



No Substitutions - The Supreme Court of Canada Places Limits on the Scope of Intellectual Property Rights

Introduction

One of the most interesting aspects of intellectual property law is identifying categories of IP rights which may overlap. This inquiry is typically undertaken in order to enhance a person's competitive edge, as more than one category may apply to a logo, product, work, invention or design.

Balanced against this self-interest, is the need to avoid placing unfair limits on competition which has the potential for stunting the development of art or industry in Canada. This balance is recognized, for example, in the Canadian Trade-marks Act which allows for the registration of distinguishing guise trade-marks. These are defined as a shaping of wares or their containers used by a person for the purpose of distinguishing wares or services. The Act also provides that the registration of a distinguishing guise may be expunged by the Federal Court of Canada, if the Court decides that the registration has become likely to unreasonably limit the development of any art or industry.

The interplay between the Canadian Copyright Act and Industrial Design Act is another good example, in that artistic features applied to useful articles of manufacture, which would otherwise qualify as artistic works and be eligible for long term copyright protection, are removed from the Copyright Act and placed within the purview of the Industrial Design Act. This requires registration of such artistic features as industrial designs, limited to non-renewable ten year protection.

The Patent Act provides a means for inventions to be disclosed to the public in order to advance the general state of the technical arts, while granting a time limited monopoly to the owner of the invention to exploit and reap the economic benefits associated with the issuance of a patent.

One can therefore readily observe the undercurrents of public interest flowing in tandem with endeavours which are protected and encouraged by the legal mechanisms available to assert and shelter various categories of intellectual property rights.

In particular, some of these mechanisms provide longer term protection than others. For example, a trade-mark registration is renewable for indefinite periods. Copyright protection may be asserted fifty years after the death of the author of a work, or that of the last surviving co-author. On the other hand, the life span of patents and industrial designs are generally subject to more stringent time limitations. In some instances, copyright has been used in an attempt to protect against the importation and sale of grey market goods where trademark protection is not available.

It is a delicate task to strike an appropriate balance between the availability of remedial relief to a person whose intellectual property rights have been infringed and identifying those cases where those very same rights are asserted abusively.

The Supreme Court of Canada has shown that it is willing to take on this task when it comes to limiting the potential for abuse of intellectual property rights, especially where a party is in reality seeking to cross-pollinate those rights in an abusive manner or in an attempt to circumvent jurisprudence which is unfavourable to its cause.

Two cases of recent interest, one of which has been decided by the Supreme Court and another which has been heard, are respectively *Kirkbi AG v. Ritvik Holdings Inc.* and *Euro-Excellence Inc. v. KCI Canada Inc., et al.*

Kirkbi AG v. Ritvik Holdings Inc.

In *Kirkbi*, the Supreme Court ruled that one cannot engage trademarks law and institute a passing off action in an attempt to indefinitely extend patent protection for aspects of a product or device which are primarily functional.

The plaintiff held patents for LEGO construction sets. When the patents expired, Ritvik began manufacturing and selling bricks interchangeable with LEGO. Kirkbi attempted to block this attempt by engaging Canadian trademarks law, arguing that the upper surface of the LEGO block with eight studs

distributed in a regular geometric pattern constituted a form of trade dress distinguishing its product from all others.

In Kirkbi's view, the actions of the defendant in reproducing these features, which had been claimed under the now expired patent, constituted passing off under section 7(b) of the Canadian Trade-marks Act. Section 7(b) provides that no person shall direct attention to his wares, services or business in such a way as to cause or be likely to cause confusion. Kirkbi also alleged that its rights had been violated under the common law doctrine of passing off. Kirkbi's claims included a request for a permanent injunction seeking to prevent the sale of the competing interchangeable blocks.

Kirkbi sued in the Federal Court of Canada but was unsuccessful in this attempt at both the trial and appellate divisions. It appealed to the Supreme Court of Canada which dismissed the appeal on the following basis:

The Supreme Court acknowledged that intellectual property law is going through a period of major and rapid changes challenging the boundaries of its classifications and settled doctrines. The Court went on to state that the economic value of such rights provides an incentive and impetus for the owners of intellectual property rights to attempt to expand the boundaries of such rights and seek continuing protection.

The Court examined the nature and function of patents and trademarks and asked the question of whether a trademark can be the product itself. The Court also asked whether an affirmative answer to these questions is consistent with the nature of trademarks and the underlying policies which structure intellectual property law.

The Court found that once the patent of the LEGO brand building blocks had expired, the monopoly to the wares themselves was over, even though the LEGO name was protected. The trade dress associated with the physical features of the products consisted solely of technical or functional characteristics, formerly protected by the now expired patents. The Court noted that Kirkbi was unable to obtain registered trade-mark protection for these indicia but alleged, in its claim for passing off, that the particular look of its product extended to the disposition and characteristics of the studs on the top of each LEGO brick.

Both the trial and appellate divisions of the Federal Court rejected Kirkbi's claim ruling that the LEGO indicia and the asserted unregistered trademark were purely functional. The Supreme Court acknowledged that the doctrine of functionality is a logical principle of trademarks law noting that the purpose of trademarks law is to protect the

distinctiveness of a product, not to provide a monopoly on the product itself. In other words, trademarks law is not intended to prevent the competitive use of utilitarian features of a product, in that its purpose is to fulfill a "source-distinguishing" function.

The Supreme Court upheld the principle that a distinguishing guise which seeks to extend to the functional aspects of a product is invalid and unenforceable as it transgresses the legitimate bounds of a trademark. The Court reiterated the primary concern to avoid overextending monopoly rights on the products themselves and impeding competition in respect of wares sharing the same technical characteristics. The Court held that this applies to both registered and unregistered trademarks.

In the Supreme Court's view, Kirkbi was complaining about the existence of competition based on a product which had become part of the public domain. The monopoly on the functional aspects of the bricks being over, those same aspects could not be protected indefinitely through the engagement of another category of intellectual property.

The Court further held that under the modern law of passing off, Kirkbi would not have been able to meet the first condition, namely the existence of protectable goodwill in respect of the distinctiveness of the product. The Court found that the alleged distinctiveness of the products consisted precisely of the process and techniques which were common to the trade.

It will be interesting to see whether the Supreme Court continues along this road by placing further limits on intellectual property protection in addressing attempts to overextend cross pollination between the various intellectual property categories.

In particular, the Supreme Court has heard arguments, and judgement is now pending, in *Euro-Excellence Inc. v. Kraft Canada Inc., et al.*

Euro-Excellence Inc. v. Kraft Canada Inc., et al.

This case addresses the issue of grey market goods which have been legitimately marketed in a foreign market, but whose presence in Canada is alleged to infringe copyright. Kraft Canada Inc. (KCI) holds an exclusive license for the production, reproduction and distribution in Canada of copyright in artistic works entitled "Côte d'Or Elephant" and "Toblerone Bear Within the Mountain".

The issue is whether KCI may, under subsection 27(2) of the Copyright Act, compel Euro- Excellence Inc. to cover over

the artistic works which are reproduced on the wrappers of the Côte d'Or and Toblerone products sold by Euro-Excellence in Canada. Euro-Excellence imports those products from an unnamed source and unnamed European country and distributes them in Canada. The products at issue are genuine.

KCI has not sought to prevent Euro-Excellence from continuing its importation and distribution of legitimate grey market goods, but submits that Euro-Excellence must respect KCI's copyright in the packaging. KCI has not taken issue with the products sold but rather with the illustrations appearing on the wrappers of those products.

KCI claims that Euro-Excellence Inc. has piggybacked on its advertising which gives it a market advantage, detracts from the first class nature of the product and which does not comply with all relevant Canadian packaging and labelling legislation and regulations.

The Trial Division of the Federal Court required Euro-Excellence to cover over the art work on its packaging prior to selling, distributing, disposing or offering for sale Côte d'Or and Toblerone confectionary products and to pay a certain sum in proportion to the profits it made on the sale of those grey market goods.

The Federal Court of Appeal upheld the trial level decision and ruled that KCI was entitled to have Euro-Excellence over-label the artistic works which had been registered in Canada under the Canadian Copyright Act and under which KCI was solely and exclusively licensed.

The Federal Court of Appeal found that Euro-Excellence violated subsection 27(2) of the Copyright Act which deals with secondary infringement of copyright. Under this section, a defendant may be in fact be deemed to have infringed copyright even if he or she has not personally produced or reproduced the work. Under the terms of this subsection, it is an infringement of copyright for any person to import into Canada for the purpose of selling, distributing or by way of trade distributing, exposing or offering for sale, or exhibiting in public, a copy of a work that the person knows or should have known infringes copyright, or would infringe copyright, if it had been made in Canada by the person who made it.

KCI established secondary infringement of copyright in relation to the imported products, by proving that it has the sole and exclusive right to use the copyright in question in Canada and that the copies imported by Euro-Excellence were not produced by the Plaintiffs.

The Federal Court of Appeal held that notwithstanding the grey market goods at issue appear to have been reproduced in Europe by the copyright owner/licensor, or under a European license, the importation of the works in the circumstances described under paragraph 27(2) of the Copyright Act constitutes secondary infringement. The basis for this is that the imported products would be an infringement if the copies had been made in Canada by the person who made them.

Since the reproductions of protected works made outside Canada may not be imported into Canada for the purpose of doing anything referred to in section 27(2) of the Copyright Act, and because KCI had an exclusive right of reproduction for Canada even as against the copyright owners, a fact which was known to Euro-Excellence, the Federal Court of Appeal ruled that there had been secondary infringement of KCI's copyright by Euro-Excellence.

Appeal to The Supreme Court of Canada

The Kraft decision was appealed to the Supreme Court of Canada. During the oral hearing the Court provided some insight into how it may decide the matter consistent with the principles laid down in Kirkbi. In particular, the Court questioned the lawyer for KCI at length asking whether "you really want us to believe that you want to protect an artistic work" and whether KCI thought that people purchased Toblerone because of the pictures of a mountain on the package.

This is some indication the Court may take the position that KCI is attempting to do through copyright which it is unable to do through trademarks law, given the jurisprudence which does not prevent the parallel importation of grey market goods. In Kirkbi, the Court was adamant in refusing to substitute one category of IP rights for another and there are some indications, based on the line of questioning from the bench, that the attempt by KCI to interfere with the legitimate parallel importation of grey market goods will not be tolerated and seen as an abusive substitution of one form of intellectual property for another.

These trends seem to follow the Supreme Court's general approach in balancing intellectual property rights and preventing private interests from over-reaching to extend those rights beyond their legitimate boundaries. This is also consistent with the recent decisions of the Court involving Mattel's Barbie trade-mark and champagne maker Veuve Cliquot. In those cases the Court refused to extend trade-mark rights, even for famous marks and names, to completely unrelated businesses and adopted a balanced

approach noting the importance of protecting intellectual property rights, while at the same time acknowledging the need to limit such protection in appropriate circumstances in order to prevent the abuse of such rights.

It will be interesting to see whether the Court holds to these principles in Kraft.

This update is intended to provide general comment only and should not be relied upon as legal advice.

For more information, additional copies or changes of address, contact:

Allen D. Israel

(514) 925-6365

allen.israel@lapointerosenstein.com