



“We wrote the book.”

**Bob Barrigar’s book on Canadian patent law
is an authoritative guide.**

Newsletter: October 2007

In this issue: CANADA: PASSING OFF (PALMING OFF)

Summary:

In Canada, a passing-off action can be based on the common law or on §7 of the *Trade-marks Act*, or in Quebec, on the Quebec Civil Code. The §7 statutory action is narrower in scope than the common-law action, but will support an action in the Federal Court, which court will usually grant a Canada-wide injunction to a successful plaintiff. A critical difference between the two actions is that the plaintiff in the §7 action must have a valid and enforceable trade-mark, within the meaning of the Canadian *Trade-marks Act*, whether registered or unregistered (in the former case the passing-off cause of action would typically complement a trademark infringement action).

An article published in the 15 September 2007 Bulletin of the International Trademark Association (INTA) suggested that this requirement for supporting a §7 passing-off action, as recently applied in the *BMW Canada* case discussed below, represents a departure from long-standing Canadian case law. We respectfully disagree; the *BMW Canada* case is in our view solidly in conformity with earlier case law. Our reasons are given below at some length, as well as a discussion of some of the other points of interest in the case.

Please note that the common-law passing-off action does not require as a prerequisite that the plaintiff have used a trademark in Canada. The common-law action may be based on reputation and goodwill acquired by the plaintiff through other means, such as use in Canada of a trade name, domain name, trade dress, advertising, and the like, as well as by having established goodwill by use of a trademark.

Detailed Discussion:

The 12 July 2007 decision of the Canadian Federal Court of Appeal in *BMW Canada Inc. v. Nissan Canada Inc.* (2007 FCA 255), has been characterized as “a clear departure from earlier, longstanding case law”, apparently due to: the purported imposition of a “new” requirement for a passing-off action, (*i.e.*, that the plaintiff has used its trademark as defined under Canada’s *Trade-marks Act*); and a holding that the trial judge erred in finding that damages could be presumed in a passing-off action once the existence of goodwill and the deception of the public as a result of a misrepresentation were established. However, it is in our view incorrect to characterize the decision as a departure from established case law; the Court of Appeal’s decision is instructive with respect to how a passing-off action should be framed and how a trial should be conducted, but it does not alter any substantive aspect of the law in Canada with respect to passing off.

In 2005, BMW Canada Inc. (BMW) commenced an action against Nissan Canada Inc. (Nissan) claiming, among other things, that Nissan’s use of M and M6 amounted to passing off of BMW’s registered

M3, M5 and M & Design trademarks, and unregistered M and M6 marks, contrary to §7(b) of the *Trade-marks Act*. The trial judge allowed BMW's § 7(b) passing-off claim. On appeal, Nissan alleged that the evidence did not support a finding of liability under paragraph §7(b) for Nissan's use of the M and M6 marks in relation to automobiles and their parts.

Canada has both a common-law tort of passing off (derived from English jurisprudence) and a passing-off cause of action statutorily codified in §7(b) of the *Trade-marks Act*. The necessary components of the common-law passing off are well established, being, as stated in *BMW Canada Inc. v. Nissan Canada Inc.*: "(a) the existence of goodwill; (b) deception of the public due to a misrepresentation; and (c) actual or potential damage to the plaintiff."

§7(b) of the *Trade-marks Act*. reads:

7. No person shall

...

(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 commenced so to direct attention to them, between his wares, services or business and the wares, services or business of another;

Although, on its face, §7(b) appears to be sufficiently broad to encompass the common-law tort of passing off, §7(b) has essentially been read down to conform to the division of powers under Canada's federal system of government. Trademarks, though not referred to in Canada's written constitution, have been determined to be within the exclusive powers of the national government, but the provinces have exclusive powers over "property and civil rights" in each province, resulting in potential conflict between these "exclusive powers". Twenty years ago, the Federal Court of Appeal in *Asbjorn Horgard A/S v. Gibbs/Nortac Industries Ltd.*, [1987] 3 F.C. 544 (F.C.A.), determined that §7(b) was within the legislative authority of the national government because it fitted into the overall trade-marks scheme. Following this reasoning, in *Kirkbi AG v. Ritvik Holdings Inc.*, [2004] 2 F.C.R. 241 at page 245, (2003) FCA 297, aff'd [2005] 3 S.C.R. 302, the Federal Court of Appeal stated:

Paragraph 7(b) is the equivalent statutory expression of the common law tort of passing off, with one exception: in order to use paragraph 7(b) a person must prove that they have a valid and enforceable trade-mark, whether registered or unregistered. The thing that distinguishes the common law action of passing-off from a passing-off action under paragraph 7(b) of the Act is that in the common law action a litigant need not rely on a trade-mark to make use of the action. To bring a passing-off action under the Act, one must have a valid trade-mark within the meaning of the Act.

The Court of Appeal applied this standard in *BMW Canada Inc. v. Nissan Canada Inc.*, and determined that BMW had failed to establish "use" of the M and M6 marks, as defined in the *Act*, and thus BMW did not have valid and enforceable trade-marks in M and M6. As BMW had not pled the common law tort of passing off, this finding was determinative of the issue of passing off as it had been framed in this case, i.e. under §7(b).

The Court of Appeal also held that the trial judge erred in finding that damages could be presumed in a passing-off action once the existence of goodwill and the deception of the public as a result of a misrepresentation were established. At trial, under a bifurcation order, the issues of liability were severed from the issues of extent of damages and accounting of profits. The trial judge was satisfied that the first two requirements were met and apparently accepted the respondent's argument that, once the first two elements

are shown to exist, damages may be presumed. However, the Federal Court of Appeal held that, "Actual or potential damage is a necessary element in finding liability under paragraph 7(b). In the absence of evidence in this regard, the Court cannot conclude that there is liability." and "A bifurcation order does not relieve the appellant from the necessity of proving the existence of damage as an element of his cause of action. It simply defers proof of the extent of the damage pending a determination as to the respondents liability."

Thus, *BMW Canada Inc. v. Nissan Canada Inc.* is instructive with respect to how a passing-off action should be framed (presumably, in most cases, a plaintiff will want to plead both §7(b) and the common-law tort to support a claim). The case also serves as a reminder of the necessity to prove all elements of a cause of action in order to establish liability. But the case does not alter the substantive law respecting passing off, as set out in the Federal Court of Appeal's 2003 decision in *Kirkbi AG v. Ritvik Holdings Inc.*, in any material respect.



**BARRISTERS AND SOLICITORS
REGISTERED PATENT AGENTS**

**Suite 2000
777 Hornby Street
Vancouver, BC V6Z 1S4
Telephone: (604) 689-9255
Telefax: (604) 689-9265
email@barrigar.com**

**Suite 201
1007 Fort Street
Victoria, BC V8V 3K5
Telephone: (250) 389-0387
Telefax: (250) 389-2659
www.barrigar.com**

The practice of Barrigar Intellectual Property Law is restricted to intellectual property law and related litigation. The firm is led by Bob Barrigar, whose book on Canadian Patent Law is authoritative, and whose practice includes litigation as well as counselling; and patent, trademark, copyright and industrial design application preparation and prosecution. Our outstanding team of professionals is capable of assisting your clients in obtaining intellectual property protection or assisting in the resolution of disputes in any area of technology or intellectual property law.