

*Indexed as:*  
**Kirkbi AG v. Ritvik Holdings Inc.**

**Kirkbi AG and Lego Canada Inc., appellants;  
v.  
Ritvik Holdings Inc./Gestions Ritvik Inc. (now operating  
as Mega Bloks Inc.), respondent, and  
Attorney General of Canada and Attorney General of  
Quebec, interveners.**

[2005] 3 S.C.R. 302

[2005] S.C.J. No. 66

2005 SCC 65

File No.: 29956.

Supreme Court of Canada

Heard: March 16, 2005;  
Judgment: November 17, 2005.

**Present: McLachlin C.J. and Major, Bastarache, Binnie,  
LeBel, Deschamps, Fish, Abella and Charron JJ.**

(70 paras.)

**Appeal From:**

ON APPEAL FROM THE FEDERAL COURT OF APPEAL

**Catchwords:**

*Constitutional law -- Distribution of legislative powers -- Trade and commerce -- Trade-marks -- Whether provision creating statutory action of passing off in federal trade-mark legislation ultra vires Parliament -- Whether federal trade-marks legislation valid exercise of Parliament's general trade and commerce power -- Constitution Act, 1867, s. 91(2) -- Trade-marks Act, R.S.C. 1985, c. T-13, s. 7(b).*

*Trade-marks -- Unfair competition -- Passing-off action -- Unregistered trade-marks -- Doctrine of functionality -- Toy manufacturer asserting unregistered trade-mark in LEGO blocks consisting of distinctive orthogonal pattern of raised studs distributed on top of each block -- Whether unregistered functional mark can form basis of action claiming passing off under s. 7(b) of Trade-marks Act -- Whether doctrine of functionality applicable only to registered trade-marks -- Trade-marks Act, R.S.C. 1985, c. T-13, s. 7(b).*

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*Torts -- Passing off -- Conditions to establish liability.*

### **Summary:**

K held the patents for LEGO construction sets. When the patents expired in Canada, R, a Canadian toy manufacturer, began manufacturing and selling bricks interchangeable with LEGO. K tried to assert a trade-mark in the "LEGO indicia": the upper surface of the block with eight studs distributed in a regular geometric pattern. When the Registrar of Trade-marks refused registration, K claimed the LEGO indicia as an unregistered mark and sought a declaration that it had been infringed by R pursuant to s. 7(b) of the *Trade-marks Act* and the common law doctrine of passing off. It requested a permanent injunction to prevent R from marketing infringing products and sought damages. The trial judge found that purely functional features, such as the LEGO indicia, could not become the basis of a trade-mark, whether registered and unregistered. The majority of the Court of Appeal upheld the decision. In this Court, R challenged the constitutionality of s. 7(b), arguing that the provision is *ultra vires* the legislative competence of Parliament under s. 91(2) of the *Constitution Act, 1867*.

*Held:* The appeal should be dismissed.

Section 7(b) of the *Trade-marks Act*, which creates a civil cause of action essentially codifying the common law tort of passing off, is *intra vires* Parliament. First, although the creation of civil causes of action is generally a matter of property or civil rights in the province, the intrusion of s. 7(b) into provincial jurisdiction is minimal. Section 7(b) is remedial and is limited in its application by the provisions of the Act. It does not expand the federal jurisdiction in relation to trade-marks and trade-names, but merely rounds out an otherwise incomplete trade-mark scheme. Second, the *Trade-marks Act* is a valid exercise of Parliament's general trade and commerce power under s. 91(2) of the *Constitution Act, 1867*. The *Trade-marks Act* establishes a regulatory scheme for both registered and unregistered trade-marks and is clearly concerned with trade as a whole, across and between industries in different provinces. Since there is no question that trade-marks apply across and between industries in different provinces, divided provincial and federal jurisdiction could lead to uneven protection. The lack of a civil [page304] remedy integrated into the scheme of the Act and applicable to registered and unregistered marks could also lead to duplicative, conflicting, inefficient enforcement procedures. Third, s. 7(b) is sufficiently integrated into the *Trade-marks Act*. As the encroachment into provincial power is minimal, a "functional relationship", such as is present here, is sufficient to sustain the constitutionality of the

provision. The passing-off action plays a clear role in the federal scheme. In its pith and substance, s. 7(b) is directly connected to the enforcement of trade-marks and trade-names in Canada, and the civil remedy it creates protects the goodwill associated with trade-marks and is directed to avoiding consumer confusion. Without this provision there would be a gap in the legislative protection of trade-marks. [paras. 20-36]

K's passing-off claim under s. 7(b) of the *Trade-marks Act* must be dismissed. Its claim, which is based on the existence of a trade-mark, is barred by the application of the doctrine of functionality. This doctrine establishes that a mark which goes beyond distinguishing the wares of its owner to the functional structure of the wares themselves is transgressing the legitimate bounds of a trade-mark. The doctrine reflects the purpose of a trade-mark, which is the protection of the distinctiveness of the product, and applies equally to registered and unregistered marks. Registration does not change the nature of a mark; it merely grants more effective rights against third parties. Marks, registered or not, share common legal attributes and grant exclusive rights to the use of a distinctive designation or guise. Here, K claimed an unregistered trade-mark consisting solely of the technical or functional characteristics of the LEGO bricks, formerly protected by K's patents. A purely functional design cannot be the basis of a trade-mark and trade-mark law should not be used to perpetuate monopoly rights enjoyed under now-expired patents. [paras. 40-61]

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In any event, under the modern law of passing off, three elements must be established in order to succeed in a passing-off action based on statute law or common law: the existence of goodwill, deception of the public due to a misrepresentation and actual or potential damage to the plaintiff. In this case, K's claim was bound to fail because it would not have met the first condition of the action. The alleged distinctiveness of the product consisted precisely of the process and techniques which were now common to the trade. [paras. 62-69]

### Cases Cited

**Applied:** *General Motors of Canada Ltd. v. City National Leasing*, [1989] 1 S.C.R. 641; *Kitkatla Band v. British Columbia (Minister of Small Business, Tourism and Culture)*, [2002] 2 S.C.R. 146, 2002 SCC 31; **referred to:** *Citizens Insurance Co. of Canada v. Parsons* (1881), 7 App. Cas. 96; *Attorney General of Canada v. Canadian National Transportation, Ltd.*, [1983] 2 S.C.R. 206; *MacDonald v. Vapor Canada Ltd.*, [1977] 2 S.C.R. 134; *Attorney-General for Ontario v. Attorney-General for Canada*, [1937] A.C. 405; *Good Humor Corp. of America v. Good Humor Food Products Ltd.*, [1937] Ex. C.R. 61; *Royal Doulton Tableware Ltd. v. Cassidy's Ltd.*, [1986] 1 F.C. 357; *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1986), 8 C.I.P.R. 232, rev'd in part [1987] 3 F.C. 544; *Harvard College v. Canada (Commissioner of Patents)*, [2002] 4 S.C.R. 45, 2002 SCC 76; *Monsanto Canada Inc. v. Schmeiser*, [2004] 1 S.C.R. 902, 2004 SCC 34; *Free World Trust v. Électro Santé Inc.*, [2000] 2 S.C.R. 1024, 2000 SCC 66; *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067, 2000 SCC 67; *Parke, Davis & Co. v. Empire Laboratories Ltd.*, [1964] S.C.R. 351; *Remington Rand Corp. v. Philips Electronics N.V.* (1995), 64 C.P.R. (3d) 467; *Pizza Pizza Ltd. v. Canada (Registrar of Trade Marks)*, [1989] 3 F.C. 379; *Thomas & Betts, Ltd. v.*

*Panduit Corp.*, [2000] 3 F.C. 3; *Imperial Tobacco Co. of Canada v. Registrar of Trade Marks*, [1939] Ex. C.R. 141; *Elgin Handles Ltd. v. Welland Vale Manufacturing Co.* (1964), 43 C.P.R. 20; *TraFFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001); *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000); *Koninklijke Philips Electronics NV v. Remington Consumer Products Ltd.*, C-299/99, [2002] E.C.R. I-5475; Cancellation Division of the Office for Harmonization in the Internal Market (Trade-marks and Designs), 63 C 107029/1 "LEGO brick" (3D), July 30, 2004; *INTERLEGO AG's Trade Mark Applications*, [1998] R.P.C. 69; Paris, October 18, 2000, D. 2001.Jur.850; *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, [1992] 3 S.C.R. 120 [page306]; *Singer Manufacturing Co. v. Loog* (1882), 8 App. Cas. 15, aff'g (1880), 18 Ch. D. 395; *Erven Warnink B.V. v. J. Townend & Sons (Hull) Ltd.*, [1979] A.C. 731; *Reckitt & Colman Products Ltd. v. Borden Inc.*, [1990] 1 All E.R. 873; *Oxford Pendaflex Canada Ltd. v. Korr Marketing Ltd.*, [1982] 1 S.C.R. 494; *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, [1984] 1 S.C.R. 583.

### Statutes and Regulations Cited

*Constitution Act*, 1867, ss. 91(2), (22), (23), 92(13).

*Lanham Trade-Mark Act*, 15 U.S.C.A. s. 1052(e)(5).

*Trade-marks Act*, R.S.C. 1985, c. T-13, ss. 2 "distinguishing guise", "trade-mark", 6, 7, 13(2), 19, 20.

*Unfair Competition Act*, 1932, S.C. 1932, c. 38, s. 2(d).

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### International Documents

European Communities. *First Council Directive 89/104/EEC of 21 December 1988 to Approximate Laws Relating to Trade Marks*, [1989] O.J. L. 40/1, art. 3(1)(e).

## History and Disposition:

APPEAL from a judgment of the Federal Court of Appeal (Rothstein, Sexton and Pelletier [page307] J.J.A.), [2004] 2 F.C.R. 241, 228 D.L.R. (4th) 297, 26 C.P.R. (4th) 1, 308 N.R. 1, [2003] F.C.J. No. 1112 (QL), 2003 FCA 297, upholding a decision of Gibson J. (2002), 220 F.T.R. 161, 20 C.P.R. (4th) 224, [2002] F.C.J. No. 793 (QL), 2002 FCT 585. Appeal dismissed.

## Counsel:

Robert H. C. MacFarlane, Michael E. Charles, Peter W. Hogg, Q.C., Christine Pallotta and Catherine Beagan Flood, for the appellants.

Ronald E. Dimock, Bruce Ryder, Bruce W. Stratton and Henry Lue, for the respondent.

Peter Southey, for the intervener the Attorney General of Canada.

Alain Gingras, for the intervener the Attorney General of Quebec.

The judgment of the Court was delivered by

**LeBEL J.:**--

### I. Introduction

**1** For many years, Kirkbi AG ("Kirkbi") has been a well-known and successful manufacturer of construction sets for children, and at times, for their parents too. The construction sets consist of standardized small plastic bricks, held together by a pattern of interlocking studs and tubes. Patent protection of this locking system has now expired in Canada and in several other countries. Kirkbi now attempts to protect its market share and goodwill against the inroads of competitors by invoking other forms of intellectual property rights. In particular, it is engaged in a long-running dispute with the respondent Mega Bloks Inc., formerly Ritvik Holdings Inc./Gestions Ritvik Inc. ("Ritvik"), a Canadian toy manufacturer. After the expiry of the last LEGO patents in Canada, the respondent began manufacturing and selling similar bricks, using the same locking method.

**2** Kirkbi is now relying on an unregistered trade-mark, the "LEGO indicia", which consists of the [page308] well-known geometrical pattern of raised studs on the top of the bricks as the basis for a claim of passing off under s. 7(b) of the *Trade-marks Act*, R.S.C. 1985, c. T-13. Kirkbi seeks to prevent Ritvik from marketing its competing products without a proper disclaimer that its building blocks are not LEGO bricks and are not supplied by Kirkbi. Absent such a warning to consumers, the appellant argues, confusion arises and there are grounds for a passing-off action under s. 7(b). In this Court, for the first time in these proceedings, Ritvik challenged the constitutionality of s. 7(b) and argued that it is *ultra vires* the legislative competence of the Parliament of Canada.

**3** Although I hold that s. 7(b) is a valid exercise of the federal power over trade and commerce, I agree that the action should be dismissed and that the majority judgment of

the Federal Court of Appeal should be upheld. A purely functional design may not be the basis of a trade-mark, registered or unregistered. The tort of passing off is not made out. The law of passing off and of trade-marks may not be used to perpetuate monopoly rights enjoyed under now-expired patents. The market for these products is now open, free and competitive.

## II. Background

**4** The LEGO toy business was founded in 1932. In 1949, Kirkbi produced its first toy building blocks. Those blocks were derived from a British product, the Kiddicraft blocks, which used a system of interlocking blocks. Kirkbi bought the patents covering the Kiddicraft system a few years later. Kirkbi then introduced significant improvements to the blocks. It added tubes underneath the blocks which coupled with the studs on top. This clever locking system increased the friction between the bricks and enhanced their "clutch power", although children could still easily disassemble them. The [page309] current LEGO block was thus designed and marketed some 50 years ago. The same pattern of studs on the top of the block with tubes underneath remains in use. The only change was the addition of the mark "LEGO" on the top of each stud in tiny script. Kirkbi managed to keep patent protection of its technology in place for many years. But, in Canada, as elsewhere, patent protection came to an end. In Canada, the last patent expired in 1988. By that time, the quality and originality of its products had earned LEGO bricks a well-deserved reputation amongst parents and children. LEGO toys acquired generations of devoted clients and users in Canada as in many other countries.

**5** After the expiry of Kirkbi's patents, clouds gathered on the horizon. New competitors appeared and attempted to market similar if not identical products. The most aggressive was the respondent, a Montreal toy manufacturer now known as Ritvik. Ritvik had begun manufacturing toys in the 1960s. Later, in the 1980s, it developed and marketed a line of large-size building blocks. Finally, after the expiry of the last LEGO patents in Canada, it decided to use the traditional LEGO technology. It brought to market a line of small blocks, identical in size to LEGO blocks, which used the same geometrical pattern of studs on top coupled with tubes underneath. They were sold under the name "MICRO MEGA BLOKS". Ritvik sold its new line in Canada and exported them to several other countries. Over the last 10 years, it has become a significant global competitor to Kirkbi.

**6** Facing new competition and now deprived of patent protection, Kirkbi attempted to protect its market position, employing a highly creative and aggressive use of the law of intellectual property and unfair competition, in several different legal [page310] systems throughout the world. This ongoing effort led to a substantial amount of litigation in several countries. For example, at times, Kirkbi tried to register its pattern of studs as a trade-mark or a design. Those attempts generally failed. In Canada, after the Registrar of Trade-marks rejected an application to register the pattern as a trade-mark, the appellant resorted to a more subtle and creative use of the resources of the law of intellectual property. This attempt led directly to the present litigation.

**7** Kirkbi asserted unregistered trade-mark rights in respect of its use of the "LEGO indicia". This mark consists of its distinctive orthogonal pattern of raised studs distributed on the top of each toy-building brick. These LEGO indicia are thus the upper surface of the

block, with eight studs distributed in a regular geometric pattern (see Sexton J.A., [2004] 2 F.C.R. 241, 2003 FCA 297, at para. 11). It alleged that the marketing by Ritvik of its MICRO and MINI lines of small bricks using the same pattern caused confusion with its unregistered trade-mark. It claimed relief under s. 7(b) of the *Trade-marks Act* and under the common law doctrine of passing off. In a statement of claim filed in the Federal Court, Trial Division, it claimed ownership of this unregistered mark and sought a declaration that it had been infringed. It requested a permanent injunction to prevent the marketing of the MICRO and MINI lines of MEGA BLOKS and damages.

**8** Ritvik mounted a strong defence. It denied that s. 7(b) of the *Trade-marks Act* had been breached and that the tort of passing off had been made out. In counterclaim, it sought a declaration that it was entitled to continue selling its MICRO and MINI lines of bricks. At that stage, it did not raise the [page311] issue of the constitutionality of s. 7(b) of the *Trade-marks Act*.

### III. Judicial History

#### A. *Federal Court, Trial Division* (2002), 220 F.T.R. 161, 2002 FCT 585

**9** Gibson J. dismissed Kirkbi's claim. He accepted the key argument raised by Ritvik that purely functional features, such as the LEGO indicia, could not become the basis of a trade-mark and affirmed that this principle was still a part of Canadian trade-mark law. The rule of functionality applied both to registered and unregistered marks. Although he observed that this conclusion was dispositive of the claim, he went on to consider the issue of passing off. Gibson J. noted that the subject matter at issue had been claimed and disclosed in expired patents. In his view, Kirkbi was indirectly attempting to extend its patent protection, contrary to the principles of the patent system. The trial judge then reviewed the elements of the tort of passing off at common law. He recognized that, given the history of the marketing of its product, Kirkbi had acquired goodwill in the particular configuration of its bricks. He then found that it had to be shown that this goodwill was put in peril by confusion amounting to a deception of the public due to a misrepresentation. He was satisfied that Kirkbi had established a likelihood of confusion or even actual confusion, between the LEGO bricks and the Ritvik blocks, based on the LEGO indicia. But Gibson J. held that the claimant needed to prove that the confusion had arisen from an intentional misrepresentation by Ritvik, and he concluded that in this case Kirkbi had failed to do so. On that basis, he would have dismissed the claim of passing off, although he acknowledged that Ritvik's entry into the market had caused damages to the appellant. Kirkbi appealed this judgment to the Federal Court of Appeal.

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#### B. *Federal Court of Appeal*, [2004] 2 F.C.R. 241, 2003 FCA 297

**10** Writing for the majority, Sexton J.A. dismissed the appeal. In his view, the doctrine of functionality applied to all trade-marks, registered or unregistered, and had remained a

fundamental principle of the law of trade-marks. The distinguishing guise solely consisting of the so-called "LEGO indicia" was purely functional. For this reason, it was invalid and could not form the basis of an infringement action under s. 7(b) of the *Trade-marks Act*. Kirkbi was attempting to extend the life and application of its expired patents through an improper use of trade-mark law. Given his conclusion on the issue of functionality and the validity of the mark, Sexton J.A. did not comment on the questions of confusion and the elements of the tort of passing off.

**11** Pelletier J.A. disagreed and would have allowed the appeal and the action. In dissent, he held that, although the LEGO mark was primarily functional, it could be the basis of a passing-off claim under s. 7(b). An unregistered trade-mark did not confer any exclusivity but its owner had the right to prevent competitors from causing confusion in the marketing of competing products. LEGO was entitled to protection against the confusing use of its unregistered mark. In addition, Pelletier J.A. stated that the doctrine of functionality was no longer part of the law of trade-marks in Canada in respect of unregistered marks, by reason of the changes brought about by the adoption of the present *Trade-marks Act*. He also found that the elements of passing off had been made out. In particular, even though no deliberate strategy to deceive had been established, confusion in the market between Kirkbi and Ritvik products had been proved.

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#### IV. Analysis

##### A. *The Issues*

**12** The scope of the issues at stake substantially changed after our Court granted leave to appeal. The respondent then raised the constitutionality of s. 7(b) of the *Trade-marks Act*. Ritvik submitted that the provision exceeded the legislative authority of the Parliament of Canada. The Chief Justice stated the following question:

1. Is s. 7(b) of the *Trade-marks Act*, R.S.C. 1985, c. T-13, as amended, either in whole or in part within the legislative competence of the Parliament of Canada under s. 91(2) of the *Constitution Act, 1867*?

**13** I will address the constitutional question first. I will then turn to the issues raised by the infringement action under s. 7(b). I will consider the application of the doctrine of functionality. Does it apply to unregistered trade-marks or to registered trade-marks only? May an unregistered functional mark form the basis of an action claiming passing off under s. 7(b) of the *Trade-marks Act*? Last, given the uncertainty in the courts below, I will review and discuss some aspects of the tort of passing off at common law.

##### B. *The Constitutionality of Section 7(b) of the Trade-marks Act*

**14** In this appeal, the constitutional validity of s. 7(b) of the *Trade-marks Act* arises in the particular context of an unregistered trade-mark. The respondent challenges the constitutional validity of the impugned provision and submits that s. 7(b) of the *Trade-marks Act* is *ultra vires* the legislative competence of the Parliament of Canada because it is not linked or connected in any way to the trade-mark registration scheme in the Act.

(1) Trade and Commerce

**15** The grant of legislative authority to the Parliament of Canada listed in s. 91 of the [page314] *Constitution Act, 1867* does not specify that trade-marks are a component of the federal government's power to legislate. Patents and copyrights are explicitly allocated to federal legislative power (s. 91(22) and (23)). Pursuant to s. 91(2), the federal government has exclusive jurisdiction in relation to trade and commerce. In *Citizens Insurance Co. of Canada v. Parsons* (1881), 7 App. Cas. 96, the Judicial Committee of the Privy Council distinguished two branches of federal power under s. 91(2): (1) the power over international and interprovincial trade and commerce, and (2) the power over general trade and commerce affecting Canada as a whole ("general trade and commerce"). This interpretation of s. 91(2), which limits the scope of the federal trade and commerce power to these two branches, is intended to ensure a proper constitutional balance between the otherwise overlapping federal power over trade and commerce (s. 91(2)) and the provincial power over property and civil rights in the province (s. 92(13)): see A. K. Gill and R. S. Joliffe, *Fox on Canadian Law of Trade-marks and Unfair Competition* (4th ed. (loose-leaf)), at p. 2-4.

**16** The "general trade and commerce" category requires an assessment of the relative importance of an activity to the national economy as well as an inquiry into whether an activity should be regulated by Parliament as opposed to the provinces. To determine whether a particular issue requires national rather than local regulation, this Court has set out five criteria to be considered. These criteria are integrated into an assessment of whether federal legislation can be supported on the basis of Parliament's authority over general trade and commerce. They reflect principles which help distinguish the federal trade and commerce power from the provincial property and civil rights power. In two comprehensive decisions dealing with the second branch of s. 91(2) (*Attorney General of Canada v. Canadian National Transportation, Ltd.*, [1983] 2 S.C.R. 206; *General Motors of Canada Ltd. v. City National Leasing*, [1989] 1 S.C.R. 641), Dickson C.J. adopted and extended the three indicia [page315] initially set out by Laskin C.J. in *MacDonald v. Vapor Canada Ltd.*, [1977] 2 S.C.R. 134. These requirements "serve to ensure that federal legislation does not upset the balance of power between federal and provincial governments" (*City National Leasing*, at p. 662).

**17** The jurisprudence of our Court now recognizes that the following factors are hallmarks of a valid exercise of Parliament's general trade and commerce power: (i) the impugned legislation must be part of a regulatory scheme; (ii) the scheme must be monitored by the continuing oversight of a regulatory agency; (iii) the legislation must be concerned with trade as a whole rather than with a particular industry; (iv) the legislation should be of a nature that provinces jointly or severally would be constitutionally incapable of enacting; and (v) the failure to include one or more provinces or localities in a legislative scheme would jeopardize the successful operation of the scheme in other parts of the country (*City*

*National Leasing*, at pp. 662-63). These factors are not exhaustive and, to be valid, it is not necessary for federal legislation to satisfy all five criteria:

In total, the five factors provide a preliminary check-list of characteristics, the presence of which in legislation is an indication of validity under the trade and commerce power. These *indicia* do not, however, represent an exhaustive list of traits that will tend to characterize general trade and commerce legislation. Nor is the presence or absence of any of these five criteria necessarily determinative. As noted in *Canadian National Transportation*, *supra*, at p. 268:

The above does not purport to be an exhaustive list, nor is the presence of any or all of these *indicia* necessarily decisive. The proper approach to the characterization is still the one suggested in *Parsons*, a careful case by case assessment. Nevertheless, the presence of such factors does at least make [page316] it far more probable that what is being addressed in a federal enactment is genuinely a national economic concern and not just a collection of local ones.

On any occasion where the general trade and commerce power is advanced as a ground of constitutional validity, a careful case by case analysis remains appropriate. The five factors articulated in *Canadian National Transportation* merely represent a principled way to begin the difficult task of distinguishing between matters relating to trade and commerce and those of a more local nature.

(*City National Leasing*, at pp. 662-63)

**18** The federal government's power to legislate with respect to trade-marks has never been the target of a direct constitutional challenge. The issue was raised in the Privy Council in a 1937 decision examining the constitutionality of federal trade-mark legislation. The Privy Council judgment relies, albeit implicitly, on the second branch of the trade and commerce powers under s. 91(2) to confirm Parliament's jurisdiction to enact trade-mark legislation: *Attorney-General for Ontario v. Attorney-General for Canada*, [1937] A.C. 405. Lord Atkin for the Privy Council commented as follows (at p. 417):

No one has challenged the competence of the Dominion to pass such legislation. If challenged one obvious source of authority would appear to be the class of subjects enumerated in s. 91(2), the Regulation of trade and commerce, referred to by the Chief Justice. There could hardly be a more appropriate form of the exercise of this power than the creation and regulation of a uniform law of trade marks.

See also *Good Humor Corp. of America v. Good Humor Food Products Ltd.*, [1937] Ex. C.R. 61, at pp. 75-76. More recently in *Royal Doulton Tableware Ltd. v. Cassidy's Ltd.*, [1986] 1 F.C. 357, the Federal Court, Trial Division stated in *obiter* that "[t]he jurisdiction of Parliament with respect to trade marks has long since been [page317] recognized ... . [I]t

may well be that the jurisdiction of Parliament over trade marks, depending as it does on federal authority over 'the regulation of trade and commerce' (see *Attorney-General for Ontario v. Attorney-General for Canada*, *supra*) is intrinsically broader than is Parliament's jurisdiction over 'patents of invention and discovery'" (pp. 374-75).

**19** The constitutionality of specific provisions of the *Trade-marks Act* has been challenged but the validity of the Act as a whole has never been conclusively determined. The courts have implicitly recognized the validity of this federal legislation in several decisions: see, e.g., *Vapor Canada*; *City National Leasing*; *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.* (1986), 8 C.I.P.R. 232 (F.C.T.D.), rev'd in part [1987] 3 F.C. 544 (C.A.). The constitutionality of the *Trade-marks Act* as a whole is not challenged on this appeal. I will return to the issue of the constitutional foundation for federal trade-mark legislation and will consider the five criteria outlined by Dickson C.J. further below.

(2) Determining the Constitutionality of Section 7(b): The Test to be Applied

**20** In *City National Leasing*, Dickson C.J. set out the proper framework for analysis to determine the characterization of an impugned provision for constitutional purposes. He stressed that the mere fact that a provision codifies a civil cause of action does not necessarily make it *ultra vires* the federal government. Although the creation of civil causes of action is generally a matter of property or civil rights in the province, a finding that a provision standing alone, in its pith and substance, intrudes on provincial powers does not determine its ultimate constitutional validity. At the same time, a provision will not be valid merely because the main provisions of an Act are valid. It is necessary to consider both the impugned provision and the Act as a whole when undertaking constitutional analysis. The nature of the relationship between [page318] a provision and the statute determines the extent to which the provision is integrated into otherwise valid legislation. If the legislation is valid and the provision is sufficiently integrated within the scheme, it can be upheld by virtue of that relationship: a provision may take on a valid constitutional cast by the context and association in which it is fixed as complementary provision serving to reinforce other admittedly valid provisions (*Vapor Canada*, at pp. 158-59, *per* Laskin C.J.).

**21** The three-part test for determining whether the impugned provision is within the constitutional powers of the enacting legislature was restated by this Court in *Kitkatla Band v. British Columbia (Minister of Small Business, Tourism and Culture)*, [2002] 2 S.C.R. 146, 2002 SCC 31, at para. 58, here paraphrased to reflect the facts of this case:

1. Does the impugned provision intrude into a provincial head of power, and to what extent?
2. If the impugned provision intrudes into a provincial head of power, is it nevertheless part of a valid federal legislative scheme?
3. If the impugned provision is part of a valid federal scheme, is it sufficiently integrated with that scheme?

(3) Application to the Facts of This Case

**22** For ease of reference, I reproduce here s. 7 of the *Trade-marks Act*:

7. No person shall

(a) make a false or misleading statement tending to discredit the business, wares or services of a competitor;

(b) direct public attention to his wares, services or business in such a way as to cause or be likely to cause confusion in Canada, at the time he [page319] commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

(c) pass off other wares or services as and for those ordered or requested;

(d) make use, in association with wares or services, of any description that is false in a material respect and likely to mislead the public as to

- (i) the character, quality, quantity or composition,
- (ii) the geographical origin, or
- (iii) the mode of the manufacture, production or performance

of the wares or services; or

(e) do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada.

In this section I will apply the analytical framework set out above to determine the constitutional validity of s. 7(b).

(a) *Characterization of the Impugned Provision: Does Section 7(b) Encroach on Provincial Powers?*

**23** The first stage of the analysis requires a characterization of the impugned provision in isolation from the rest of the statute. We look to its purpose and its effect to determine whether the provision encroaches on provincial powers, and if so, to what extent: *City National Leasing*, at p. 674; *Kitkatla*, at para. 59. Section 7(b) creates a civil cause of action that essentially codifies the common law tort of passing off: *Vapor Canada*, at p. 147; *Asbjorn Horgard A/S* (F.C.T.D.), at p. 241. Standing alone it appears to encroach on provincial power, namely property and civil rights in the province (s. 92(13)). As Dickson C.J. noted in *City National Leasing*: "This provincial power over civil rights is a significant power and one that is not lightly encroached upon" (pp. 672-73). As explained above, if s. 7(b) is sufficiently [page320] integrated into the scheme of the *Trade-marks Act* as a whole, then it will nonetheless be *intra vires* Parliament.

**24** In *City National Leasing*, this Court found that the intrusion of s. 31.1 of the *Combines Investigation Act*, R.S.C. 1970, c. C-23, into provincial jurisdiction was minimal. In coming to this conclusion Dickson C.J. highlighted the following three factors: (i) the provi-

sion was remedial and was not in itself a substantive part of the Act; the provision did not create a general cause of action; (ii) its application was limited by the provisions of the Act; and (iii) Parliament was not constitutionally precluded from creating rights of civil action where such measures are shown to be warranted (p. 673).

**25** These factors apply equally to s. 7(b) of the *Trade-marks Act*. First, s. 7(b) is remedial; its purpose is to enforce the substantive aspects of the *Trade-marks Act* relating to unregistered trade-marks:

The tort of passing off is in many respects the equivalent cause of action for unregistered trade-marks as infringement [s. 20 of the Act] is to registered trade-marks. The overall legislative scheme of the *Trade-marks Act* is the protection, identification, and registration of trade-marks, whether registered or unregistered.

(Gill and Jolliffe, at p. 2-22)

**26** Second, the passing-off action protects unregistered trade-marks and goodwill enjoyed by the trade-marks. Section 7(b) is therefore limited by the provisions of the *Trade-marks Act*: it does not expand the federal jurisdiction in relation to trade-marks and trade-names but merely rounds out an otherwise incomplete trade-mark scheme (*Asbjorn Horgard A/S* (F.C.T.D.), at p. 237). Unlike s. 7(e), which was found to be *ultra vires* Parliament [page321] because it did not have any connection with the enforcement of trade-marks or trade-names (*Asbjorn Horgard A/S* (F.C.T.D.), at p. 242) and was significantly broader in application, the creation of a statutory action for passing off in s. 7(b) is limited in its application.

**27** Finally, as regards federal statutory civil actions, Dickson C.J. reminds us in *City National Leasing* that "[i]t is also important to recognize that while the Court in *Vapor Canada*, *supra*, struck down one civil cause of action, the Court did not preclude other federally created private actions from being sustained under federal heads of power" (p. 693). Not only has this Court sustained federally created civil causes of action in a number of cases, but the test developed by this Court in *City National Leasing* and in *Kitkatla* (outlined above) makes clear that civil causes of action are *intra vires* Parliament if sufficiently integrated into valid federal legislation. In sum, although the impugned provision encroaches on an important provincial power, the intrusion is minimal. We must now determine whether the *Trade-marks Act* is valid and, if so, ascertain whether s. 7(b) is sufficiently integrated into the federal scheme of regulation to be sustained as an exercise of Parliament's general trade and commerce power.

#### (b) *The Validity of the Federal Trade-marks Act*

**28** In the second stage of the analysis, the Court must determine whether the *Trade-marks Act* is a valid exercise of Parliament's general trade and commerce power. The analysis is guided by the five indicia of validity set out above. In *Asbjorn Horgard A/S*, MacGuigan J.A. of the Federal Court of Appeal noted that:

[page322]

All of the criteria of Chief Justice Dickson are verified in the Act: a national regulatory scheme, the oversight of the Registrar of Trade Marks, a concern with trade in general rather than with an aspect of a particular business, the incapability of the provinces to establish such a scheme, and the necessity for national coverage. [p. 559]

The parties do not dispute Parliament's constitutional power to regulate registered trade-marks. Rather, it is Parliament's right to create a civil remedy in relation to an *unregistered trade-mark* that is in issue. The respondent's position is that the only regulatory scheme in the *Trade-marks Act* is the scheme governing registered trade-marks. In my view this is an incorrect characterization of the Act. The *Trade-marks Act* establishes a regulatory scheme for both registered and unregistered trade-marks.

**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.

**30** The *Trade-marks Act* includes numerous provisions relating to unregistered trade-marks: [page323] "Parliament by sections 1 to 11 of the *Trade Marks Act* has prescribed a regime concerning what constitutes a trade mark and the adoption thereof, whether registered or not" (*Royal Doulton*, at p. 374). The primary difference between registered and unregistered trade-marks under the Act is that the rights of a holder of a registered trade-mark are more extensive:

At common law the right to a trade mark thus arose through the use of a mark by a business to identify its products to the public. There was no need for the business to register its mark in order to protect its right to use the trade mark and prevent the misuse of its trade mark by other businesses. The passing off action was the enforcement mechanism available for the protection of trade mark rights. Without the passing off action, common law trade mark rights would have little value.

The Canadian Act, as the statutory history set out by Laskin C.J.C. in the *MacDonald* case, *supra*, showed, has traditionally been concerned with the protection of unregistered as well as registered trade marks. In this it is like the *Copyright Act* [R.S.C. 1970, c. C-30], whose coverage is

broader than registered copyright. In both Acts what registration does is to provide additional benefits over and above those available at common law.

(*Asbjorn Horgard A/S* (F.C.A.), at pp. 560-61)

Registration of a trade-mark gives the registrant the exclusive right to the use throughout Canada of the trade-mark and a right of action to remedy any infringement of that right: ss. 19-20. In addition, in order to exercise those rights, the existence of the mark itself does not have to be established. Registration is evidence enough. Nonetheless, marks remain marks, whether registered or unregistered, because their legal characteristics are the same.

**31** There is no reason to believe that the registration regime under the *Trade-marks Act* was intended to create two separate enforcement regimes. The scheme set out in the *Trade-marks Act* regulates both registered and unregistered trade-marks. It [page324] regulates the adoption, use, transfer, and enforcement of rights in respect of all trade-marks. If 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. The *Trade-marks Act* is more than simply a system of registration.

(c) *The Extent of Integration*

**32** The final step in the analysis is to determine whether the provision is sufficiently integrated into the otherwise valid statute. The inquiry has two parts. First, it is necessary to determine the appropriate test of "fit", namely "how well the provision is integrated into the scheme of the legislation and how important it is for the efficacy of the legislation" (*City National Leasing*, at p. 668). Once the correct standard is determined, the test is applied on a case-by-case basis. If the provision passes this integration test, it is *intra vires* Parliament as an exercise of the general trade and commerce power. If the provision is not sufficiently integrated into the scheme of regulation, it cannot be sustained under the second branch of s. 91(2). To determine the degree of integration required, it is necessary to consider the extent to which the provision encroaches on provincial powers: "The degree of relationship that is required is a function of the extent of the provision's intrusion into provincial powers" (*City National Leasing*, at p. 683). If the encroachment is minimal, then a "functional relationship" is sufficient to sustain the constitutionality of the provision (p. 669). If the provision is highly intrusive, a stricter test is applied: the provision must be "truly necessary" or "integral" to the federal scheme (pp. 669 and 683). Consideration of the seriousness of the encroachment on provincial powers and of the proper standard for the relationship between a legislative provision and a valid federal scheme ensures that the balance of [page325] constitutional powers is maintained and focuses the analysis on the "pith and substance" of the provision.

**33** As outlined above, s. 7(b) of the Act only minimally intrudes into provincial jurisdiction over property and civil rights. It is a remedial provision limited to trade-marks as defined in the Act (ss. 2 and 6). As this Court observed in *Vapor Canada* and the Federal Court of

Appeal held in *Asbjorn Hogard A/S*, s. 7(b) "rounds out" the federal trade-marks scheme. In this regard s. 7(b) is, in its pith and substance, directly connected to the enforcement of trade-marks and trade-names in Canada because it is directed to avoiding confusion through use of trade-marks.

**34** In *Vapor Canada*, this Court struck down s. 7(e) of the *Trade-marks Act* on the ground that it was unrelated to trade or to trade-marks, or other forms of intellectual property subject to federal legislative authority. Laskin C.J. concluded that s. 7(e) "is not directed to trade but to the ethical conduct of persons engaged in trade or in business, and ... such a detached provision cannot survive alone unconnected to a general regulatory scheme" (p. 165). Although the majority found that, standing alone, s. 7 was not valid federal legislation, Laskin C.J., who wrote for the majority, wrote the following:

Section 7 is, however, 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. [p. 172]

[page326]

Section 7(e) could not be sustained on this basis because its subject matter was not related to or connected with the enforcement of trade-marks or trade-names. This connection was found to exist, however, in relation to s. 7(a), (b), and (d). The Court suggested that these subparagraphs did relate to and give effect to valid federal legislative subjects, namely trade-marks, patents and copyrights (p. 157).

**35** The respondent submits that the civil action in s. 7(b) has no functional connection to the registered trade-mark scheme in the *Trade-marks Act*. Having concluded that the Act creates a scheme regulating both *registered* and *unregistered* trade-marks, the functional relation of s. 7(b) to the scheme in the *Trade-marks Act* is apparent. In 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. As Gill and Jolliffe note: "No provision of s. 7 is more inextricably linked to the overall scheme of the *Trade-marks Act* than is s. 7(b)" (p. 2-22).

**36** Unlike breach of confidence and appropriation of confidential information (s. 7(e)), the passing-off action plays a clear role in the federal scheme. Without this provision there would be a gap in the legislative protection of trade-marks. This would create inconsistencies in the protection of registered and unregistered trade-marks and lead to uncertainty. Section 7(b) is sufficiently integrated into the federal scheme and, in this respect, is significantly different from s. 7(e). I conclude that s. 7(b) lies within the federal government's leg-

islative competence. I will now turn to the issues of interpretation and application of the Act raised by the present appeal.

[page327]

### C. *The Trade-Mark and Passing-off Issues*

#### (1) Patents and Trade-Marks

**37** The vast and expanding domain of the law of intellectual property is going through a period of major and rapid changes. The pressures of globalization and technological change challenge its institutions, its classifications and sometimes settled doctrines (see M. Vivant, "La fantastique explosion de la propriété intellectuelle: Une rationalité sous le big bang?", in *Mélanges Victor Nabhan* (2004), 393; see also W. R. Cornish, *Intellectual Property: Omnipresent, Distracting, Irrelevant?* (2004), at pp. 110-14). Jurisprudence attempts to address -- sometimes with difficulty -- the consequences of these broad social and economic trends. The state of patent law is evidence enough of the stresses on the process of jurisprudential development in a world where statute law itself struggles to catch up with the life of laboratories and markets (see, for example, *Harvard College v. Canada (Commissioner of Patents)*, [2002] 4 S.C.R. 45, 2002 SCC 76; *Monsanto Canada Inc. v. Schmeiser*, [2004] 1 S.C.R. 902, 2004 SCC 34). The economic value of intellectual property rights arouses the imagination and litigiousness of rights holders in their search for continuing protection of what they view as their rightful property. Such a search carries with it the risk of discarding basic and necessary distinctions between different forms of intellectual property and their legal and economic functions. The present appeal is a case in point. It involves the distinction between patents and trade-marks. In order to understand the role and relevance of the doctrine of functionality in the law of trade-marks, some comments on the nature and function of patents and trade-marks will be useful.

**38** Patents protect new products and processes. In consideration of disclosure of the invention, patent law grants a time-limited monopoly to the patentee [page328] on the use and marketing of the subject matter of the patent:

Patent protection rests on a concept of a bargain between the inventor and the public. In return for disclosure of the invention to the public, the inventor acquires for a limited time the exclusive right to exploit it.

(*Free World Trust v. Électro Santé Inc.*, [2000] 2 S.C.R. 1024, 2000 SCC 66, at para. 13, *per* Binnie J.; see also *Whirlpool Corp. v. Camco Inc.*, [2000] 2 S.C.R. 1067, 2000 SCC 67, at para. 37, *per* Binnie J.)

Patent rights focus on the patented product or process. The patent holder enjoys temporary exclusivity and is protected against the unauthorized use of the subject matter of the patent, as long as the patent is in force.

**39** In the case of trade-marks, the focus shifts from the product itself to the distinctiveness of its marketing. Trade-marks seek to indicate the source of a particular product, process or service in a distinctive manner, so that, ideally, consumers know what they are buying and from whom. The definition of trade-marks in s. 2 of the *Trade-marks Act* confirms this focus on distinctiveness in the market and in the public:

"trade-mark" means

- (a) a mark that is 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,
- (b) a certification mark,
- (c) a distinguishing guise, or
- (d) a proposed trade-mark;

At this point, we must then ask, can the mark be the product itself? Would this be consistent with the nature of marks and the underlying policies which structure intellectual property law? These issues are [page329] raised in Kirkbi's claims. The foundation of a trade-mark is distinctiveness because only a distinctive mark will allow the consumer to identify the source of the goods (see D. Vaver, *Intellectual Property Law: Copyright, Patents, Trade-marks* (1997), at p. 190; Gill and Jolliffe, at p. 3-19). Although trade-marks do not protect the product as such, they may have huge economic value and rights arising out of marks may have immense importance to their holders. The operation of the market relies extensively on brands. The goodwill associated with them is considered to be a most valuable form of property. However, despite its connection with a product, a mark must not be confused with the product -- it is something else, a symbol of a connection between a source of a product and the product itself. We will now briefly return to the facts relating to the mark claimed by Kirkbi.

## (2) The Nature of the Claimed LEGO Mark

**40** The nature of the claim advanced by Kirkbi must be well understood. One must start from the problem the appellant faced when its patents expired. As mentioned above, the very cleverness and flexibility of LEGO technology, of the combination of studs on top of the brick and tubes under it, had almost turned "LEGO" into a household word. Source and product became identified. LEGO bricks, for many, came to designate these small colourful building blocks, with their clever locking system. But when the patents expired, the LEGO technology fell into the public domain. The LEGO name, whether on the product, on its packaging or in its advertising, remained protected, but the monopoly on the wares themselves was over. The monopoly had been the key to the building up and preservation of LEGO's market share, and so Kirkbi employed a number of different means to protect it, one of which was the assertion of a trade-mark.

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**41** The peculiarity of the claimed mark was that it did not consist of a name, drawing or particular get-up of the product. The so-called "distinguishing guise" consisted solely of the technical or functional characteristics, formerly protected by Kirkbi's patents. Kirkbi applied in vain in Canada for registration of such a trade-mark under the *Trade-marks Act*. But its second amended statement of claim, which relied on an unregistered mark, attributed the particular look of its product to the disposition and characteristics of the studs on the top of each brick:

9. LEGO Components have a distinctive "look", which makes them immediately identifiable to purchasers and users, and which exclusively identifies LEGO Goods as made by or under the authority of a single source. This distinctive "look" is attributable to, and defined by:

**a rectilinear array of uniform, smooth-sided, flat-topped, cylindrical, co-planar protuberances, the proportions of height, diameter and center-to-center spacing of which are approximately 2 : 5 : 8. Where there is more than one row of protuberances, they are arranged in mutually orthogonal rows and columns.**

10. These features collectively are hereinafter referred to as "the LEGO Indicia trade mark"... . [Emphasis in original.]

On the facts, the trial judge found that the LEGO indicia and the asserted unregistered mark were purely functional. The mark was the product (see Gibson J., at para. 61). Those findings were accepted by the Federal Court of Appeal and were not challenged in our Court. These findings raised the issue of the application of the doctrine of functionality, which barred the claim of infringement under s. 7(b) of the *Trade-marks Act*, in the view of the trial judge and of the majority of the Court of Appeal.

[page331]

### (3) The Doctrine of Functionality in Trade-marks Law

**42** The doctrine of functionality appears to be a logical principle of trade-marks law. It reflects the purpose of a trade-mark, which is the protection of the distinctiveness of the product, not of a monopoly on the product. The *Trade-marks Act* explicitly adopts that doctrine, when it provides, at s. 13(2), that the registration of a mark will not interfere with the use of the utilitarian features it may incorporate:

**13. ...**

(2) No registration of a distinguishing guise interferes with the use of any utilitarian feature embodied in the distinguishing guise.

**43** In these few words, the Act clearly recognizes that it does not protect the utilitarian features of a distinguishing guise. In this manner, it acknowledges the existence and relevance of a doctrine of long standing in the law of trade-marks. This doctrine recognizes that trade-marks law is not intended to prevent the competitive use of utilitarian features of products, but that it fulfills a source-distinguishing function. This doctrine of functionality goes to the essence of what is a trade-mark.

**44** In Canada, as in several other countries or regions of the world, this doctrine is a well-settled part of the law of trade-marks. In the law of intellectual property, it prevents abuses of monopoly positions in respect of products and processes. Once, for example, patents have expired, it discourages attempts to bring them back in another guise.

**45** The doctrine of functionality is a well-established principle of the Canadian law of trade-marks. Indeed, our Court characterized it in 1964 as a "well-settled" principle of law:

The law appears to be well settled that if what is sought to be registered as a trade mark has a functional use or characteristic, it cannot be the subject of a trade mark.

[page332]

(*Parke, Davis & Co. v. Empire Laboratories Ltd.*, [1964] S.C.R. 351, at p. 354, *per* Hall J.)

**46** The Federal Court of Canada has consistently applied this doctrine. As in the present case, it has held time and again that no mark could consist of utilitarian features. Otherwise, it would make the wares a part of the mark and grant a monopoly on their functional features. For example, it is worth quoting MacGuigan J.A., in a discussion of the validity of a mark consisting of the particular shape of a razor head:

The distinguishing guise in the case at bar is in my opinion invalid as extending to the functional aspects of the Philip shaver. A mark which goes beyond distinguishing the wares of its owner to the functional structure of the wares themselves is transgressing the legitimate bounds of a trade mark.

(*Remington Rand Corp. v. Philips Electronics N.V.* (1995), 64 C.P.R. (3d) 467 (F.C.A.), at p. 478; see also *Pizza Pizza Ltd. v. Canada* (Registrar of

*Trade Marks*), [1989] 3 F.C. 379 (C.A.), at p. 381, *per* Pratte J.A.; *Thomas & Betts, Ltd. v. Panduit Corp.*, [2000] 3 F.C. 3 (C.A.), at para. 25.)

This jurisprudence echoes earlier decisions of the Exchequer Court of Canada which applied the doctrine of functionality in respect of trade-marks, under an earlier statute. A combination of elements primarily designed to perform a function may not be the subject matter of a trade-mark (*Imperial Tobacco Co. of Canada v. Registrar of Trade Marks*, [1939] Ex. C.R. 141, at p. 145; *Elgin Handles Ltd. v. Welland Vale Manufacturing Co.* (1964), 43 C.P.R. 20, at p. 24).

**47** The Canadian jurisprudence is consistent with legislative and jurisprudential developments in other countries. Some of these jurisprudential developments arose out of the ongoing campaign of Kirkbi to protect its market position in many [page333] countries, by other legal means after the expiry of its patents.

**48** In the United States, Congress recently incorporated the doctrine of functionality into the law of trade-marks. It is now a part of the *Lanham Trade-Mark Act*: see 15 U.S.C.A. s. 1052(e)(5). The Supreme Court of the United States has also held that purely functional features may not become the basis of trade-marks (see, for example, *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001), at p. 34; *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000), at p. 211).

**49** The European law of trade-marks also applies the doctrine of functionality. A directive of the Council of the European Communities does not allow the registration of purely functional trade-marks. It prohibits the registration as marks of signs which consist exclusively of a shape which is necessary to obtain a technical result (*First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Members States relating to Trade Marks*, [1989] O.J. L. 40/1, art. 3(1)(e); see also L. Bently and B. Sherman, *Intellectual Property Law* (2nd ed. 2004), at pp. 794-96).

**50** The European Court of Justice reached the same conclusion as had been reached in Canada. On the basis of the EEC directive and of the functionality principle, it found that the triangular shape of the Philips razor could not be registered as a trade-mark. It commented that the directive precluded the registration of shapes

whose essential characteristics perform a technical function, with the result that the exclusivity inherent in the trade mark right would limit the possibility of competitors supplying a product incorporating such a function or at least limit their freedom of choice in regard to the technical solution they wish to adopt ... .

(*Koninklijke Philips Electronics NV v. Remington Consumer Products Ltd.*, C-299/99, [2002] E.C.R. I-5475, at para. 79)

**51** Kirkbi had registered its indicia as a community trade-mark, under European law. Seized of an application for cancellation by Ritvik, the Cancellation Division of the Office for Harmonization in the Internal Market (Trade-marks and Designs) applied the principles set out in *Philips Electronics*, and voided the mark (63 C 107029/1 "LEGO brick" (3D), July 30, 2004). It found that it had a purely technical function and that the EEC directive barred its registration.

**52** At the root of the functionality principle in European law, as in Canadian intellectual property law, lies a concern to avoid overextending monopoly rights on the products themselves and impeding competition, in respect of wares sharing the same technical characteristics. It is interesting to observe that, within two different legal systems, a judge of the English High Court and a French Court of Appeal raised the same concerns and came to similar conclusions, when they had to pass judgment on attempts by Kirkbi to protect its indicia by relying on trade-mark law, the tort of passing off or the delict of unfair competition in French law. In this manner, their judgments confirm the validity and broad relevance of the functionality principle as well as the doggedness of Kirkbi in its efforts to retain its market share by any means.

**53** In the English case, *INTERLEGO AG's Trade Mark Applications*, [1998] R.P.C. 69 (Ch. Div.), INTERLEGO appealed the Registrar of Trade Marks's refusal to register the LEGO indicia as marks under British trade-mark law to the High Court. Neuberger J. dismissed the appeal on this issue. In his opinion, the functional features of the brick could not be a trade-mark. Granting rights under trade-mark law would be tantamount to perpetuating a monopoly on the product itself:

In all the circumstances, it seems to me that Mr. Pumfrey was right to contend, that Interlego are not [page335] so much seeking to protect a mark on an item of commerce, but are attempting to protect the item of commerce as such. In other words, they are not so much seeking a permanent monopoly in their mark, but more a permanent monopoly in their bricks. This is, at least in general, contrary to principle and objectionable in practice. A trade mark is, after all, the mark which enables the public to identify the source or origin of the article so marked. The function of the trade mark legislation is not to enable the manufacturer of the article to have a monopoly in the article itself. In the present case there is no special reason to conclude that the general approach should not apply. On the contrary, the functional aspect of the knobs and tubes, and the extent of the monopoly in the field of toy building bricks when Interlego might establish if their appeal succeeded, are strong factors supporting the registrar's decision. [p. 110]

**54** During the same period, the appellant had also engaged in a variety of legal proceedings to ward off Ritvik's entry into the French market. It relied on various grounds, but, in the end, it appears that its efforts foundered on the same grounds as in Great Britain, namely that, in a free market, trade-marks should not be used to prolong monopolies on technical characteristics of products. Competition between products using the same technical processes or solutions, once patent rights are out of the way, is not unfair competi-

tion. It is simply the way the economy and the market are supposed to work in modern liberal societies.

**55** The French Cour de Cassation quashed an earlier judgment of lower courts which found for Kirkbi, on the basis of a delict of "*concurrence déloyale ou parasitaire*" (unfair competition or passing off), although it acknowledged that the LEGO indicia could be registered as a trade-mark. The matter was referred by the Cour de Cassation to the Cour d'appel de Paris, sitting as a "*cour de renvoi*" in accordance with the French law of civil procedure. It dismissed all the Kirkbi claims holding that Ritvik was entitled to use the processes which had been formerly patented by its competitor:

[page336]

[TRANSLATION] But whereas the simple fact of copying the product of the efforts of another does not as such constitute wrongful competition, the principle being that a product of the efforts of another to which no rights of intellectual property apply or to which such rights have ceased to apply may be freely reproduced; whereas the person who so reuses the product of the efforts of another necessarily makes savings that cannot in themselves be considered wrongful without draining of all substance the principle referred to above (which is itself closely linked to the fundamental principle of freedom of competition) ... .

(Paris, October 18, 2000, D. 2001.Jur.850 (note J. Passa), at p. 851)

(4) The Applicability of the Doctrine of Functionality to Unregistered Trade-Marks

**56** Kirkbi does not challenge the application of the functionality doctrine to registered marks in this Court. It raises a different argument. It submits that the doctrine does not apply to unregistered marks. In its view, such a mark does not grant its holder monopoly rights, but solely the right to be protected against confusion as to the source of the product. Moreover, it argues that legislative changes which occurred at the adoption of the present *Trade-marks Act* changed the previous law and limited the application of the functionality principle to registered trade-marks.

**57** The first prong of the appellant's argument concerns the nature of the rights granted by an unregistered trade-mark. In substance, the appellant advances the submission that unregistered trade-marks do not create exclusive property rights, but give rise to a right to be protected against confusion in the market. The appellant says that this right could be enforced against competitors causing confusion in the market place under s. 7(b) of the *Trade-marks Act* and by the tort of passing off.

**58** As Sexton J.A. found for the majority in the Court of Appeal, this argument has no basis in law. Registration does not change the nature of the mark [page337]; it grants more effective rights against third parties. Nevertheless, registered or not, marks share common

legal attributes. They grant exclusive rights to the use of a distinctive designation or guise (*Ciba-Geigy Canada Ltd. v. Apotex Inc.*, [1992] 3 S.C.R. 120, at p. 134; Gill and Jolliffe, at pp. 4-13 and 4-14). Indeed, the *Trade-marks Act*, by allowing for the assignment of unregistered trade-marks, recognizes the existence of goodwill created by these marks as well as the property interests in them. Registration just facilitates proof of title (Sexton J.A., at paras. 76, 77 and 81). Sexton J.A. rightly pointed out that the argument of Kirkbi appears to rest on a misreading of a 19th century judgment of the House of Lords, *Singer Manufacturing Co. v. Loog* (1882), 8 App. Cas. 15, aff'g (1880), 18 Ch. D. 395 (C.A.). This judgment stands only for the proposition that an unregistered trade-mark could be mentioned by competitors in comparative advertising, not that it failed to create exclusive rights to the name for the purpose of distinguishing the products. The functionality doctrine remains relevant, as the legal nature of the marks remains the same.

**59** The second part of the argument raised by the appellant, which is based on changes to the statute, also fails. Kirkbi first asserts that *The Unfair Competition Act, 1932*, S.C. 1932, c. 38, included a definition at s. 2(d) which expressly mentioned functionality:

(d) "Distinguishing guise" means a mode of shaping, moulding, wrapping or packing wares entering into trade or commerce which, by reason only of the sensory impression thereby given and independently of any element of utility or convenience it may have, is adapted to distinguish the wares so treated from other similar wares and is used by some person in association with his wares in such a way as to indicate to dealers in and/or users of similar wares that the wares so treated have been manufactured or sold by him;

Kirkbi then submits that the present definition of a distinguishing guise no longer includes any reference to functionality:

"distinguishing guise" means

[page338]

(a) a shaping of wares or their containers, or

(b) a mode of wrapping or packaging wares

the appearance of which is 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;

Kirkbi argues that the present law limits the application of the doctrine to registered marks only, under s. 13(2).

**60** This interpretation of the legislative changes is clearly wrong. The changes in the drafting of the statute did not signal any intention to remove a doctrine of long standing, with the strange result that unregistered marks might have been granted broader protection than marks registered under the *Trade-marks Act*. The purpose of s. 13(2) was rather to make sure that the public or competitors might keep on using utilitarian features of an otherwise distinguishing guise, as Sexton J.A. found:

Indeed, in my view, subsection 13(2) reinforces the concept that the doctrine of functionality invalidates a mark which is primarily functional. It makes clear that the public is not constrained from using any utilitarian features of a distinguishing guise. It follows that if a distinguishing guise is wholly or primarily functional, then the public is not constrained from using the distinguishing guise in its entirety. Thus a distinguishing guise which is primarily functional provides no rights to exclusive use and hence no trade-mark protection. In other words the fact that the distinguishing guise is primarily functional means that it cannot be a trade-mark. The appellants have simply misconstrued subsection 13(2). [para. 59]

**61** In the end, the appellant seems to complain about the existence of competition based on a product, which is now in the public domain. As "LEGO" and LEGO-style building blocks have come close [page339] to merging in the eyes of the public, it is not satisfied with distinctive packaging or names in the marketing operations of Ritvik. It seems that, in order to satisfy the appellant, the respondent would have to actively disclaim that it manufactures and sells LEGO bricks and that its wares are LEGO toys. The fact is, though, that the monopoly on the bricks is over, and MEGA BLOKS and LEGO bricks may be interchangeable in the bins of the playrooms of the nation -- dragons, castles and knights may be designed with them, without any distinction. The marketing operations of Ritvik are legitimate and may not be challenged under s. 7(b). This is enough to dispose of the claim of the appellant, which had grounded its claim of passing off on the existence of a trade-mark. Nevertheless, given the discussion in the courts below, some comments on the common law action for passing off will be useful.

#### (5) The Doctrine of Passing off in Canadian Law

**62** Remedies under the *Trade-marks Act* rely extensively on the historical development of the tort of passing off. In a broad sense, some of the remedies under s. 7, for example s. 7(c), explicitly target "*passing off*". The legal action initiated by the appellant often called upon the elements of the tort of passing off, although it was based on s. 7(b) of the Act. In those circumstances, much of the discussion in the courts below and even before our Court turned at times on the tort of passing off and the conditions to establish liability on that basis. For this reason, I will briefly review the components of this tort, as it has now developed in Canadian law.

**63** This tort has a long history. At a very early point in its development, the common law became concerned with the honesty and fairness of [page340] competition. For that reason, it sought to ensure that buyers knew what they were purchasing and from whom. It also sought to protect the interest of traders in their names and reputation. As far back as the 17th century, the courts started to intervene. Actions based at first on some form of de-

ceit were allowed (see W. R. Cornish and D. Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (5th ed. 2003), at pp. 573-76; see also R. S. Jolliffe, "The Common Law Doctrine of Passing Off", in G. F. Henderson, ed., *Trade-Marks Law of Canada* (1993), 197, at pp. 199-201). The modern doctrine of passing off was built on these foundations and became a part of Canadian law. Its principles now inform both statute law and common law.

**64** As can be seen in the decisions of the courts below, aspects of the doctrine appear to give rise to controversy. Disagreements arise in the case law about the components of the tort. Are there three, four or five? How should they be classified? A short review of the jurisprudence focusing on the decisions of our Court will hopefully shed a little more light on the contents of the doctrine, in respect of issues relevant to the present appeal.

**65** In recent times, the House of Lords applied two different, but related, classifications in order to determine the conditions of liability under the passing-off doctrine. In *Erven Warnink B.V. v. J. Townend & Sons (Hull) Ltd.*, [1979] A.C. 731, at p. 742, Lord Diplock identified five elements which were necessary to create a valid cause of action: (1) a misrepresentation, (2) made by a trader in the course of trade, (3) to his customers or to ultimate consumers of his product (4) which may, in a reasonably foreseeable way, injure the business or goodwill of a competitor and (5) which causes actual damage. A few years later, Lord Oliver reduced the classification to three components: goodwill, deception and damage (*Reckitt & Colman Products Ltd. v. Borden Inc.*, [page341] [1990] 1 All E.R. 873, at p. 880; see also Bently and Sherman, at pp. 707-9).

**66** Our Court appears to have adopted the tripartite classification in *Ciba-Geigy*. In that case, our Court allowed a passing-off action in respect of the get-up of a prescription drug. Gonthier J. reviewed some of the earlier jurisprudence and stated that claimants had to establish three elements in order to succeed in a passing-off action :

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. [p. 132]

**67** The first component is goodwill or reputation. The claimant must establish goodwill in respect of the distinctiveness of the product (*Ciba-Geigy*, at pp. 132-33; *Oxford Pendaflex Canada Ltd. v. Korr Marketing Ltd.*, [1982] 1 S.C.R. 494, at pp. 504 and 507, *per* Estey J.). Evidence of goodwill solely attached to the techniques and processes which create the product will not do. The doctrine of passing off did not develop to protect monopolies in respect of products but of guises, get-ups, names and symbols which identify the distinctiveness of a source.

**68** The second component is misrepresentation creating confusion in the public. Misrepresentation may be wilful and may thus mean the same thing as deceit. But now the doctrine of passing off also covers negligent or careless misrepresentation by the trader (*Ciba-Geigy*, at p. 133; *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, [1984] 1 S.C.R. 583, at p. 601, *per* Estey J.). In this respect, the trial judge's interpretation of this component was too narrow and not consistent with the jurisprudence of our Court or the modern

developments of the law of passing off. I will not comment on the third requirement, [page342] the proof of damages, which was not discussed in the present case.

**69** Under the modern law of passing off, a passing-off action by the appellant was bound to fail. It would not have been able to meet the first condition of the action, namely that there be goodwill in respect of the distinctiveness of the product. The alleged distinctiveness of the product consisted precisely of the process and techniques which were now common to the trade. Again, Kirkbi could not overcome another form of the functionality problem. Granting such a claim in these circumstances would amount to recreating a monopoly contrary to basic policies of the laws and legal principles which inform the various forms of intellectual property in our legal system. The appellant is no longer entitled to protection against competition in respect of its product. It must now face the rigours of a free market and its process of creative destruction.

**70** For these reasons, I would dismiss the appeal with costs.

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