag description of the defendant's website was "the home page of Niton Corporation, makers of the finest lead, radon and multi-element detectors." The word radon was relevant to products Niton sold, but not to products sold or marketed by Radiation Monitoring Devices.

[96] The court found at p. 105 that Niton:

> … [had] shown a likelihood of success on the merits of its contention that RMD's Internet web sites and means of attracting users of the Internet to examine these web sites have been used by RMD in a way likely to lead users to believe that the employees of RMD are "makers of the finest radon detectors," that RMD is also known as Niton Corporation, that it is affiliated with Niton Corporation, that RMD makes for Niton products marketed by Niton, and that RMD web sites are Niton web sites.

A preliminary injunction was granted.

[97] Several cases involving Playboy Enterprises were referred to me. Most appear to be unopposed injunction applications. In *Playboy Enterprises, Inc. v. AsiaFocus International, Inc.*, 1998 U.S. Dist. LEXIS 10359 (E.D. Va. 1998), for example, the defendant used the plaintiff's registered trademarks "playmate" and "playboy" within their domain names "asian-playmates.com" and "playmates-asian.com." Those trademarks were used in the defendant's electronic mail address and on almost every page of the website. The trademarks were also used to promote the sale of merchandise and were embedded in the meta tags of the website. The Court awarded default judgment and damages against the defendants for these intentional and deceptive tactics.

[98] *Playboy Enterprises, Inc. v. Welles*, 7 F. Supp. 2d 1098 (S.D. Cal. 1998), affd. without opinion, 162 F. 3d 1169 (9th Cir. Cal. 1998), was somewhat different. Playboy Enterprises, Inc. was the owner of registered trade-marks for the terms Playboy, Playmate, Playmate of the Month and Playmate of the Year. Playboy Enterprises Inc. did not have a trade-mark registration for PMOY but argued it was a well-known abbreviation for Playmate of the Year. The defendant was a former "Playboy Playmate" who was "Playmate of the Month" in 1980 and "Playmate of the Year" in 1981. In 1997 the defendant started a website at the domain name "www.TerryWelles.com" featuring a heading stating "Terry Welles-Playboy

Playmate of the Year 1981." Each of the pages of the website featured "PMOY 1981" as a repeating watermark in the background. On 11 of the 15 webpages, a disclaimer appeared at the bottom of the pages indicating that the site "is neither endorsed, nor sponsored by, nor affiliated with Playboy Enterprises, Inc." The words Playboy and Playmate were used in the meta tags of this website.

[99] The fundamental difference in this case was the descriptive nature of the trade-marks. The court said that the trade-marks not only related to the Playboy magazine, but were also titles given to the models. The court accepted the defendant's argument that her use of Playboy Enterprises Inc.'s trade-marks constituted a "fair use." The defendant was only using the trade-marked terms on her website to identify herself, and did nothing to confuse users of her website that her site was a Playboy-related site. The use of the terms in the meta tags were permissible both to identify Ms. Welles and for any legitimate editorial uses of the term Playboy used in the text of her website. The court concluded that apart from the "fair use defence," there was no substantial likelihood that users would be confused into assuming that the defendant's website was endorsed or sanctioned in any way by Playboy Enterprises Inc.

[100] Accordingly, in *Brookfield* and *Asia Focus* the court prohibited the defendant from using the plaintiff's trade-marks in meta tags because to allow such use would unfairly divert business away from the plaintiff. However, in *Welles* the defendant was only using the trade-marked terms on her website to identify herself and did nothing to confuse users of her website that her site was a Playboy-related site. In *Niton*, the defendant was impermissibly using the exact meta tags thereby attracting consumers to a competing website.

[101] Another American case suggests that the use of a plaintiff's trade-marks in the defendant's meta tags will not and should not always cause confusion for the purposes of passing-off.

[102] In *Bally Total Fitness Holding Corp. v. Faber*, 29 F. Supp. 2d 1161 (C.D. Cal. 1998), a decision of the District Court in California, the plaintiff, Bally Total Fitness Holding Corp., brought an action against the defendant for trade-mark infringement, unfair competition and dilution of its registered trade-marks and service marks in the terms "Bally," "Bally's Total Fitness" and "Bally Total Fitness." The defendant had placed his websites under the domain name "www.compupix.com" and devoted one sub domain site to complaints about Bally's health club business. This particular site was called the "Bally Sucks" site. While the domain name did not contain the Bally name, the meta tag code did contain references to Bally such that the users of search engines would be referred to the defendant's site as well as the Bally official site. …

[103] To examine the likelihood of potential confusion the court also examined a series of factors … [omitted].

[104] The court found that these factors apply to related goods but that the plaintiff and defendant's goods were not related. The court said at page 1163: "Web page design [the defendants' business] is a service based on computer literacy and design skills. This service is far removed from the business of managing health clubs. …"

[105] The court held that although Bally was entitled to protection of its strong trade-marks, the usage of the trade-mark word was considerably different when considered with the addition of the word "sucks." Additionally, the court found the websites had fundamentally different purposes; one was a commercial advertisement, while the other

was a consumer commentary. These factors led the court to conclude that a "reasonably prudent user" would not mistake the defendant's website for Bally's official site. In fact the court noted that even if the defendant had used the domain name "BallySucks.com," a reasonably prudent user would not be confused as to the origin of the website.

[106] The court also concluded that it was necessary to use the Bally name in the meta tags of the defendant website to enable internet users to access this type of consumer commentary. In order to make such commentary, the defendant had to make direct references to Bally, and to prevent the use of the name Bally in the meta tags "would effectively isolate [it] from all but the most savvy of internet users." …

[107] Before applying the principles of the law of passing-off that I have described at the beginning of this section to the question of the domain names and meta tags on this particular Union site, I think it is also important to consider other principles that may apply when considering an allegation of passing-off that does not involve commercial competition. … The case at bar involves a labour dispute, not a commercially competitive situation.

[108] The defendant argues that freedom of expression is an important fundamental principle of our democratic society and that the common law and statute law should be interpreted in a manner consistent with the Charter. The defendant says that the Union website was, in effect, a leafletting campaign conducted at the plaintiff's place of business during the strike. It says that the use of the domain name and the meta tags was the only realistic method by which the Union could put out its message.

[109] The plaintiff suggests that the right of freedom of expression, although no doubt existing, is limited in that it cannot provide justification for appropriating or infringing the plaintiff's intellectual property rights.

[110] In *U.F.C.W., Local 1518 v. KMart Canada Ltd.* (1999), 176 D.L.R. (4th) 607 (S.C.C.), the company sought an injunction to prevent secondary picketing. The question was whether the definition of picketing in the statute was constitutional.

[111] The employer operated several British Columbia stores, and Local 1518 was certified to represent employers at Campbell River and Port Alberni stores but not at the remaining stores. Local 1518 organized a leafletting campaign and distributed leaflets to customers entering the stores at other stores, the secondary sites. The employer obtained an injunction to restrain leafletting activity pursuant to the *Industrial Relations Act*, R.S.B.C. 1979, c. 212 … . The court held that the definition of picketing, which would encompass leafletting activity, was overly broad and could not be justified under s. 1 of the *Charter*. Cory J. said at page 622:

> As well, the vulnerability of individual employees, particularly retail workers, and their inherent inequality in their relationship with management has been recognized … . It follows that workers, particularly those who are vulnerable, must be able to speak freely on matters that relate to their working conditions. For employees, freedom of expression becomes not only an important but an essential component of labour relations. It is through free expression that vulnerable workers are able to enlist the support of the public in their quest for better conditions of work. Thus their expression can often function as a means of achieving their goals.

[112] This case involves the internet. The Union argues that the use of the domain names and meta tags are the only method by which the Union can position itself to put its message before people visiting the employer's website.

[113] The plaintiff says that publishing an internet website is a far cry from leafletting. … The plaintiff says that preventing the Union from using the domain name and meta tags does not banish the Union from the effective use of the internet, because it can properly identify itself, use proper domain names and meta tags, and can e-mail anybody on the internet. The plaintiff says it would be bad policy to endorse a misrepresentation of the nature and identity of a website to allow it to become more popular and pervasive. Finally the plaintiff argues that the *KMart* decision speaks of leafletting activity being properly conducted, "in the absence of independently tortious activity." The plaintiff argues that there is tortious activity or unlawful means employed by the defendant through the form of its message. The plaintiff contends that the right of the Union members to picket is limited to lawful conduct.

[114] The plaintiff referred me to a number of decisions as support for its proposition that freedom of expression does not provide justification for appropriating the plaintiff's intellectual property rights … [citations omitted].

[115] The plaintiff also says that disclaimers in the Union's website are of no significance. The web user arrives at the Union webpage, the plaintiff says, thinking it is a BCAA site as a result of the use by the Union in its domain name and misrepresentation in the meta tags that it is a BCAA site. The plaintiff relies on *Planned Parenthood* … [and] on *Source Perrier* … .

[116] What of the disclaimer of the case at bar? The defendant argues that an effective disclaimer can dispel any likelihood of a false impression of affiliation. The current Union site (before the strike ended) said, "Greetings, OPEUI is on strike against the BCAA." The second Union site was entitled www.picketline.com in visible font and had the phrase, "Greetings, bcaa is on strike." The first Union site contained a similar phrase.

[117] What is the appropriate standard to measure whether there is a passing-off? The defendant has referred to the "reasonably prudent internet user" as the standard for confusion. I do not think that is the test. The Supreme Court of Canada in *Ciba-Geigy Canada Ltd. v. Apotex Inc.* (1992), 44 C.P.R. (3d) 289, said that the standard is that of the ordinary average customer. The plaintiff refers to this passage which I think accurately sets out the test:

> The average customer will not be the same for different products, however, and will not have the same attitude at the time of purchase. Moreover, the attention and care taken by the same person may vary depending on the product he is buying: someone will probably not exercise the same care in selecting goods from a supermarket shelf and in choosing a luxury item. In the first case, the misrepresentation is likely to "catch" more readily. [at page 301]

• • •

Does the Current Union Website Constitute Passing-Off?

[119] I reiterate that the passing-off claim in connection with the current Union site relates only to the domain names bcaaonstrike.com and bcaabacktowork.com and the use of the meta tags, which the plaintiff says describe the BCAA site and not a Union site.

[120] … Although the plaintiff argues that the use of the domain names by the defendant constitutes a passing-off, it does not suggest that the use of the acronym BCAA in the meta tags, *per se*, is a passing-off, but rather depends on the context. In this context, it says that the use does amount to a passing-off.

[121] I find that the current Union website does not constitute a passing-off. I have concluded that there is no misrepresentation that the Union site is a site of the plaintiff, or a site that is endorsed by, affiliated with or connected to the plaintiff. I think there is no actionable passing-off because there is no confusion or possibility of confusion in the minds of an internet web user that the site is associated with or the property of the BC Automobile Association. The fact that the current internet site is not associated with the British Columbia Automobile Association is quickly apparent from looking at the site.

[122] There are a number of factors which, as a whole, lead me to the conclusion that there is currently no passing-off.

[123] The domain name that is used by the defendant is not identical to the plaintiff's trade-marks. I think this is significant. …

[124] I am unable to find in these circumstances that the use of the word mark BCAA as part of the domain name is, in the circumstances, misleading or a passing-off. I think that this use of the word BCAA in the domain name is something to be considered given the whole of the evidence. In the case of the current Union website it is clear that it is not BCAA's site.

[125] In terms of the defendant's use of the domain names and the present meta tags, I think that the context in which these names and meta tags are used is of vital importance. Presently the defendant is not using a domain named identical to the plaintiff's trade name, nor is it, as it had earlier, using identical meta tags.

[126] It is also significant that the Union website is not competing commercially with the plaintiff, but is attempting to communicate its message to the public about an ongoing labour relations campaign. I think that the use of similar meta tags or domain names is of less significance in a labour relations or consumer criticism situation, partly because there is far less likelihood that there will be confusion.

[127] The plaintiff however complains that there is no need for the defendant to use the trade-mark BCAA in its domain name and that many of the words that are still used in the defendant's meta tags are not descriptive of the Union site but are simply a vehicle to draw people searching for the BCAA site to the Union site. The plaintiff says that the Union site could use a domain name that accurately describes the Union and can use meta tags that are simply descriptive of its organization and not the plaintiff's.

[128] I think the plaintiff's complaints are unrealistic. I recognize that the use of BCAA in the domain name is intentional. However, the use of BCAA in the Union domain name and the references that are currently made in the meta tags are not a misrepresentation provided they do not represent the site as that of the plaintiff or associated with the plaintiff. Here, I think that here there were legitimate reasons for the Union to use the domain names and the meta tags it presently uses. The defendant's current use of meta tags is not a misrepresentation. I think that if a site wishes to operate as a lawful vehicle during a strike or as a consumer criticism site, it must be able to reach people who are attempting to find an employer's or a producer's site. Otherwise the Union's lawful activities or the activities of consumer groups would be significantly frustrated.

[129] The language used in the current meta tags (which I note is different from the language used in the first two Union websites) would likely result in people using search engines to find B.C. Automobile Association finding the Union website high on the list of sites on the search results. While I think that the use of similar meta tags unconnected to a defendant's business or operation might indicate deception and might be a significant

factor in determining if there is a passing-off, I think that the use of these particular meta tags is not objectionable because it is a reasonable way for the Union to bring its message to people wishing to do business with the employer. The Union must be free to identify its employer and communicate about its labour dispute. The fact of a labour dispute, which is apparent from the Union website is, I think, immediately clear to any reasonable or rushed observer. It is equally clear that the site is not endorsed by or the property of the B.C. Automobile Association.

[130] I agree with the defendant's argument that the common law should be interpreted in a manner consistent with the *Charter*. When a website is used for expression in a labour relations dispute, as opposed to commercial competition, there is, I think, a reasonable balance that must be struck between the legitimate protection of a party's intellectual property and a citizen's or a Union's right of expression. I think that the principles in *KMart* require such a balance and the common law should not be interpreted in a way to unreasonably infringe a person's freedom of expression. In connection with this claim for passing-off, that balance favours the Union.

[131] The most recent version of the site contained the disclaimer, "Greetings, OPEIU is on strike against BCAA." In *National Hockey League*, *supra*, at page 408, the Court said:

> The prominence to be given to a disclaimer must, to some extent, depend on the likelihood of a false impression being conveyed to the public if there is no disclaimer. The greater the likelihood the more prominent must be the disclaimer. Indeed, there will undoubtedly be some situations, such as in the *Associated Newspapers* case, where no disclaimer will be adequate.

A brief look at the site rapidly makes it clear I think that it is not BCAA-sanctioned or affiliated. The disclaimer, combined with the other elements of the current Union site, leads me to conclude that there is no reasonable possibility of confusion that there is affiliation between the Union site and the BCAA.

[132] Although actual confusion is not a required element of the tort of passing-off, it is a factor to consider in determining if there is a misrepresentation. Here, there was no evidence of any actual confusion by anyone thinking that the current Union site was the property of, or associated or connected with the BCAA.

[133] Therefore I conclude that the present Union site as a whole (including the domain names and meta tags) does not amount to passing-off.

• • •

The Early Union Sites (Passing-Off)

[208] The issue still to be determined is whether there was a passing-off by either the first or second Union site.

[209] As I noted in the section concerning passing-off relating to the current Union website, the question is whether the defendant's first two websites were a misrepresentation that either of these websites were affiliated with or were the websites of BCAA. The plaintiff's claim of passing-off concerns all aspects of the first two Union sites including the look of the sites, the domain names and the meta tags. (The actual content of the first two Union sites, of course, was different from the content of the BCAA site, and related to the labour relations matters.)

[210] First, I will discuss whether the first Union site (which I found to be in breach of copyright) was also a passing-off. Was there a misrepresentation that this site was

connected to or the site belonging to the plaintiff? The first Union site looked very similar to the 1997 BCAA site.

[211] Although to prove a passing-off a deliberate misrepresentation is not necessary, I think what was said in *Brookfield*, *supra*, is instructive:

> … "As noted, the presence of intent can constitute strong evidence of confusion. The converse of this proposition, however, is not true: the lack of intent by a defendant is largely irrelevant in determining if consumers likely will be confused as to source." … Instead, this factor is only relevant to the extent that it bears upon the likelihood that consumers will be confused by the alleged infringer's mark. … [at page 1059]

I think that certain aspects of the initial Union sites demonstrate an intention to mislead people looking for the BCAA site in order to get the public to read what appeared on its website. I agree with the plaintiff that the phrase, "Greetings BCAA is on Strike," is inherently confusing because it gives no indication to the visitor that this is not a BCAA site. Additionally, I think that the similarities with the BCAA website design that were intentionally adopted and incorporated into the Union website suggest such an intention.

[212] A casual or hurried observer who had seen the BCAA site might well be confused that this was a BCAA sponsored site because of the striking visual similarities: the colour, the size of the font and the placement of the logos. I think it is significant that the initial meta tags, which have since been changed, duplicated the 1997 BCAA website meta tags and contained references that had nothing to do with the Union site. I expect that shortly after starting to examine the site, it would be apparent to the internet user that it was not a BCAA site but that recognition would not be immediate. Considering all of the evidence, I find that there was a misrepresentation that this site was somehow connected to the plaintiff's site; I reach that conclusion taking into consideration the domain name, the look or design of the initial Union site, and the copied meta tags. I conclude that there would likely be confusion sufficient to constitute the tort of passing-off. In reaching that conclusion I am mindful that this is a labour relations matter, and not a commercial competition case. Although, as I have said, a balance must be struck, I think that the first Union site violated the plaintiff's intellectual property rights and constituted passing-off.

[213] I conclude, however, that the changes made when the Union developed its second site reduced the possibility of confusion. The Union removed the CAA logo, changed the BCAA logo to lowercase lettering and moved the "Greetings" message so that most of that message could not be seen on a standard screen. I think that it is relevant that the parties are not commercial competitors. Accordingly, on a consideration of all of the evidence, I am not persuaded that the second Union site constitutes a passing-off.

Sigurdson J found it relevant to his analysis that the parties were not commercial competitors, and yet he still found passing off with respect to the first union site. If the essence of passing off is confusion in a commercial context, should this lack of a "common field of activity" be determinative? How should a common field of activity be defined?

What impact does this decision have on the ability to create a consumer protest website? Does it reduce the impact if you have to avoid reproducing aspects of the appearance of the target site? Do you agree with the union's virtual picket-line argument? If protestors can picket or leaflet outside a storefront, should they not be allowed to create an online virtual storefront where they can mount their protest?

The concept of "initial interest confusion" is discussed in *BCAA*, and has arisen in other Internet cases as well. This type of confusion is related to the manner in which people access information on the Internet. A defendant's use of a plaintiff's trademarks in its metatags, or of domain names that incorporate or are similar to the plaintiff's trademarks, may draw consumers to the defendant's website. Even if consumers are not confused as to the trade source once they arrive at the defendant's site, has the plaintiff been harmed by the initial interest confusion? Does it matter whether the defendant is selling similar products or services? Or whether the defendant has attracted that initial interest in order to criticize or protest the plaintiff's operations? In addition to *BCAA*, other Canadian passing-off cases that have considered initial interest confusion include: *Law Society of British Columbia v Canada Domain Name Exchange Corporation*, 2004 BCSC 1102; *UFCW International Union et al v Sigurdur et al*, 2005 BCSC 1904; and *Red Label Vacations Inc (redtag.ca) v 411 Travel Buys Limited (411travel buys.ca)*, 2015 FC 18. Initial interest confusion is also considered in the context of trademark infringement in Chapter 4. Are the considerations for registered trademarks different from those for unregistered trademarks? Does the exclusive right to use a trademark throughout Canada that is conferred by registration affect the analysis? Should it?

How relevant to the issue of initial interest confusion is the sophistication of Internet users? The early initial interest confusion cases in Canada were decided at a time where Internet usage was less widespread. Is this relevant to understanding those decisions? In *Insurance Corporation of British Columbia v Stainton Ventures Ltd* (below), the BC Court of Appeal considered the question of who the "test person" is for Internet websites. Do you agree with the conclusions that the court reached regarding the sophistication of the casual and hurried Internet user?

Insurance Corporation of British Columbia v Stainton Ventures Ltd
2014 BCCA 296

FRANKEL JA:

Introduction

[1] As a "public authority" under the *Trade-marks Act*, R.S.C. 1985, c. T-13, the appellant, the Insurance Corporation of British Columbia, has adopted a number of "official marks," including the acronym "ICBC." The respondent, Stainton Ventures Ltd., operates a commercial website called "ICBCadvice.com" and owns the internet domain names <icbcadvice.ca> and <icbcadvice.com>, both of which resolve to the ICBCadvice.com website. Being of the view that Stainton Ventures was using its official mark without authorization, ICBC commenced an action in the Supreme Court of British Columbia seeking a declaration to that effect and various orders, including one requiring transfer of the domain names to it.

[2] Following a summary trial, Mr. Justice Grauer dismissed the majority of ICBC's claims. In particular, he refused to grant an injunction, or to require the transfer of the domain names. It is from those refusals that ICBC appeals.

[3] For the reasons that follow, I would dismiss this appeal.

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Infringement of ICBC's Official Mark

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[36] ICBC summarizes its position as follows in its factum:

> 47. … the relevant person, being familiar with but having an imperfect recollection of the ICBC Official Marks, … would be likely to mistake … ICBCadvice … , for the ICBC Official Marks. The appearance, sound and idea of the phrase "ICBC," which is the first and dominant portion of both the ICBC Official Marks and the impugned marks, is identical. The fact that it is the first and dominant portions that are identical increases the likely mistake to be made by the relevant person.
>
> 48. Further, the additional subject matter of the impugned marks are the descriptive words "advice Claim Guide," "advice.com" and "advice.ca," which do nothing to distinguish … ICBCadvice … from the ICBC Official Marks, particularly when viewed in the context of the family of ICBC Official Marks, which contain the common element ICBC. *Indeed, the relevant consumer, having the familiarity but imperfect recollection of the ICBC Official Marks, would likely be led to believe that ICBC itself is offering advice on its business, wares and services, when viewing such marks as a matter of first impression.*

[Emphasis added.]

[37] I am unable to accept this argument as it fails to give the "relevant consumer," i.e., an Internet user, credit for even the most basic understanding of the function of a domain name. Even though there is some resemblance between ICBCadvice.com and ICBC's family of marks, the average Internet user with an imperfect recollection of ICBC's marks would not likely be mistaken by the domain name. They understand, for example, that a domain name which, in part, contains the name of a business or its acronym will not necessarily be affiliated with or endorsed by that business and may, instead, be the subject matter of the website or entirely unrelated to that business. As well, they understand that it is necessary to view a website to determine whose site it is. While I appreciate that *Mattel, Inc. v. 3894207 Canada Inc.*, [2006] 1 S.C.R. 772, involved a dispute over a trade-mark rather than an official mark, it is noteworthy that the Court attributed a reasonable level of intelligence to "the casual consumer somewhat in a hurry": paras. 56-58. In the present context, to paraphrase a passage from *Michelin & Cie v. Astro Tire & Rubber Co. of Canada Ltd.* (1982), 69 C.P.R. (2d) 260 (F.C.T.D.), quoted with approval in *Mattel, Inc.*, one must not proceed on the assumption that average Internet users are completely devoid of intelligence or of normal powers of recollections or are uninformed as to what goes on around them.

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[39] As indicated above, I am unable to accept that the average Internet user does not appreciate that domain names—which are limited to short combinations of alphanumeric characters—are often merely descriptive of the subject matter of the website to which the domain name resolves, rather than indicating affiliation, source, or endorsement. Put otherwise, a person who conducted a search—using, for example, the terms "ICBC" and "advice"—which returned ICBCadvice.com in its list of results would not, based solely

on observing that domain name, mistakenly believe that the "advice" referred to is provided or endorsed by ICBC. Neither would they, as a matter of first impression, be mistaken by the fact that the domain name starts with "ICBC." The most that person would conclude is that the website likely had something to do with the corporation.

3. *Damage*

The final element that a plaintiff must establish in a passing-off action is harm or damage. In the case of an application for an injunction, the plaintiff need only show a likelihood of damage. At common law, some courts have ruled that if the plaintiff can establish a likelihood of confusion, then a likelihood of damage will be presumed. This may not be the case under s 7(b): see the discussion in *Nissan Canada Inc v BMW Canada Inc*, 2007 FCA 255 (excerpted further below).

Damage can take various forms. An obvious form of damage is loss of trade. This is the kind of damage that would be evident in a case like *Ray Plastics* (above). The entry onto the market of a competing product with an identical appearance would likely substantially cut into the sales of the plaintiff's product. Loss of sales may also be a type of anticipated damage.

Where a competitor has entered the market and is passing off an inferior product as the plaintiff's product, it is also possible that the plaintiff will suffer a loss of goodwill and reputation. Dissatisfied consumers who think they have purchased from the plaintiff may decide never to purchase from the plaintiff again, and tell their friends not to do so as well. This is another kind of damage that may be alleged and proven.

What is the damage alleged in the following case?

Orkin Exterminating Co Inc v Pestco Co of Canada Ltd
(1985), 50 OR (2d) 726, 5 CPR (3d) 433 (CA)

MORDEN JA (for the court): …

[48] As far as basic principles are concerned I would begin with a consideration of the nature of Orkin's interest which is affected by Pestco's conduct. If Orkin had been carrying on business in Ontario before Pestco then, of course, the parties would be in direct competition with each other and the nature of Orkin's damage would be the immediate diversion of customers from it to Pestco and, accordingly, lost sales and business.

[49] However, a plaintiff does not have to be in direct competition with the defendant to suffer injury from the use of its trade name by the defendant. If the plaintiff's trade name has a reputation in the defendant's jurisdiction, such that the public associates it with services provided by the plaintiff, then the defendant's use of it means that the plaintiff has lost control over the impact of its trade name in the defendant's jurisdiction. The practical consequence of this is that the plaintiff is then vulnerable to losing the Ontario customers it now has as well as prospective Ontario customers, with respect to services provided in the United States. Also, it can result in Orkin being prevented from using its trade name in Ontario when it expands its business into Ontario.

[50] Both of the considerations I have mentioned are covered in the following passage from the judgment of Buckley L.J. in *Sheraton Corp. of Amer. v. Sheraton Motels Ltd.*, [[1964] RPC 202], at p. 204:

> It seems to me that when the matter comes to trial the position may well be that the plaintiff company may be able to say that they have got a reputation and a goodwill which would be exposed to risk resulting from the confusion between the plaintiffs and the defendants notwithstanding that they are carrying on business in different parts of the world; and that, moreover, the plaintiff company are entitled to retain the possibility of exploiting their own goodwill in this country by opening hotels here, and that that possibility ought not to be diluted by anything done by the defendant company meanwhile.

[51] With respect to the first consideration, it has been recognized in both England (see, e.g., *Harrods Ltd. v. R. Harrods Ltd.* (1923), 41 R.P.C. 74 (C.A.)) and in the United States (*Yale Elec. Corp. v. Robertson*, 26 F. 2d 972 (1928) (2nd Circ. Conn.) that a trade name associated with services or goods deserves protection from another party using it in connection with services or goods which are not in competition with the plaintiff's. In *Yale Elec.*, *supra*, Learned Hand J. described the rationale as follows at pp. 973-74:

> The law of unfair trade comes down very nearly to this—as judges have repeated again and again—that one merchant shall not divert customers from another by representing what he sells as emanating from the second. This has been, and perhaps even more now is, the whole Law and the Prophets on the subject, though it assumes many guises. Therefore it was at first a debatable point whether a merchant's good will, indicated by his mark, could extend beyond such goods as he sold. How could he lose bargains which he had no means to fill? What harm did it do a chewing gum maker to have an iron-monger use his trade-mark? The law often ignores the nicer sensibilities.
>
> However, it has of recent years been recognized that a merchant may have a sufficient economic interest in the use of his mark outside the field of his own exploitation to justify interposition by a court. His mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask. And so it has come to be recognized that, unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful.

[52] I refer also to the well-known case of *Stork Restaurant Inc. v. Sahati*, 166 F. 2d 348 (1948) (9th Circ. Cal.) where the plaintiff, which owned and operated a cafe and night club in New York city under the name "The Stork Club," obtained relief in California against defendants who were operating a small bar, tavern and cocktail lounge in San Francisco under the name "Stork Club." At p. 356 the Court said:

> We reach now what is perhaps the controlling principle in the instant case—that of "confusion of source," with its corollary, "dilution of goodwill." This doctrine has been adumbrated in the excerpts from some of the decisions that we have already quoted: a direct inquiry into the problem is now in order.
>
> In a situation where there is no direct competition between the parties, confusion of source may be defined as a misleading of the public by the imitation of "An attractive, reputable trade-mark or trade name … not for the purpose of diverting trade from the person having the trade-mark or trade name to the imitator, but rather for the purpose of securing for the imitator's goods some of the good-will, advertising and sales stimulation of the

trade-mark or trade name." Restatement [*of the Law of Torts*, Tentative Draft No. 8 (1963)], at page 597.

> "One's interest in a trade-mark or trade name came to be protected, therefore, not only on competing goods, but on goods so related in the market to those on which the trade-mark or trade name is used that the good or ill repute of the one type of goods is likely to be visited upon the other. Thus one's interest in a trade-mark or trade name is protected against being subjected to the hazards of another's business." Restatement, Id., at pages 597-598.

[53] Further, it appears that the necessity for competition in the same market which is stressed in Pestco's basic submission is not required by some decisions which do require, if not the carrying on of business in the jurisdiction, at least some business presence or activity there. In the *Sheraton* case, from which I have quoted, it was held that the plaintiff, who owned and operated a chain of hotels in the United States and other countries, was entitled to an interlocutory injunction in England to restrain the defendants from advertising in a way calculated to suggest an association with the plaintiff. The plaintiff had no hotel facilities in England but had a booking office there and, also, bookings were made for its facilities through travel agencies in England. The existence of the booking office and the fact that bookings were made in England has been referred to in some cases as a significant feature of the case in favour of the plaintiff. See, e.g., *Alain Bernardin et Compagnie v. Pavilion Properties Ltd.* [[1967] RPC 581], at p. 587 (Eng. H.C.). Pestco submits that *Sheraton* has no application to this case because Orkin, unlike the plaintiff in *Sheraton*, carries on no similar business activity in Pestco's market area.

[54] I am not satisfied that the Judge in *Sheraton* regarded the booking office as being important but, assuming that he did, what is its significance? It really had no bearing at all with respect to the plaintiff's competing with the defendant for hotel customers in England because the plaintiff had no hotel facilities there. If it was a feature of the case it seems to have been a purely symbolic one. This inclines me to the view that the case must have turned on the grounds contained in the passage from Buckley J.'s judgment which I have set forth above: the plaintiff's reputation would be exposed to risk and, also, the plaintiff was entitled to retain the possibility of exploiting its goodwill in England.

[55] If it is not direct competition that is required, and I do not think that it is, then it seems to me that the answer cannot logically lie in some form of presence in the jurisdiction falling short of actual competition. This point is clearly made in the judgment of Finlay P. in *C. & A. Modes v. C. & A. (Waterford) Ltd.*, [1978] F.S.R. 126 (Ir. H.C.) whose judgment was upheld on appeal by the Supreme Court of Ireland [1978] F.S.R. 126 at 137. In this case the plaintiff carried on its retail drapery shop business in the United Kingdom. Its stores included a large branch shop in Belfast in Northern Ireland to which large numbers of citizens from the Irish Republic travelled to buy the plaintiff's goods. The defendant's "competing" business in the Republic used the plaintiff's name and symbol "C. & A." Finlay P., after referring to the *Sheraton* case, said at p. 134:

> In my opinion, it becomes necessary to consider whether there is a distinction in principle which justifies the grant of relief to a person or firm who, though providing a service such as the Sheraton hotels entirely outside the jurisdiction of the court, has maintained within the jurisdiction an office for securing orders and bookings for that service but which compels

> the refusal of relief to a firm that maintains a retail shop outside the jurisdiction (which shop, on the evidence, is substantially frequented and used by persons travelling from within the jurisdiction) and advertises that retail shop and the products sold in it in a manner which reaches a substantial number of members of the public within the jurisdiction of the court but which does not have a selling or booking agency within the jurisdiction.
>
> To answer this question it is necessary to consider the fundamental principles applicable to the action of passing off. On the authorities, the fundamental ingredients of the action for passing off are that the plaintiff has a name applicable to his goods or business which is known to the public in the area in which the defendant seeks to carry on his business to an extent that the name, brand or mark proposed to be used or being used by the defendant is likely to deceive and to cause confusion. If that be an adequate general statement of the fundamental ingredients of the action of passing off, then it does not appear to me to imply necessarily the recognition of territorial boundaries. In an age when the purchase of ordinary consumer goods by members of the public outside the territorial boundaries of their own State is a common and increasing activity, and in the particular situation of the Republic of Ireland where, as has been proved to my satisfaction in this particular case, the purchase of goods in Northern Ireland by residents and citizens of the Republic of Ireland is a usual and frequent occurrence. I can see no sound reason why the court should absolve itself from the responsibility to prevent deception and what, in effect, is dishonest trading merely upon the grounds that the attraction to persons of the name and business and reputation of the plaintiff company operating in Belfast has occurred through advertisements in papers and magazines and through the broadcasting media and not through a booking or selling agency operating within the Republic of Ireland.

[56] Still concerned with principle and policy, the affected interests which must be considered are, in addition to the interests of Orkin in not having its reputation exposed to the risk resulting from Pestco's activities and in being able to use its trade name in Ontario, those of Pestco and the public in the absence of unreasonable restraints on freedom of trade, and the additional interest of the public not to be confused with respect to the source of the services which they buy. In the recent judgment of the Supreme Court of Canada in *Consumers Distributing Co. v. Seiko Time Can. Ltd.*, Estey J. said for the Court at pp. 171 and 173 [DLR]:

> The common law principles relating to commerce and trade generally proceed on the basis of a recognition of perceived benefits to the community from free and fair competition.
>
> • • •
>
> The role played by the tort of passing off in the common law has undoubtedly expanded to take into account the changing commercial realities in the present-day community. The simple wrong of selling one's goods deceitfully, as those of another is not now the core of the action. It is the protection of the community from the consequential damage of unfair competition or unfair trading.

[57] Bearing in mind that Pestco has a virtually infinite range of names and symbols from which to choose it is difficult to see the enjoining of it from using the name and logo of a well-established company in the same business as an unreasonable restraint on its freedom to carry on business as it sees fit. The public are entitled to be protected from such deliberate deception and Orkin, which has laboured long and hard and made

substantial expenditures to create the reputation which it now has, which reputation has spread to Ontario, is entitled to the protection of its name from misappropriation. The spectre of Orkin having a monopoly in Ontario in its name and distinctive logo, even though it is not now carrying on business here, is considerably less troubling than the deceptive use of its name and symbol by another.

[58] Pestco submits that if it is guilty of deliberate deception this is irrelevant and, in particular, that its deception cannot create a right in the plaintiff which the plaintiff, apart from the deception, does not already have. While I shall deal later with Orkin's position in Ontario in more detail than I have thus far in order to show what facts exist, apart from Pestco's conduct, which bear on Orkin's entitlement to relief, I think that in the assessment of the competing interests the defendant's conduct is highly relevant. As far as freedom of trade and the reasonable expectations of business people are concerned, the interests of a dishonest defendant are entitled to less weight than those of a defendant who has acted in good faith. This has been recognized by the Supreme Court of the United States in the common law of unfair competition with respect to a use of the same trademark as that of the plaintiff in an area remote from where the plaintiff carries on business. In *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 at p. 415, 60 L. Ed. 713, 36 S. Ct. 357 (1916), Mr. Justice Pitney said the following for the Court:

> In the ordinary case of parties competing under the same mark in the same market, it is correct to say that prior appropriation settles the question. But where two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant, *unless at least, it appears that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like*.

(Emphasis added.)

[59] In the later case of *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 at 100, 63 L. Ed. 141, 39 S. Ct. 48 (1918) (U.S. Ky.), Mr. Justice Pitney, once again for the Court, said:

> Undoubtedly, the general rule is that, as between conflicting claimants to the right to use the same mark, priority of appropriation determines the question. [Cases cited.] But the reason is that purchasers have come to understand the mark as indicating the origin of the wares, so that its use by a second producer amounts to an attempt to sell his goods as those of his competitor. The reason for the rule does not extend to a case where the same trade-mark happens to be employed simultaneously by two manufacturers in different markets separate and remote from each other, so that the mark means one thing in one market, and an entirely different thing in another. It would be a perversion of the rule of priority to give it such an application in our broadly extended country that *an innocent party who had in good faith employed a trade-mark in one state*, and by the use of it had built up a trade there, being the first appropriator in that jurisdiction, might afterwards be prevented from using it, with consequent injury to his trade and good will at the instance of one who theretofore had employed the same mark, but only in other and remote jurisdictions, upon the ground that its first employment happened to antedate that of the first-mentioned trader.

(Emphasis added.)

[60] I need not, and do not, say that the defendant's bad faith alone will confer a cause of action on a foreign plaintiff (see Comment, *The Scope of Territorial Protection of Trade-marks* (1970), 65 Northw. U.L. Rev. 781 at 794-95) but it surely must be a relevant factor to take into account in adjusting competing interests. The significance of a defendant's state of mind has for some time been an important factor with respect to several different torts. See Ames, *How Far an Act May be a Tort because of the Wrongful Motive of the Actor* (1905), 18 Harv. L. Rev. 411.

[61] It might be nothing more than speculation to attempt to account for the differences between the English decisions, which appear to require some business activity by the foreign plaintiff in the jurisdiction of the Court, and the Canadian and U.S. authorities (see, e.g., *Vaudable v. Montmartre Inc.*, 193 N.Y.S. 2d 332 (1959) (N.Y. Sup. Ct.), and *Stork Restaurant Inc. v. Sahati*, *supra*), which do not. However, it may be that the various North American jurisdictions where the plaintiffs and defendants, in most of the cases, carry on business, have substantially more in common with respect to language and other cultural features, including consumer attitudes, than do the places from which the parties in the English cases come. Having regard to the travel patterns of the population and mass advertising through television, radio and various publications, the flow of trans-border goodwill is almost inevitable in North America. The English cases involve foreign plaintiffs who are separated from England by the Atlantic Ocean or the English Channel and it is possible that this is an underlying factor in the developments of the relatively "hard line" (see *Athletes Foot Marketing Assoc. Inc. v. Cobra Sports Ltd.*, [1980] R.P.C. 343 at 349) which has generally been followed in the English cases.

Thinking back to an earlier case, what kind of damage would the British Columbia Automobile Association have suffered as a result of the passing off found in relation to the union's first website?

How important is a common field of activity in establishing damage? How close do the fields have to be? Can you think of damage that might arise even when businesses are not in direct competition with one another?

a. Passing Off Under Section 7(b) of the Trade-marks Act

As noted earlier, the tort of passing off is codified by ss 7(b) and (c) of the *Trade-marks Act*. Thus, it is possible to bring an action in passing off in either the provincial superior courts or the Federal Court of Canada. However, the Supreme Court of Canada in *Kirkbi AG* (above) ruled that the provisions of s 7 of the *Trade-marks Act* were constitutionally valid only to the extent that they were used in relation to subject matter otherwise under federal jurisdiction. In the case of ss 7(b) and (c), this means that they must be used in relation to subject matter that is recognized as a "trade-mark" under the *Trade-marks Act*. Because the definition of a trademark under the Act is, for the time being, more limited than what is recognized at common law, it is conceivable that the tort will have a somewhat broader scope. Can you think of something that might function as a trademark at common law that would not fall within the definition of "trade-mark" under the *Trade-marks Act*?

In *Nissan Canada Inc v BMW Canada Inc* (below), note how the court applied the concept of the *Trade-marks Act* definition of "use" in order to determine whether there was a trademark for the purposes of the s 7(b) action. Note as well how the court addressed the necessity of establishing the third element of the tort, that of damage.

Nissan Canada Inc v BMW Canada Inc
2007 FCA 255

RICHARD CJ (Linden and Pelletier JJA concurring):

[1] This is an appeal from the judgment of MacKay D.J. of the Federal Court dated March 7, 2007, with respect to claims made by the respondents' pursuant to sections 7(b), 20 and 22 of the *Trade-marks Act*, R.S.C. 1985, c. T-13 as amended (the "Act") ([2007] F.C.J. No. 330, 2007 FC 262).

Relevant Facts

[2] The appellant, Nissan Canada Inc. ("Nissan"), is in the business of selling, distributing and promoting automobiles, parts and accessories in Canada. Nissan is the owner of a number of registered Canadian trade-marks, including registration No. 612,708 for M45 and registration No. 640,144 for M35, both for use in association with motor vehicles. The two marks are used for two series of Infiniti vehicles, Infiniti being the luxury division of Nissan. Nissan uses the unregistered marks M and M6 for promoting and advertising its automobiles, parts and accessories.

[3] The respondents, BMW Canada Inc. and Bayerische Motoren Werke Aktiengesellschaft ("BMW"), are also in the business of manufacturing, selling, distributing and promoting automobiles, parts and accessories throughout the world. BMW Canada Inc. sells, distributes and promotes automobiles, parts and accessories in Canada under the authority of BMW AG. BMW AG is the owner of the registered Canadian trade-marks, including registration No. 544,922 for M3, registration No. 561,482 for M5 and registration No. 336,985 for M & Design. These trade-marks are registered for use in association with automobiles and their parts. BMW AG claims to also be the owner of the unregistered marks M and M6. Both marks were, at the time of trial, the subjects of applications for registration by BMW.

[4] On August 12, 2005, BMW commenced this action against Nissan claiming passing off of BMW's trade-marks M, M3, M5, M6 and M & Design contrary to paragraph 7(b) of the Act; trade-mark infringement of BMW's trade-marks M3, M5 and M & Design contrary to section 20 of the Act; and depreciation of goodwill of BMW's trade-marks M3, M5 and M & Design contrary to section 22 of the Act.

[5] In a judgment dated March 7, 2007, the trial judge dismissed BMW's claim of infringement under section 20 of the Act on the basis that there was no likelihood of confusion as to the sources of the wares, or as to the wares themselves, among the relevant group of prospective purchasers in the market. The trial judge also dismissed BMW's claim for depreciation of the value of goodwill under section 22 because there was insufficient evidence to support a conclusion that Nissan used BMW's marks or other closely similar marks in a manner likely to depreciate the value of BMW's goodwill in its registered marks.

[6] The trial judge did, however, allow the respondents' passing off claim pursuant to paragraph 7(b). He found that Nissan's use of the marks M and M6 caused a likelihood

of confusion between the sources of its wares and of BMW's wares associated with BMW's marks and therefore violates BMW's proprietary rights in the trade-marks M, M3, M5, M6 and M & Design.

[7] Of the various claims made by BMW, the appeal before this Court relates solely to the portion of the trial judge's judgement allowing the passing off claim under paragraph 7(b) of the Act.

• • •

Issue

[9] This appeal raises two questions:

a) Did the trial judge err in proceeding on the basis that the letter M and the descriptor M6 are unregistered trade-marks within the meaning of section 2 of the Act?
b) Did the trial judge err in allowing the claim for passing off pursuant to paragraph 7(b) of the Act?

• • •

Analysis

[14] Paragraph 7(b) of the Act prohibits a person from directing public attention to his wares, services or business in such a way as to cause or be likely to cause confusion, at the time he commenced the activity in question, with the wares, services or business of another. As stated by this Court in *Kirkbi AG v. Ritvik Holdings Inc.*, [2004] 2 F.C.R. 241 at page 245, (2003) FCA 297, aff'd [2005] 3 S.C.R. 302, paragraph 7(b) is the equivalent statutory expression of the common law tort of passing off with one exception: for resort to that paragraph, a plaintiff must prove possession of a valid and enforceable trade-mark, whether registered or unregistered.

[15] Accordingly, the first issue to be determined on this appeal is whether the evidence supports a finding that BMW had valid and enforceable trade-marks in the M and M6 marks.

[16] The term "trade-mark," as defined in section 2 of the Act, requires that a mark be 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. As such, in order to obtain trade-mark rights, the trade-mark must be "used" by the person for the purpose of distinguishing their wares or services from those of others. As stated by the Supreme Court of Canada, "the gravaman of trade-mark entitlement is actual use": *Mattel, Inc. v. 3894207 Canada Inc.*, [2006] 1 S.C.R. 772 at paragraph 5.

[17] "Use" is a defined term in the Act. Section 2 provides that "use" in relation to a trade-mark means any use that by section 4 is deemed to be a use in association with wares or services. At issue are BMW's automobiles, parts and accessories and, as such, we are dealing with wares, not services.

[18] In accordance with subsection 4(1) of the Act, a trade-mark is deemed to be used in association with wares, if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with

the wares that notice of the association is then given to the person to whom the property or possession is transferred.

[19] In *Syntex Inc. et al. v. Apotex Inc.*, [1984] 2 F.C. 1012 at page 1020, this Court explained the requirements of subsection 4(1) in the following way:

> Use of a trade mark is deemed to have occurred if at the time property in or possession of the wares is transferred, in the normal course of trade, it is "marked on the wares themselves or on the packages in which they are distributed." The mark thus may come to the attention of the transferee in a direct way at the time of transfer which is the critical point in time. Similarly, for there to be a deemed use, notice of any other manner of association is likewise to be given at that same point in time. It might well be, for example, that the appearance of a trade mark in written material inserted in a package containing the wares even though not marked on the package or on the wares themselves would fall within the second part of s 4(1). …

[20] Here, there is no evidence that the alleged M and M6 trade-marks were marked on BMW's wares themselves or on the packages in which they were distributed. Therefore, the only remaining question is whether the evidence establishes that, at the time of the transfer of the property in or possession of the wares, the M and M6 marks were so associated with BMW's wares that notice of the association was given to the person to whom the property or possession was transferred.

[21] With respect to the M mark, the trial judge found at paragraph 14 that BMW cars are not marked with any stand alone M mark. He further noted that BMW uses the M mark in advertising and promotional items. In his words, at paragraph 36:

> The trade-mark M, by itself, has appeared in Canada only in limited BMW M car advertising, in magazines, on television, in brochures, promotional banners, occasional books, tickets and other items, generally with a companion trade-mark of BMW, i.e. the BMW roundel or one of its other trade-marks.

[22] The trial judge appears to have assumed that BMW's limited use of the M mark was sufficient to amount to "use" of a trade-mark under subsection 4(1) without providing any analysis on the issue. In doing so, I believe the trial judge erred. In my view, there was no probative evidence on the record demonstrating an association at the time of transfer of the property in or possession of the wares.

[23] The evidence indicates that the letter M is used in many BMW trade-marks in association with numbers, letters or words. In addition to the registered trade-marks M3, M5, M & Design owned by BMW, the trial judge noted BMW's interest in other marks containing the letter M at paragraphs 9 to 11:

> [9] BMW AG also owns other registered marks in Canada which include as one element the letter M. These are the marks: M SERIES (Registration TMA 614,701, issued July 13, 2004) for automobiles and their constituent parts; M POWER design (Registration TMA 329,972, issued July 10, 1987) (with horizontal color bars in blue, purple and red for the design M POWER) for automobiles and their constituent parts, namely engines; M-THE MOST POWERFUL LETTER IN THE WORLD (Registration TMA 664,704 dated May 19, 2006), and M-THE MOST POWERFUL LETTER (Registration TMA 664,875 dated May 24, 2006), both for automobiles and their constituent parts, and for services: organization of car racing and car club events.

> [10] In 2005 and 2006 BMW applied for registration for additional marks including: M NIGHT (Application 1,269,440, filed August 22, 2005 and revised February 6, 2006) for retail services in the field of automobiles, motorcycles, and parts and accessories therefore, retail services in the field of fashion accessories, life style articles, sporting articles and clothing, organizing and hosting of automobile theme parties and celebrations; M (Application No. 1,271,794 filed September 13, 2005) in relation to automobiles and their parts and to automotive retail services; M ROADSTER and M COUPE (Applications 1,273,588 and 1,273,589, both filed September 27, 2005) both for automobiles and parts; M SPORT PACKAGE and M EXECUTIVE PACKAGE and M PERFORMANCE EDITION (Application numbers 1,274,093 and 1,274,092 and 1,274,333 respectively, all filed September 30, 2005) all for automobiles and their parts; and M6 (Application No. 1,244,305 filed April 6, 2006 revised May 2, 2006) for automobiles and parts. All of these applications for registration by BMW, including those for M alone and M6 which are specifically at issue in this case, were filed after commencement of this action by BMW.
>
> [11] BMW has also used the letter M in association with certain automobile parts and accessories, including 16 different "M parts," e.g., M Suspension, M Sports Seats, M steering wheel, M wheels, and with the special packages known as M Sport Package, M Performance Edition, and M Executive Package. Each package consists of M parts and accessories to "dress" a regular BMW car to look, or to perform, in some respects like an M car.

[24] I agree with the trial judge, as held at paragraph 37, that use of the M mark in association with numbers, letters or words is not equivalent to use of M alone as a trademark. I also agree with the trial judge's conclusion at paragraph 59 that use of the M & Design mark cannot be considered use by BMW of the M mark.

[25] Based on the evidence, BMW's use of the M mark was limited to advertisements and promotional type materials. Such use of a mark is not in itself sufficient to constitute "use" under subsection 4(1) of the Act. For the use of a mark in advertisement and promotional material to be sufficiently associated with a ware to constitute use, the advertisements and promotional material would have to be given at the time of transfer of the property in or possession of the wares: see *Clairol International Corp. et al. v. Thomas Supply & Equipment Co. Ltd. et al.* (1968), 55 C.P.R. 176 at 190 (Can. Ex. Ct.) and *General Mills Canada Ltd. v. Procter & Gamble Inc.* (1985), 6 C.P.R. (3d) 551 (T.M. Opp. Bd.).

[26] In this case, some of the evidence in itself was problematic. For instance, the BMW Product Guide 2003, although it contained the M mark, was intended for use within the BMW organization, i.e. for retailer sales personnel, and therefore would not have been given to purchasers. There were other types of promotional material which were apparently intended for wide-spread distribution; however, there is no evidence indicating when the advertisements and promotional materials containing the M mark were distributed in Canada, if at all, such that notice of the association was given at the time of transfer.

[27] Similarly, with respect to the M6 mark, the only evidence is that M6 was used in an owners' handbook (date unknown), a 1989 owners' manual and a 1988 technician bulletin. Again, there was no evidence as to how many, if any, of these handbooks, manuals or bulletins were distributed in Canada and when, if at all, and if they were available at the time of transfer of property or possession.

[28] Quite simply, in the absence of evidence indicating whether the advertisements or promotional materials were given to purchasers at the time of transfer of BMW's wares,

there is no evidence to support a finding of use of the M and M6 marks as that term is defined in the Act.

[29] In light of the foregoing and on the basis of the record, I find there is no evidence of use on which the trial judge could rely to conclude that the M and M6 marks are unregistered trade-marks in accordance with section 2 of the Act and for the purposes of determining the passing off claim under subsection 7(b) of the Act. I find the trial judge erred in law in pursuing a paragraph 7(b) analysis without first establishing the existence of the M and M6 marks as trade-marks.

[30] In any event, one of the essential elements of the claim of passing off under paragraph 7(b) was not established. The three necessary components of a passing-off action are: (a) the existence of goodwill; (b) deception of the public due to a misrepresentation; and (c) actual or potential damage to the plaintiff: *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, [1992] 3 S.C.R. 120 at paragraph 33.

[31] In this case, the trial judge accepted the three required components to establish a claim of passing off and was satisfied that all three were met. With respect to the existence of goodwill, the trial judge referred to the evidence of Mr. Kenzie and of individual BMW car enthusiasts and, at paragraph 106, concluded that:

> BMW is known among auto journalists and luxury high performance car enthusiasts, particularly BMW owners, for its wares advertised by the M trade-mark, including its automobile the M6. This awareness of special interest groups in a relatively small market of consumers is sufficient in this case to establish BMW's goodwill in the two common law trade-marks it claims and has used.

[32] With respect to the second requirement, the trial judge concluded that there was a likelihood of confusion in respect of the marks M and M6. In his words, at paragraph 108:

> In considering the likelihood of confusion in this claim there is a significant difference from the circumstances considered for the claim of infringement under s-s. 20(1) where the M and M6 marks used by Nissan are not the same as BMW's registered trade-marks. In my opinion, use by Nissan in 2005 of the letter M, as a trade-mark, and of the descriptor M6, as a trade-mark, both similar in form to the same trade-marks of BMW, for generally similar wares, automobiles and parts, in essentially the same trade or business as BMW, created a likelihood of confusion between the sources of the wares of the defendant and of the plaintiffs. Whether intentional or not, that confusion was likely because of Nissan's actions.

[33] With respect to the third component, i.e. damages, the trial judge accepted the respondents' argument that, once the first two elements are shown to exist, damages are presumed. At paragraph 109 of his decision, the trial judge stated the following:

> In the absence of evidence of damages which, in accord with the Court's pre-trial bifurcation order will be settled after submissions to be made by the parties, I assume, subject to further consideration, that there will be damages, whether nominal or substantial.

[34] As indicated by the trial judge, the Bifurcation Order dated October 5, 2006, orders that the issues of liability be severed from the issues of extent of damages and accounting of profits, and that the production of documents, oral discovery on the issues

> of extent of damages and accounting of profits be postponed until after judgment on the issues of liability.
>
> [35] Without commenting on the first two elements, I find the trial judge erred in law in assuming that there would be damages. Actual or potential damage is a necessary element in finding liability under paragraph 7(b). In the absence of evidence in this regard, the Court cannot conclude that there is liability: *Tommy Hilfiger Licensing Inc. et al. v. Quality Goods I.M.D. Inc. et al.* (2005), 267 F.T.R. 259 at paragraphs 137-138 (F.C.). A plaintiff must "demonstrate that he suffers or, in a *quia timet* action, that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as the source of those offered by the plaintiff": *Ciba-Geigy Canada Ltd. v. Apotex Inc., supra*, at paragraph 32 citing *Reckitt & Colman Products Ltd. v. Borden Inc.*, [1990] 1 All E.R. 873 (H.L.) at page 880. See also *Pro-C Ltd. v. Computer City, Inc.* (2001), 55 O.R. (3d) 577 at paragraph 24.
>
> [36] A bifurcation order does not relieve the respondents from the necessity of proving the existence of damage as an element of their cause of action. It simply defers proof of the extent of the damage pending a determination as to the appellants' liability.
>
> [37] In this case, there was no evidence before the trial judge demonstrating damages and no finding of damages. It was not open to the trial judge to presume damages. In the absence of such evidence, this Court finds that the trial judge erred in law by allowing the claim for passing off of the M and M6 marks under paragraph 7(b) of the Act.
>
> [38] Accordingly, the appeal will be allowed with costs.

A similar outcome on the issue of damages is found in *PharmaCommunications Holdings Inc v Avencia International Inc*, 2009 FCA 144. In both *Nissan Canada* and *PharmaCommunications Holdings*, the plaintiffs failed to establish that they had suffered damage. What would a plaintiff need to do to establish the existence (if not the extent) of damage for the purposes of making out the third element of the tort of passing off?

C. Defences and Remedies

A number of defences are possible in an action for passing off. A defendant may, of course, argue that the plaintiff has failed to make out one or more of the three elements of the tort.

In general, the law will not deny a person the possibility of using his or her own name in business, making such a use a defence to a claim in passing off (see e.g. *Hurlbut Co v Hurlbut Shoe Co*, [1925] SCR 141). However, there are limits to this defence. The name must be the individual's surname and not a given name or nickname. He or she must also be using the name honestly, and without intent to trade on the goodwill or reputation of another business. Keep in mind as well the approach of the court in *Frank Reddaway* (above). In that case, the court did not absolutely prohibit the defendant from using the terms "camel hair belting" in relation to his product, because it could accurately be described by that name. However, the defendant was prevented from using it in a way that might be confusing with the plaintiff as source. Thus the defendant would have to distinguish his use of the words in some way, perhaps by adding his own name to the labelling of the goods. In the same way, a court might require an individual who wishes to use his or her own name in the conduct of business to do so in a manner that is not confusing with an already existing business under that name.

A defendant may also argue in its defence that it holds a trademark registration for the mark it is using. The Ontario Court of Appeal has declared this to be "a complete answer" to a claim in passing off (see *Molson Canada v Oland Breweries Ltd* (2002), 59 OR (3d) 607, 19 CPR (4th) 201 (CA)). A defendant may also argue that the plaintiff has acquiesced to its use of the disputed mark (see *Edward Chapman Ladies' Shop Limited v Edward Chapman Limited*, 2007 BCCA 370).

Remedies for the tort of passing off include damages. Damages may be awarded as compensation for actual harm suffered; they are also available for the more difficult to quantify harm to reputation or goodwill. Where courts are required to fix an amount for compensation for this type of harm, they must determine a "proper and reasonable" amount (see *Price v Fernie* (1985), 8 CPR (3d) 360, 1985 CanLII 670 (BCSC)).

Other available remedies include permanent injunctions, an order for disgorgement of profits, and delivery up or destruction of goods or materials bearing the offending mark. An order for disgorgement of profits is alternative to an award of damages: the plaintiff cannot claim both. Punitive damages may be ordered by a court, but this will occur only where the defendant's conduct has been particularly egregious (see e.g. *Arabian Muslim Association v Canadian Islamic Centre*, 2004 ABQB 784, aff'd 2006 ABCA 152).

Remedies for passing off under s 7(b) of the *Trade-marks Act* are provided for under s 53.2 of that Act. Section 53.2 reads:

> 53.2(1) If a court is satisfied, on application of any interested person, that any act has been done contrary to this Act, the court may make any order that it considers appropriate in the circumstances, including an order providing for relief by way of injunction and the recovery of damages or profits, for punitive damages and for the destruction or other disposition of any offending goods, packaging, labels and advertising material and of any equipment used to produce the goods, packaging, labels or advertising material.