

DOCTRINE OF FUNCTIONALITY APPLIES TO UNREGISTERED TRADE-MARKS, FEDERAL COURT OF APPEAL RULES

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A recent decision of the Federal Court of Appeal held that the doctrine of functionality applies to unregistered trade-marks and went on to dismiss the Applicant's passing-off action on the basis that its LEGO indicia trade-mark was not valid under the doctrine of functionality because it is primarily functional. (*Kirkbi AG and Lego Canada Inc. vs. Ritvik Holdings Inc./Gestions Ritvik Inc.* A-395-02, July 14th, 2003, Sexton, J.A.).

The Facts

The Appellants

The Appellant, KIRKBI AG with a head office in Switzerland, is a holding company whose business is the management of assets, including trade-marks. It was a plaintiff in the trial action along with co-Appellant, LEGO Canada Inc., incorporated in May 1988. Both these Appellants are members of the LEGO Group of Companies, a world-wide group of which KIRKBI AG and LEGO Canada Inc. are but two.

The Appellants (hereinafter "Lego") were owners of several patents around the world, including Canada, for toy building blocks which were described as self-locking bricks and sold under the LEGO brand. Lego had successfully extended their Canadian patent monopoly on the interlocking functions or systems for these construction bricks for about 50 years until the last LEGO patent, issued in 1971, expired in 1988. Upon expiration of this patent, LEGO attempted to acquire intellectual property protection through the guise of a trade-mark referred to as the "LEGO indicia trade-mark" (hereinafter "LEGO indicia").

As cited from the decision, "the "LEGO Indicia trade-mark" is usually described as the upper surface of the LEGO toy building block, having eight (8) protuberances or studs on the surface. All or some of the knobs or studs of one LEGO piece may be connected to all or some part of the underside of another LEGO piece. The "clutch power" between connecting pieces is developed by the friction between the knobs on the one piece and the tubes and/or walls of the underside of the other piece. The studs of the upper surface of the LEGO brick have remained an unmodified prominent feature of all LEGO bricks since 1949. Since at least 1958, "LEGO" has been inscribed on the top surface of each stud. The studs and their pattern are widely featured in promotional materials used by LEGO Canada in Canada, including television advertisements, point-of-sale materials and packaging."

The Appellants asserted that this shaping of the knob configuration of their LEGO products constitutes a "distinguishing guise" and thus a trade-mark under the *Trade-marks Act*. It is on the basis of these alleged trade-mark rights that the Appellants filed their passing-off action against Ritvik. It is to be noted that the trade-mark at issue is not registered.

The Respondent

The Respondent, Ritvik Holdings Inc., is a company incorporated under the laws of Canada with its head office in St. Laurent, Quebec. Until its dissolution in 1998, it was Ritvik Toys Inc. who in 1991 began to manufacture and sell the MICRO line of MEGA BLOKS brand construction toys in Canada, aimed specifically at infants, said line being the subject matter of this case. Ritvik Holdings Inc. (hereinafter "Ritvik") assumed the formers assets and liabilities, including the liability in this action upon the dissolution of Ritvik Toys Inc.

Ritvik's toys are comprised of oversized bricks with each brick having cylindrical projections or knobs on one side which connect into the opposite side of another brick without clutch power. This line of building blocks now represents about one-half of Ritvik's world sales, and in 2001 Ritvik was the largest toy maker in Canada.

Decision of the Federal Court of Canada

The Trial Judge held that Lego had a proprietary interest in the LEGO indicia. However, the Court further concluded that the LEGO indicia was not a valid trade-mark under the *Trade-marks Act* since it is *primarily* functional in that it "is a functional element of the LEGO brand bricks, contributing to the "clutch

power" that could be said to be the essence of the LEGO building block system. All the features of the LEGO Indicia Mark are dictated by function, and the shape of the top surface of the LEGO basic brick is purely utilitarian."

Lego had argued that functionality in the scheme of the *Trade-marks Act* goes only to the issues of registrability and expungement under section 13 and that it was Parliament's intention to eliminate functionality as a bar to a mark constituting a "distinguishable guise". The Court rejected this argument citing the Federal Court of Appeal decision in *Remington Rand* (64 C.P.R. (3d) 467) and the long line of case authorities on which it is based.

Despite dismissing the action on the basis of functionality, the Court went on to address the rest of the issues in the case primarily dealing with the application of the facts to the test for passing-off.

The Appeal to the Federal Court of Canada

In the Court's view the case turned on the issue of the applicability and validity of the doctrine of functionality and could be disposed of on this topic alone; it found it unnecessary to comment on those parts of the reasons of the Trial Judge which dealt with other issues such as the elements required to succeed in a passing-off action. In effect, the appeal raised two questions:

1. Did the Trial Judge, in concluding that the LEGO Indicia were primarily functional, make a palpable and overriding error?
2. Can a mark which is primarily functional be a trade-mark within the meaning of the *Trade-marks Act*?

As to the standard of review, the Court held that the finding of whether the LEGO indicia are primarily functional is a question of fact and therefore reviewable on the basis of whether there is a palpable and overriding error but that the question of whether a trade-mark is valid when it is primarily functional is a question of law and therefore, the standard of review on that issue is that of correctness.

As to Lego's arguments, it was asserted that the LEGO Indicia is a "distinguishing guise" and thus a "trade-mark" as defined in section 2 of the *Trade-marks Act*. Lego also argued that the language of section 2 of the *Trade-marks Act* does not expressly or impliedly limit the definitions of "trade-mark" or "distinguishing guise" by reason of functionality and therefore, a "distinguishing guise" may have utilitarian features.

The Functionality Analysis

Lego argued that functionality has been eliminated as a factor from the analysis of trade-mark validity and the definition of a trade-mark under section 2 of the *Trade-marks Act* in that the consideration of functionality has now been shifted to the registration and expungement analysis under section 13 and is only important at that stage. The Court refused this line of reasoning and held that section 13 of the *Trade-marks Act* reinforces the concept that the doctrine of functionality invalidates a mark which is primarily functional.

The Court also stated that a historical analysis of the relevant case law supports the policy behind the doctrine of functionality (i.e. to avoid monopolies and obtaining patent protection through the guise of a trade-mark) and cited several cases such as *Consumers Distributing Company Limited v. Seiko Time Canada Ltd.*, (1984) 1 R.C.S. 583 (S.C.C.), *Thomas & Betts, Ltd. v. Panduit Corp. et al.* (2000), 4 C.P.R. (4th) 498 (F.C.A.), *Imperial Tobacco Co. v. Registrar of Trade Marks*, (1939) 2 D.L.R. 65 (Ex. Ct.), *Parke, Davis & Co. v. Empire Laboratories Ltd.* (1963), 41 C.P.R. 121 (Ex. Ct.); affirmed by (1964) S.C.R. 351 (S.C.C.) and *Elgin Handles Ltd. v. Welland Vale Manufacturing Co. Ltd.* (1964), 43 C.P.R. 20 (Ex. Ct.).

Lego further submitted that the policy underlying the functionality doctrine only applies to *registered* trade-marks and not to unregistered trade-marks, such as the LEGO indicia. The Court also rejected this argument by stating that the *Trade-marks Act* does not provide any different criteria for defining trade-marks, whether they be unregistered or registered. The Court further added that no reason had been suggested as to why the doctrine of functionality should apply to registered trade-marks in passing off actions under paragraph 7(b), but not to unregistered trade-marks in passing off actions under paragraph 7(b).

In reviewing the relevant doctrine, the Court also aptly held that at common law, an unregistered trade-mark owner had a monopoly and the right to exclusive use of his mark and that the passage of trade-mark legislation providing for registration did not eradicate the common law right attached to unregistered marks. Rather, it simply facilitated proof for the owner.

Functionality and the LEGO Indicia

In light of the above, the Court applied the doctrine of functionality and dismissed the appeal by concluding that the LEGO indicia is not a valid trade-mark, primarily because it is purely functional in nature save in respect of the

inscription "LEGO" on the top surface of each stud. The Court opined that Lego was attempting once again (as they had done in other cases heard in the United States and the U.K.) to extend the 50 year monopoly they once had over their construction bricks and that if they were to acquire a trade-mark for the LEGO indicia, they would be acquiring a patent-like monopoly even though their patent had expired.

It is worth noting that Justice Pelletier rendered a dissenting opinion which held that the doctrine of functionality did not deprive Lego's LEGO indicia of the status of a trade-mark and that it was capable of supporting a passing-off action under subsection 7(b) of the *Trade-marks Act*. He then went on to analyse the elements required for such an action so as to entitle Lego to some relief.

Conclusion

The Court of Appeal's decision sheds little light on the long-standing principle that the doctrine of functionality exists to prevent patent owners from extending their expired patent rights through the guise of a trade-mark. However, it appears to clarify any ambiguity which may have existed as to the applicability of this doctrine to both registered and unregistered trade-marks. Therefore, the owner of an unregistered trade-mark may prevail in a passing-off action insofar as it can demonstrate it is not primarily functional and therefore valid under the *Trade-marks Act*.

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