

## **LEGO BLOCKED**

The Supreme Court of Canada unanimously blocked the well-known toy manufacturer LEGO from asserting common law trade-mark rights in the shape of its famous toy bricks.

LEGO's first toy building blocks were produced in 1949 and since that time, generations of Canadian children have built everything from castles to space ships out of LEGO bricks - small plastic bricks held together by a geometrical pattern of interlocking studs and tubes.

Originally protected from competition by a series of patents, LEGO's last Canadian patent expired in 1988. Ritvik, a Montreal toy manufacturer, had begun manufacturing and marketing a line of large-size building blocks in the late 1980's. After the expiry of the last LEGO patent in Canada, Ritvik marketed a line of small bricks, which used the same geometrical pattern of studs on top coupled with tubes underneath and were identical in size to the LEGO bricks. Over the last decade, Ritvik became a significant global competitor to LEGO.

Confronted with serious competition and bereft of its patent protection, the Supreme Court found that LEGO "*employed a highly creative and aggressive use of the law of intellectual property and unfair competition*" in an effort to defend its market share.

What LEGO did was to assert unregistered trade-mark rights in the distinguishing guise of its brick, namely the geometrical pattern of raised studs on the top of the LEGO bricks ("the LEGO indicia"). It argued that the doctrine of functionality (a well-established principle of trade-mark law 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) does not apply to unregistered marks, on the ground that 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. It alleged that Ritvik's marketing of bricks using the same pattern of raised studs caused confusion with its unregistered mark and it claimed relief under both the common law of passing off and s. 7(b) of the *Trade-marks Act*.

Ritvik mounted a strong defence, denying passing off on the basis that the LEGO indicia was purely functional and therefore invalid as a trade-mark; accusing LEGO of attempting to extend the life and application of its expired patents through improper use of trade-mark law and, before the Supreme Court of Canada, challenging the constitutionality of s. 7(b) of the *Trade-marks Act*.

The SCC, upholding the decisions of both the Federal Court of Appeal and Trial Division, dismissed LEGO's appeal and held that although trade-marks, registered or not, share common legal attributes and grant exclusive rights to the use of a distinctive designation or guise, a purely functional design cannot be the basis of a trade-mark. Thus the Lego indicia, which embodied a purely utilitarian design, could not and did not function as a trade-mark. The SCC commented that the doctrine of functionality 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. The SCC noted that trade-mark law should not be used to perpetuate monopoly rights enjoyed under now-expired patents.

Since much of the discussion in the courts below turned on the tort of passing off, and the conditions to establish liability, the SCC reviewed the components of this tort and confirmed that the test was the tripartite classification from the **Ciba-Geigy** case: the existence of good-will; deception of the public due to a misrepresentation and actual or potential damage to the plaintiff. Applying this test to the LEGO indicia, the Court noted that evidence of good-will solely attached to the techniques and processes which create the product will not do: the law 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. (I note in passing that this finding may also end the debate over the source theory versus quality theory in Canadian trademark law.) Looking next at the element of misrepresentation, the SCC held that although misrepresentation may be wilful and may thus mean the same thing as deceit, passing off also covers negligent or careless misrepresentation. In so doing, the SCC indirectly reversed the Ontario Court of Appeal in the **Molson v. Oland Breweries Ltd.** case, which upheld a lower court finding that misrepresentation required a deliberate strategy on the part of the defendant, thereby incorporating an element of intent into the tort of passing off.

Lastly, following a comprehensive review of the constitutional basis for s. 7(b), the SCC found that this section, which creates a civil cause of action essentially codifying the common law tort of passing off, is *intra vires* Parliament.

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