

# *Display of a trade-mark on a passive U.S. web-site does not constitute an infringing use in Canada*

Par Me Pierre-Emmanuel Moyse

LEGER ROBIC RICHARD, *avocats*  
ROBIC, *agents de brevets et de marques de commerce*  
<http://www.robic.com>  
email : [moyse@robic.com](mailto:moyse@robic.com)

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## **Introduction**

On September 11, 2001, the Court of Appeal of Ontario reversed the Ontario Superior Court decision rendered June 30, 2000 in the case *Pro-C v. Computer City* [7 C.P.R. (4<sup>th</sup>) 193]. The appeal decision was awaited with great anticipation as the case touches upon several trade-mark and Internet issues. Justice Whitten, who spoke for the trial court, was extraordinarily vehement and reproachful towards the US Defendant, Computer City, and same was apparent throughout the nearly 40 page decision. In awarding punitive damages to the Plaintiff, Justice Whitten concluded that "*the misconduct of Computer City was malicious, oppressive and high handed and offended this court's sense of decency*". Such words are rarely found in Canadian court decisions in the area of trade-mark law.

The Court of Appeal decision, which quashed the trial judge's decision in an equally lashing style, reaffirms the law with respect to the proper meaning of "use" of a trade-mark. It clearly asserts the passive/active distinction in the characterisation of use when a trade-mark is displayed on the Internet. Use on a passive Internet web site is not a use which attracts the application of Canadian trademark law. It also reiterates that the onus of proving infringing use and damages belongs to the Plaintiff. In this case, the Court of Appeal is of the opinion that the Plaintiff did not relieve itself of its burden as it did not meet the threshold of evidence.

## **I. The facts**

In 1996, the Plaintiff launched its "Wingen" software, a *Microsoft Windows* and *Java* compatible software, which is used mostly by software specialists to generate source codes and which was to be promoted on-line through its web site. The Plaintiff accordingly registered the domain name "wingen.com" to support its on-line distribution and marketing the same year. In January 1998, *Pro-C* received an unexpected surge of e-mail inquiries which, according to the evidence introduced in court, exceeded the normal levels of operations of the Web site "wingen.com". The reasons for the traffic increase were to be found in the Defendant's use of the trade-mark "Wingen" for its new line of computer products. In 1997, a subsidiary of Tandy, an American-based multinational company, launched an in-house brand of personal computer. During the early stages of the commercialisation of this product, a trade-mark search conducted by the in-house attorney revealed the existence of the Plaintiff's 1993 registrations for the "Wingen" trade-mark in Canada and in the US. Despite these findings, the Defendant carried on with the marketing and distribution of the PC in the US.

The Defendant's "Wingen" line of computers was extensively advertised in various American daily newspapers, via the Internet and in the Defendant's US stores where the name "Wingen" appeared on the packaging of the Defendant's products and on commercial materials. There was no direct advertising originating in Canada nor sale of the "Wingen" line of products in the Canadian Computer

City outlets. The cost of cross-border shipping apparently prevented the Defendant from distributing the products in Canada.

## **II. The Trial decision**

### **A. The Jurisdictional Issue**

Like most cases with an Internet dimension, the court must address the issue of jurisdiction. In the present case, the Defendant alleged in its defence that its use of the trade-mark "Wingen" did fall within the jurisdiction of Canadian courts. While this issue was addressed by the trial court, it was surprisingly not dealt with by the Court of Appeal.

Notwithstanding the fact that the Plaintiff's claim relies solely upon a trade-mark infringement in Canada and that no advertising or physical in-store sales took place, the trial court skirted this issue by emphasizing the importance of the distribution and promotion of the trademarked goods via the Internet and found that: "*(i) indeed, web sites and their pages can eliminate the necessity for Canadian retail outlet. It is also possible that a web site can be used in conjunction with, or be part of, the overall merchandising effort of a foreign entity seeking to develop a Canadian market for its wares*". According to the court, the fact that the Defendant implemented retail store locators on its web site and that a 1-800 number was accessible to Canadians was sufficient to attract the Canadian jurisdiction.

Furthermore, by referring to the often quoted *Braintech Inc. v. Kostiuik* case decided by the British Columbia Court of Appeal and reviewing at length the extensive doctrine on the subject of jurisdictional issues, Justice Whitten left us with the following finding: "*Although www.computercity.com is a passive Web site, that fact alone cannot decide the issue of use and jurisdiction*", and he continues "*[...] The Web site upon which the WINGEN name was displayed is part of the purposeful commercial activity which targets Canadian consumers. Given the existence of a store locator service on the Web site which is accessible to Canadians and the phenomena of cross-border shopping, one cannot rule out the possibility of Canadians purchasing a WINGEN even though the product was not sold in the Canadian stores. The use of the WINGEN trade-mark at www.computercity.com is, for the reason enunciated, a "use" in Canada and therefore comes within the ambit of the Trade-marks Act*". The trial Court, thus, retained jurisdiction of the case at hand.

### **B. The Infringing Use in Canada**

With respect to the definition of use, this decision is symptomatic of the evolution of jurisprudence in Canada, in the face of technological progress. Dated legal concepts are often incompatible with new paradigms. Indeed, the notion of use is one of these old concepts which has been extensively examined and construed by Canadian courts. However, in light of the advancement of technology, one might be tempted to broaden the definition of use to encompass extra-territorial use throughout the Internet. According to this school of thought, notwithstanding the location of its geographical expression the use of a Canadian trade-mark, even on a web site operated from a foreign country, should trigger the application of Canadian laws.

Justice Whitten insisted upon the need to adopt an "holistic approach" in the determination of the existence of use especially when such a use is confronted with new form of international trade: "*A holistic approach requires that the assessment of the normal course of trade "usage" be seen in the context of the Canadian/American experience. Canadians do not live in a media vacuum. Canadians readily access American television on a daily basis. Canadians are exposed to American advertising on the channels they watch and when they travel "stateside". Cross-border shopping is a reality. Canadian consumer consciousness does not stop at the 49<sup>th</sup> parallel*". This generous application did not stand the strict and scrupulous review of the Court of Appeal contained in a succinct six page decision. The Court of Appeal imposed a far more restrictive approach with respect to the notion of use.

### III. The Court of Appeal decision

#### A. Distinction in the wares in connection with which the Plaintiff's trade-mark has been registered

*"The first error of the trial judge was in using s. 19 of the Act as the foundation of his reasoning".* The Court of Appeal reasserts its interpretation of the law by stating that several trade-mark registrations can legally co-exist when registered for goods or services of a different nature. This fundamental principle constitutes a common defence in trade-mark infringement cases and results from the interpretation of Section 19 of the Canadian Trade-marks Act (hereinafter referred to as: the "Act") which confers upon the owner the exclusive proprietary right in its trade-marks with respect to specific wares and services, subject to registration. Section 19 of the Act reads as follows:

19. Rights conferred by registration – Subject to sections 21, 32 and 67, the registration of a trade-mark in respect of any wares or services, unless shown to be invalid, gives to the owner of the trade-mark the exclusive right to the use throughout Canada of the trade-mark *in respect of those wares or services.* [our italics]

In the present case, the Plaintiff's trade-mark was registered in association with "computer programs" or software as opposed to computer hardware, which is the category of wares in connection to which the trade-mark "Wingen" was used by the Defendant. The Court of Appeal implicitly refused to extend the description of the Plaintiff's registration to personal computer equipment. In a straightforward conclusion, the Court of Appeal stated that Section 19 of the Act *"clearly refers to the use in Canada of the trade-mark in association with the wares or services described in the trade-mark registration. The computer hardware being sold by the appellant was not sold in Canada and cannot be considered as "computer programs used to generate programs for Windows" (the description in the respondent's trade-mark registrations). Thus, before even considering "use", s.19 has no application to the facts of this case"*. The tone was set.

#### B. Use by the Defendant was not use within the meaning of the Act

The Court of Appeal then examined the application of Section 20 of the Act to the facts of the case at bar. Justice Whitten did not clearly state why he found this section not to apply. The uncertainty left by the trial judge incited the intervention of the Court of Appeal who reaffirmed the correct test with respect to infringement claims. Section 20 gives the owner of a trade-mark the right to prevent a third party from using a trade-mark which could create confusion amongst the Canadian public. The notion of confusion is therefore subordinate to the notion of use, the latter being defined with regard to wares in Section 4 of the Act:

4. (1) When deemed to be used – A trade-mark is deemed to be used in association with wares if, at any time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred. [Emphasis added.]

In construing Section 4 of the Act, the Court of Appeal relied on the *Syntex Inc. v. Apotex Inc.* case decided in 1984 by the Federal Court of Appeal, wherein the Defendant distributed promotional flyers in Canada. The Plaintiff alleged that the flyer was an integral part of the act or method of transferring both property and possession. Justice Stone who spoke for the Court did not share the Plaintiff's assessment and dismissed its infringement claim for the reasons that the Plaintiff did not bring any evidence to the effect that the *"trade-mark is so associated with the respondent's wares in the flyer that notice of such association would be given to the person to whom the property in or possession of wares is transferred at the time of such transfer"*.

As a result, the Court of appeal concluded that there was no “use” in Canada of the Plaintiff’s trade-mark WINGEN; therefore, the Defendant cannot be held responsible for infringement.

### **Conclusion**

It appears that the trial court’s decision failed to bring forth valid legal arguments with respect to expanding the definition of “use” in assessing infringement. The mere access by Canadians to information placed on a passive web site incorporating a trade-mark appears insufficient to result in “use” of said trade-mark as defined under Section 4 of the Act. However, one might be tempted to characterise the conduct and good-faith of the Defendant as questionable: Defendant intentionally ignored the results of the verification conducted by its Intellectual Property department showing the existence of an identical trade-mark being used in association with software products, and pursued in launching its “Wingen” line of personal computers. This lack of care or foresight by Defendant clearly weighed in the decision of the trial judge. However, it did not withstand the review of the Court of Appeal who chose to apply the law in a more even-handed manner.

P.-E.M.