



## Blockheads: Kirkbi AG v. Ritvik Holdings

**LEGO is a distinctive if not universally recognized brand - its iconic building blocks have been scattered around Canadian living room floors and imbedded in parents feet for over half a century.**

The Canadian patent (and thus their monopoly) for LEGO brand-interchangeable toy blocks ended in 1988, allowing competitors to enter the market and freely compete. At least in theory, as MEGA BLOKS, (a Montreal based competitor who started selling its own brand of toy building blocks which were interchangeable with the newly patentless LEGO blocks), found out.

Kirkbi, the owner of the LEGO brand, had never been successful in its attempts to register the studs and knobs on its blocks as a trade mark or distinguishing guise in Canada because they were deemed to be too functional. Nevertheless, it brought an infringement action against Ritvik, the manufacturer of MEGA BLOKS, seeking damages and a permanent injunction.

Kirkbi argued both statutory and common law passing off, and that the shape of its blocks, their studs and their pattern were distinctive enough to qualify as a trademark or distinguishing guise. Because Kirkbi had previously failed to secure a trade mark registration for the functional studs on the blocks, it asked the court to apply a different regime from the non-functionality provisions of Canada's *Trade marks Act* which would govern registered marks.

Ritvik counterclaimed that it should be permitted to continue selling its blocks and that trade mark law could not be used to indirectly extend the life of an expired patent. Both the Federal Court Trial Division and Federal Court of Appeal agreed with this position and dismissed Kirkbi's arguments. This was affirmed by

## Anti-Counterfeiting: Some Practical Tips

**The importation and distribution of counterfeit goods is a huge and growing industry in Canada.**

The value of such goods in circulation - from DVDs to clothing to food products and pharmaceuticals - is estimated in the tens of billions of dollars. Aside from infringing intellectual property rights, counterfeiting undercuts the market share for legitimate retailers and, if the product is of inferior quality, may also be unsafe for the public.

What can the owners of legitimate products do to combat the problem?

### 1. Be proactive.

Registering trade marks and copyright to original products and giving notice to the public of such registration makes it procedurally easier to take civil and criminal actions against the infringers when a problem arises. Registration also opens the door to more advantageous legal remedies.

Educating the public about your registered rights and identifying authorized licensees and dealers also helps. Supporting industry and marketing groups which are trying to educate the public about counterfeit goods is a further positive step.

### 2. Watch out for infringement.

Be vigilant and monitor the marketplace for infringing products. Some legitimate manufacturers and distributors appoint agents or assign employees the task of regular monitoring for evidence of counterfeit distribution and documenting any sales for use in legal proceedings.

### 3. Understand your intellectual property rights.

Some counterfeiters will avoid using a registered trade mark to sell counterfeit goods, but will still be infringing copyright. Or they may be directing attention to the wares in such a way that amounts to passing off - ie, misleading consumers that the goods are those of another.

### 4. Don't delay.

Most distributors of counterfeit goods are transitory entities. The supply chain is in place only for the relatively short term, so if you want to stop or disrupt distribution or seize the offending goods, you have to move quickly to get an injunction or order for seizure. If the distributor of counterfeit goods has a more established business presence, an immediate and strongly worded cease and desist letter may be sufficient to stop or disrupt the supply.

### 5. Notify the police and regulatory agencies.

Counterfeiting is fraud. The act of knowingly distributing or importing counterfeit goods is illegal, so notifying the police is always a practical first step. If the products are coming in from offshore and are in sufficient quantities, notifying the customs authorities is also a good idea. If there is a risk to public safety

## Anti-Counterfeiting (Cont'd)

from shoddy or inferior goods - especially foods or pharmaceuticals - report this to the appropriate regulatory body as soon as possible.

Note, however, that, while these authorities are very aware of counterfeiting and will usually try to help, their resources are limited and they have to be selective in who they go after. Much depends on the scale of the counterfeiting, the ability of the complainant to prove ownership and, of course, the likelihood of success.

### **6. Be aware of the potential remedies, but realistic as to what can be achieved.**

In certain situations, the owner may be able to get an injunction prohibiting the counterfeit distributor from further dealings with the product, or, even better, obtain the right to seize and preserve the counterfeit goods as evidence of infringement - called an Anton Pillar order - if the counterfeiter is likely to hide or destroy those goods before the case can be heard.

Even broader in scope is a rolling Anton Pillar Order, which lasts longer and is effective against parties unidentified at the time the legal action is commenced.

Damages and post judgment remedies are also possible, eg, a permanent injunction restraining the counterfeit distributor from dealing with the goods, followed by a contempt of court order and aggravated monetary award if the infringement continues.

However, since most counterfeiters are fly by night operations, successfully stopping the supply and distribution through a well-timed cease and desist letter to innocent third party retailers or obtaining an injunction may be all you can realistically expect to achieve.

In our experience, clients who have had the most success against counterfeiters are those who are diligent from the outset. They have a business strategy in place that anticipates counterfeit activity - ie, that unauthorized versions of their products will find their way to the marketplace - and attack it head on in order to send the appropriate message to infringers and prospective infringers that they will face immediate legal action.

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## Foreign Owned Official Marks at Risk

**A recent decision of the Federal Court in *Canada Post Corporation v United States Postal Service* has overturned the established practice of making official marks equally available to public authorities outside of Canada.**

Canadian official marks have some extraordinary advantages over regular trade marks since they are not subject to the same examination or opposition process, not limited to specific goods or services, difficult to challenge and entitled to indefinite protection. The Federal Court had previously taken the position that the benefit of section 9(1)(n)(iii) of the Trade-marks Act was available to any entity which qualified as a "public authority" - Canadian or foreign - operating under a significant degree of government control,

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the Supreme Court of Canada in November, 2006, which unanimously agreed that neither a registered nor an unregistered mark could be the product itself. In short, trademark law cannot be used to extend the monopoly granted to an expired patent.

At the end of the day, it appears that Kirkbi's efforts were part of an international business strategy aiming to protect its market share from competitors after the expiry of its patents by forcing them to divert resources to the litigation. Although the potential costs of staying the course may give prospective manufacturers of products whose patents have recently expired some pause, the LEGO decision should make it more difficult for other expired patent holders to pursue this particular line of argument.

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## Foreign Owned Official Marks (Cont'd)

which had adopted and used the mark in Canada and conducted activities which conferred a public benefit.

For example, the British Post Office, the Consorzio del Prosciutto di Parma and the California Milk Board have been successful in securing official mark protection for, respectively, THE ROYAL MAIL, the PARMA Crown logo and the slogan GOT MILK?

The United States Postal Service ("USPS") had also received public notice for a number of official marks which included its signature EAGLE Design and the words UNITED STATES POSTAL SERVICE. The Canada Post Corporation sought a judicial review of the Registrar's decision, arguing in part that recognition of these official marks would directly and adversely affect Canada Post's right to use its closely resembling Wing design and the words UNITED STATES and POSTAL SERVICE in promoting its own services in Canada.

The Key issue was whether a "public authority" under section 9(1)(n)(iii) had to be a public authority in Canada. Much attention was focused on the presence of a comma in the English version and its absence in the French version. Given the extraordinary advantages conferred on official marks, (which protection only exists in Canada), and the potential detriment to Canadian trade mark owners, the court concluded that nay institution claiming to be a public authority "must be a public authority in Canada" and be accountable to the Canadian electorate.

Although the USPS qualified as a public authority in the United States, it was not under any government control in Canada and therefore did not qualify as a public authority under 9(1)(n)(iii). The Registrar's decision to give public notice of the adoption and use of all thirteen USPS official marks was therefore set aside - ie, nullified.

Not surprisingly, this decision, which was rendered on November 30, 2005, is under appeal, the outcome of which will no doubt be closely monitored by foreign owners, among them the British Post Office, the Consorzio del Prosciutto di Parma and the California Milk Board. In the meantime, the Canadian Intellectual Property Office has issued a Practice Notice advising that an entity must be a public authority in Canada before it can now claim the benefit of 9(1)(n)(iii).

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