

Functionality, Fame and Goodwill: The Supreme Court of Canada has Finally Spoken*

In the last eight months, the Supreme Court of Canada released three important decisions on trade-mark law involving building blocks, barbie dolls, and bubbly. This is significant considering that there has been a virtual decade of drought on trade-mark law at the highest court in Canada.

While each case involved different facts and issues, one similarity exists: the result. In each case, the trade-mark owners did not prevail.

In *Kirkbi AG and Lego Canada Inc. v. Ritvik Holdings Inc./Gestions Ritvik Inc. (now operating as Mega Bloks Inc.)*¹ the Supreme Court of Canada held that the Mega Bloks' interlocking toy bricks did not infringe the Danish toy giant Lego's distinctive construction toys. The Court based its decision on the "doctrine of functionality" to hold that Lego did not have trade-mark rights.

In two companion cases, *Mattel, Inc. v. 3894207 Canada Inc.*² and *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltd.*³, the Supreme Court had the opportunity to clarify the stature of famous trade-marks and the issue of confusion in Canada.

In addition to the issue of fame and confusion, the Supreme Court, in the *Veuve Clicquot* case, commented on the anti-dilution remedy, called depreciation of goodwill in Canada (s. 22 of the Trade-marks Act⁴), an area which has "received surprisingly little judicial attention" unlike in other jurisdictions such as the United States.

What follows is a summary of the Supreme Court's decisions and the current state of Canadian trade-mark law on the issues of functionality, fame and depreciation of goodwill.

I. FUNCTIONALITY – The Lego Decision

Was Lego trying to extend its monopoly over its building blocks, following the expiry of its patent? Or, was Lego's building blocks distinctive and entitled to trade-mark protection? The Supreme Court, in an unanimous decision, dismissed Lego's claim to trade-mark protection in the look of its toy building blocks.

a. Lower Court Decisions

Lego asserted unregistered trade-mark rights in the so-called "Lego Indicia", namely the trade dress of the connecting knobs of its interlocking building blocks. The assertion of trade-mark protection followed the expiry in 1988 of the last Canadian patent covering Lego's basic toy building block. Lego had enjoyed a monopoly on its toy building blocks since it first began sales in Canada because of its patents. Facing new competition and deprived of patent protection, Lego sought trade-mark protection in the building blocks. In late 1996, Lego filed a trade-mark application for the "Lego Indicia". The Registrar of Trade-marks was not convinced and rejected Lego's application.

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With Lego's building blocks seemingly in the public domain after the last patent expired, Canadian toy manufacturer, Mega Bloks, began making and selling similar building blocks using the same locking method. The day after Lego filed its application to register the "Lego Indicia", it sued Mega Bloks for passing off, alleging that Mega Bloks' use of the unregistered trade-mark was causing confusion in the Canadian marketplace.

Mega Bloks prevailed at both the trial level and in the Federal Court of Appeal. Both levels of court dismissed Lego's action on the basis that the Lego Indicia was precluded from trade-mark protection because it consisted of purely functional features. Moreover, both level of courts held that the doctrine of functionality applied to all trade-marks, whether registered or unregistered, and that this was a complete defence to Lego's action for passing off. Interestingly, the trial judge had found that Lego did have goodwill in the Lego Indicia and that there was confusion in the marketplace, the two main elements of a passing off case. However, both the trial judge and the Court of Appeal held that the use of purely functional features of a product could not amount to passing off.

b. Supreme Court of Canada Decision

In an unanimous decision, the Supreme Court of Canada dismissed Lego's appeal. The Supreme Court foreshadows its decision by opening its discussion on passing-off as follows:

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.⁵

The decision highlights the rationale for patent protection versus trade-mark protection. Patents protect new products and processes. The focus is on the patented product or process. In the case of trade-mark protection, the focus shifts from the product itself to the distinctiveness of the mark. Trade-marks seek to indicate the source of a particular product, process or service in a distinctive manner. Ideally, a trade-mark will tell consumers what they are buying and from whom. In this case, the Court was faced with the question of whether the mark can be the product itself. The Court was of the view that "despite [a mark's] 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."⁶

In the end, the Court confirmed the applicability of the doctrine of functionality to both registered and unregistered trade-marks in Canada, recognizing the consistency of such an approach with other jurisdictions. The Court cites Europe and the United States as examples where the doctrine is applied to deny trade-mark rights.⁷

The Supreme Court agreed with the lower courts in finding that 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 Lego's patents".⁸ Because of the finding, the Court held that Lego could

not have rights in the Lego Indicia. Unable to surpass the functionality hurdle, passing off was not in issue despite the findings of goodwill and confusion.

This decision continues the Supreme Court of Canada's approach to intellectual property law generally, which appears to be balancing between the monopoly rights created by intellectual property laws and free competition. This is echoed in the last paragraph of the decision:

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.⁹

The Supreme Court was also asked to consider whether s. 7(b) of the *Trade-marks Act*, which creates the statutory passing off action, is constitutional. There has been some debate that passing off is a common law right of action solely within the jurisdiction of the provinces (the *Trade-marks Act* is Federal legislation). The Court confirmed that s. 7(b) was valid because it served to round out the regulatory scheme in the rest of the *Trade-marks Act*.

II. FAME and CONFUSION – The Mattel and Veuve Clicquot Decisions

Does confusion necessarily follow from fame? As with the Lego case, the trade-mark owners in the Mattel and Veuve Clicquot cases did not prevail in the Supreme Court. In both cases, the fame of the trade-marks BARBIE and VEUVE CLICQUOT, was, but one factor, considered by the Court. The fame of a mark did not, in and of itself, trump all other relevant considerations. The Supreme Court reverted back to first principles in assessing the issue of confusion in Canadian trade-mark law, whether or not a trade-mark is famous.

a. The Mattel Decision

Lower Court Decisions

The genesis of this case goes back to a decision of the Trade-marks Opposition Board¹⁰ allowing the application to register the trade-mark BARBIE'S & Design in connection with "restaurant services, take out services, catering services". Mattel, the owner of the registered trade-mark for BARBIE in association with dolls and doll accessories, had opposed the application on the grounds that the use of BARBIE'S would likely create confusion in the marketplace. In particular, Mattel argued that the fame of the BARBIE trade-mark transcended dolls and doll accessories and covered other wares and services, including restaurant and take-out services. Accordingly, Mattel argued that the use of BARBIE'S was likely to cause confusion even if Mattel had not used the BARBIE mark on wares or services similar to those of the applicant.

Mattel was unsuccessful before the Opposition Board, on appeal to the Federal Court¹¹ and Federal Court of Appeal¹².

The Opposition Board did not accept Mattel's submission that there was a real connection between restaurant services and dolls, and therefore held that there was no likelihood of confusion.

The Federal Court rejected Mattel's argument that it could be automatically presumed that there would be a likelihood of confusion on the sole ground that Mattel's BARBIE trade-mark was famous. The Federal Court reverted to the test of "a reasonable likelihood of confusion", noting that the fame of a mark "could not act as a marketing trump card such that the other factors are thereby obliterated." The Federal Court of Appeal agreed with the trial judge that more had to be considered in addition to the fame of a trade-mark.

The Supreme Court of Canada

Mattel argued that its BARBIE trade-mark was famous in Canada and worldwide, thereby instantly evoking the image of the brand in the minds of the consumers, even when the mark is used on wares or services different from dolls and doll accessories. With such fame, marks such as BARBIE may not now be used in Canada on most consumer wares and services without the average consumer being led to infer the existence of a trade connection with the owners of these famous brands. The International Trademark Association intervened in the Supreme Court and supported Mattel's argument.

The Supreme Court, however, would have none of it and reviewed in detail the factors to be considered when assessing the likelihood of confusion. The Supreme Court reminded us that trade-mark confusion is defined in s. 6(2) and arises if it is likely in all the surrounding circumstances that the prospective purchaser (a casual consumer who is in somewhat of a hurry) will be led to the mistaken inference "that the wares or services associated with those trade-marks are manufactured, sold, leased, hired or performed by the same person, whether or not the wares or services are of the same general class."

The definition for confusion does not mean that the fame of a trade-mark is irrelevant, but rather, is not controlling because it is only one factor to be considered. Section 6(5) of the *Trade-marks Act* sets out the non-exhaustive circumstances to consider:

- a) the inherent distinctiveness of the trade-marks or trade-names and the extent to which they have become known (that is, fame);
- b) the length of time the trade-marks or trade-names have been in use;
- c) the nature of the wares, services or business;
- d) the nature of the trade; and
- e) the degree of resemblance between the trade-marks or trade-names in appearance or sound or in the ideas suggested by them.

The Supreme Court emphasized that this list of circumstances was not exhaustive and that different circumstances would be given different weight in a context-specific assessment.

Applying the s. 6(5) factors to the case, the Supreme Court held that the Board's decision was reasonable. In particular, the Court held that the differences in the wares and services, and in the

channels of trade, were so pronounced that there was no likelihood that the average consumer would infer that BARBIE'S restaurant services were somehow connected with BARBIE dolls.

In *Mattel*, the Court also commented on the admissibility of survey evidence. *Mattel* sought leave to file, as fresh evidence, a survey which asked the question: "do you believe that the company that makes BARBIE dolls might have anything to do with this sign or logo"? The Court held that the question addressed the wholly different issue of possibilities, rather than probability, of confusion. Therefore, the Court excluded the survey on the ground that it was not responsive to the point at issue, namely, the likelihood of confusion.

b. The Veuve Clicquot Decision

In *Veuve Clicquot*, the famous champagne manufacturer sued a small chain of clothing retailers that had been operating under the names CLIQUOT and LES BOUTIQUES CLIQUOT. *Veuve Clicquot* commenced an action for trade-mark infringement based on its registration for VEUVE CLICQUOT. *Veuve* failed at both the trial and appeal levels.

At trial, the trial judge acknowledged that, for confusion to occur, it was not at all necessary that the wares belong to the same generally category. However, she noted that there was no connection between the plaintiff's products and those of the defendants. The fact of being well known, according to the trial judge, does not by itself provide absolute protection for a trade-mark. The Federal Court of Appeal upheld the decision of the trial judge.

The Supreme Court echoed the sentiments in *Mattel* on the issue of fame, namely, that the fact of being famous or well known does not by itself provide absolute protection for a trade-mark. Instead, it is but one factor which must be assessed together with all the others. As to the test for a likelihood of confusion, the Supreme Court returned to first principles, and looked at the non-exhaustive factors listed in s. 6(5) of the *Act*, from the perspective of the somewhat-hurried consumer.

The message for trade-mark owners is clear: fame does not trump the other relevant factors on the issue of confusion. Confusion does not automatically arise from fame alone.

III. FAME and DEPRECIATION OF GOODWILL

In addition to the issue of fame and confusion, the Supreme Court of Canada took the opportunity in the *Veuve Clicquot* case to review s. 22 of the *Trade-marks Act*, otherwise known as "depreciation of goodwill." There had been very little judicial attention on s. 22 of the *Trade-marks Act* until this case.

Section 22 of the *Trade-marks Act* states that "No person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto".¹³ It is, in essence, the Canadian equivalent of the anti-dilution remedy.

Importantly, s. 22 has nothing to do with confusion. The Supreme Court noted that:

the appellant need only show that the respondents have made use of marks sufficiently similar to VEUVE CLICQUOT to evoke in a relevant universe of consumers a mental association of the two marks that is likely to depreciate the value of the goodwill attaching to the appellant's mark.¹⁴

The Court identified four factors that must be established under s. 22 before a plaintiff can succeed:

1. The plaintiff's registered trade-mark has been used by the defendant in connection with wares or services, regardless of whether such wares and services are competitive with those of the plaintiff.
2. The plaintiff's registered trade-mark is sufficiently well known to have significant goodwill attaching to it. Section 22 does not require the mark to be well known or famous (in contrast to the analogous European and U.S. laws), but a defendant cannot depreciate the value of goodwill that does not exist.
3. The plaintiff's mark was used in a manner likely to have an effect on that goodwill, i.e. there must be a likelihood that consumers have a "mental association" or "linkage" between the parties' marks.
4. The likely effect would be to depreciate the value of its goodwill (i.e. damages).

Also of note is the fact that s. 22 applies only to registered trade-marks.

Use

With respect to the issue of the "use" of the mark, the Court held that it was critical that there be a "link, connection or mental association in the consumer's mind between the respondents' display and the VEUVE CLICQUOT mark".¹⁵ It was not fatal that the marks were not identical (in Veuve Clicquot, the respondents used the word "Cliquot" and not "Clicquot"). But the Court was not convinced that a link or connection existed on the facts of that case.

Proof of Goodwill

On the issue of "goodwill", the Court noted that, unlike anti-dilution laws in the United States¹⁶, the registered trade-mark need not necessarily be famous. Instead, a court should take into consideration factors such as:

- the degree of recognition of the mark within the relevant universe of consumers;
- the volume of sales and the depth of market penetration of products associated with the mark;
- the extent and duration of advertising and publicity accorded to the mark;
- the geographic reach of the mark;
- its degree of inherent or acquired distinctiveness;
- whether products associated with the mark are confined to a narrow or specialized channel or trade, or move in multiple channels; and
- the extent to which the mark is identified with a particular quality.

The Court found that there was considerable goodwill attached to the VEUVE CLICQUOT mark that extended beyond just wine and champagne.

The Likely Connection Made by Consumers Between the Claimant's Goodwill and the Defendant's Use

The Court held that “likelihood” was a matter of evidence not speculation. There was no evidence before the Court to establish a “link” or “connection” in consumers' minds between the name of the respondents' store and VEUVE CLICQUOT.

Likelihood of Depreciation of Goodwill

On this element, the Court canvassed a number of U.S. authorities¹⁷ on disparagement or tarnishing, highlighting the fact that s. 22 was not necessarily limited to the notions of blurring and tarnishment. On the evidence in the case, the Court did not find any such likelihood, noting that “[a]cceptance of the argument that depreciation *could* occur, is not acceptance of the assertion that on the facts of this case depreciation is *likely* to occur, still less that depreciation *did* occur”.¹⁸ In other words, Veuve Clicquot had not met evidentiary burden to show that depreciation of good will was likely as opposed to possible.

The failure of Veuve Clicquot's claim for depreciation of goodwill is a good reminder of the importance of presenting valid evidence demonstrating a linkage in order to succeed with a s. 22 claim.

IV. CONCLUSION

In *Lego*, *Mattel* and *Veuve Clicquot*, the Supreme Court of Canada took the opportunity to reinforce and revisit the following principles in trade-mark law: the doctrine of functionality applies to both registered and unregistered trade-marks; the fame of a trade-mark is but one factor to consider in assessing confusion; and there must be “linkage” or a “connection” in order to succeed in a claim for depreciation of goodwill. As well, Canadian courts are prepared to place limits on trade-mark rights to ensure a balance with free competition. There is no doubt that a new crop of cases will sprout from the application of these principles, further defining the landscape of trade-mark law in Canada.

¹ [2005] 3 S.C.R. 302 (S.C.C.)

² 2006 SCC 22 (S.C.C.)

³ 2006 SCC 23 (S.C.C.)

⁴ R.S.C. 1985, c.T-13 (the “*Trade-marks Act*”).

⁵ *Supra* note 1, para. 37

⁶ *Supra* note 1, paras. 38-39

⁷ The Supreme Court of Canada cites, at paragraphs 48 and 49, the following examples: *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; *Koninklijke Philips Electronics NV v. Remington Consumer Products Ltd.*, C-299/99, [2002] E.C.R. I-5475, at para. 79

⁸ *Supra* note 1, para. 41

⁹ *Supra* note 1, para. 69

¹⁰ (2002), 23 C.P.R. (4th) 395

¹¹ (2004), 248 F.T.R. 228 (FC)

¹² (2005), 329 N.R. 259 (FCA)

¹³ *Supra* note 4, s. 22

¹⁴ *Supra* note 3, para. 38

¹⁵ *Supra* note 3, para. 49

¹⁶ *Supra* note 3, para. 53

¹⁷ *Supra* note 3, paras. 64 to 67. See for example: *Playboy Enterprises, Inc. v. Welles*, 279 F.3d 796, at para. 16; *Tiffany & Co. v. Boston Club, Inc.*, 231 F.Supp. 836 (D. Mass. 1964), at p. 844; *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830 (7th Cir. 1963); *Exxon Corp. v. Exxon Corp.*, 696 F.2d 544 (7th Cir. 1982), at p. 550; *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, (2d Cir. 1979), at p. 203; *Edgar Rice Burroughs, Inc. v. Manns Theatres*, 195 U.S.P.Q. 159 (C.D. Cal. 1976); *Mattel Inc. v. Jcom Inc.*, 48 U.S.P.Q.2d 1467 (S.D. N.Y. 1998); *Toys 'R' Us., Inc. v. Akkaoui*, 40 U.S.P.Q.2d 1836 (N.D. Cal. 1996); *Anheuser-Busch, Inc. v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996)

¹⁸ *Supra* note 3, para. 67