

Date: 20070712

Docket: A-3-07

Citation: 2007 FCA 255

**CORAM: RICHARD C.J.
LINDEN J.A.
PELLETIER J.A.**

BETWEEN:

NISSAN CANADA INC.

Appellant

and

**BMW CANADA INC. and
BAYERISCHE MOTOREN WERKE AKTIENGESELLSCHAFT**

Respondents

Heard at Ottawa, Ontario, on June 19, 2007.

Judgment delivered at Ottawa, Ontario, on July 12, 2007.

REASONS FOR JUDGMENT BY:

RICHARD C.J.

CONCURRED IN BY:

**LINDEN J.A.
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REASONS FOR JUDGMENT

RICHARD C.J.

[1] This is an appeal from the judgment of MacKay D.J. of the Federal Court dated March 7, 2007, with respect to claims made by the respondents' pursuant to sections 7(b), 20 and 22 of the *Trade-marks Act*, R.S.C. 1985, c. T-13 as amended (the "Act") (2007 FC 262).

RELEVANT FACTS

[2] The appellant, Nissan Canada Inc. ("Nissan"), is in the business of selling, distributing and promoting automobiles, parts and accessories in Canada. Nissan is the owner of a number of registered Canadian trade-marks, including registration No. 612,708 for M45 and registration

No. 640, 144 for M35, both for use in association with motor vehicles. The two marks are used for two series of Infiniti vehicles, Infiniti being the luxury division of Nissan. Nissan uses the unregistered marks M and M6 for promoting and advertising its automobiles, parts and accessories.

[3] The respondents, BMW Canada Inc. and Bayerische Motoren Werke Aktiengesellschaft (“BMW”), are also in the business of manufacturing, selling, distributing and promoting automobiles, parts and accessories throughout the world. BMW Canada Inc. sells, distributes and promotes automobiles, parts and accessories in Canada under the authority of BMW AG. BMW AG is the owner of the registered Canadian trade-marks, including registration No. 544, 922 for M3, registration No. 561, 482 for M5 and registration No. 336, 985 for M & Design. These trade-marks are registered for use in association with automobiles and their parts. BMW AG claims to also be the owner of the unregistered marks M and M6. Both marks were, at the time of trial, the subjects of applications for registration by BMW.

[4] On August 12, 2005, BMW commenced this action against Nissan claiming passing off of BMW’s trade-marks M, M3, M5, M6 and M & Design contrary to paragraph 7(b) of the Act; trade-mark infringement of BMW’s trade-marks M3, M5 and M & Design contrary to section 20 of the Act; and depreciation of goodwill of BMW’s trade-marks M3, M5 and M & Design contrary to section 22 of the Act.

[5] In a judgment dated March 7, 2007, the trial judge dismissed BMW’s claim of infringement under section 20 of the Act on the basis that there was no likelihood of confusion as to the sources of the wares, or as to the wares themselves, among the relevant group of prospective purchasers in

the market. The trial judge also dismissed BMW's claim for depreciation of the value of goodwill under section 22 because there was insufficient evidence to support a conclusion that the Nissan used BMW's marks or other closely similar marks in a manner likely to depreciate the value of BMW's goodwill in its registered marks.

[6] The trial judge did, however, allow the respondents' passing off claim pursuant to paragraph 7(b). He found that Nissan's use of the marks M and M6 caused a likelihood of confusion between the sources of its wares and of BMW's wares associated with BMW's marks and therefore violates BMW's proprietary rights in the trade-marks M, M3, M5, M6 and M & Design.

[7] Of the various claims made by BMW, the appeal before this Court relates solely to the portion of the trial judge's judgement allowing the passing off claim under paragraph 7(b) of the Act.

[8] On appeal, Nissan alleges that the evidence in this case did not support a finding that Nissan is liable under paragraph 7(b) of the Act for use of the M and M6 marks in relation to automobiles and their parts. The appellant further alleges that the trial judge erred in fact and law in failing to apply the proper requirements for passing off set out in section 7(b) of the Act.

ISSUE

[9] This appeal raises two questions:

- a) Did the trial judge err in proceeding on the basis that the letter M and the descriptor M6 are unregistered trade-marks within the meaning of section 2 of the Act?
- b) Did the trial judge err in allowing the claim for passing off pursuant to paragraph 7(b) of the Act?

RELEVANT STATUTORY PROVISIONS

[10] The relevant statutory provisions of the *Trade-marks Act* are as follows:

<p><u>2.</u> In this Act,</p> <p>...</p> <p>"trade-mark" means</p> <p>(a) a mark that is used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others,</p> <p>(b) a certification mark,</p> <p>(c) a distinguishing guise, or</p> <p>(d) a proposed trade-mark;</p> <p>...</p> <p>"use" , in relation to a trade-mark, means any use that by section 4 is deemed to be a use in association with wares or services;</p> <p><u>When deemed to be used</u></p> <p><u>4.</u> (1) A trade-mark is deemed to be used in association with wares if, at the 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</p>	<p><u>2.</u> Les définitions qui suivent s'appliquent à la présente loi.</p> <p>«marque de commerce » Selon le cas :</p> <p>a) marque employée par une personne pour distinguer, ou de façon à distinguer, les marchandises fabriquées, vendues, données à bail ou louées ou les services loués ou exécutés, par elle, des marchandises fabriquées, vendues, données à bail ou louées ou des services loués ou exécutés, par d'autres;</p> <p>b) marque de certification;</p> <p>c) signe distinctif;</p> <p>d) marque de commerce projetée.</p> <p>...</p> <p>«emploi » ou «usage » À l'égard d'une marque de commerce, tout emploi qui, selon l'article 4, est réputé un emploi en liaison avec des marchandises ou services.</p> <p><u>Quand une marque de commerce est réputée employée</u></p> <p><u>4.</u> (1) Une marque de commerce est réputée employée en liaison avec des marchandises si, lors du transfert de la propriété ou de la possession de ces marchandises, dans la pratique normale du commerce,</p>
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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.

When mark or name confusing

6. (1) For the purposes of this Act, a trade-mark or trade-name is confusing with another trade-mark or trade-name if the use of the first mentioned trade-mark or trade-name would cause confusion with the last mentioned trade-mark or trade-name in the manner and circumstances described in this section.

...

What to be considered

(5) In determining whether trade-marks or trade-names are confusing, the court or the Registrar, as the case may be, shall have regard to all the surrounding circumstances including

- (a) the inherent distinctiveness of the trade-marks or trade-names and the extent to which they have become known;
- (b) the length of time the trade-marks or trade-names have been in use;
- (c) the nature of the wares, services or business;
- (d) the nature of the trade; and
- (e) the degree of resemblance between the trade-marks or trade-names in appearance or sound or in the ideas suggested by them.

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

elle est apposée sur les marchandises mêmes ou sur les colis dans lesquels ces marchandises sont distribuées, ou si elle est, de toute autre manière, liée aux marchandises à tel point qu'avis de liaison est alors donné à la personne à qui la propriété ou possession est transférée.

Quand une marque ou un nom crée de la confusion

6. (1) Pour l'application de la présente loi, une marque de commerce ou un nom commercial crée de la confusion avec une autre marque de commerce ou un autre nom commercial si l'emploi de la marque de commerce ou du nom commercial en premier lieu mentionnés cause de la confusion avec la marque de commerce ou le nom commercial en dernier lieu mentionnés, de la manière et dans les circonstances décrites au présent article.

...

Éléments d'appréciation

(5) En décidant si des marques de commerce ou des noms commerciaux créent de la confusion, le tribunal ou le registraire, selon le cas, tient compte de toutes les circonstances de l'espèce, y compris :

- a) le caractère distinctif inhérent des marques de commerce ou noms commerciaux, et la mesure dans laquelle ils sont devenus connus;
- b) la période pendant laquelle les marques de commerce ou noms commerciaux ont été en usage;
- c) le genre de marchandises, services ou entreprises;
- d) la nature du commerce;
- e) le degré de ressemblance entre les marques de commerce ou les noms commerciaux dans la présentation ou le son, ou dans les idées qu'ils suggèrent.

7. Nul ne peut :

...

- b) appeler l'attention du public sur ses marchandises, ses services ou son entreprise de manière à causer ou à vraisemblablement causer de

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

la confusion au Canada, lorsqu'il a commencé à y appeler ainsi l'attention, entre ses marchandises, ses services ou son entreprise et ceux d'un autre;

...

...

STANDARD OF REVIEW

[11] The standards of review on an appeal are those set out by the Supreme Court of Canada in decision of *Housen v. Nikolaisen*, [2002] 2 S.C.R. 235. The standard of review on a question of law is correctness. A standard of palpable and overriding error applies to findings and inferences of fact. A standard of palpable and overriding error also applies to questions of mixed fact and law unless it is clear that the trial judge made an extricable error in principle with respect to the characterization of the standard or its application, in which case the error may amount to an error of law and the standard of correctness would apply.

[12] In the circumstances of this case, the trial judge's finding that the appellant's wares contravene paragraph 7(b) of the Act is a question of mixed fact and law that involves the proper interpretation of the relevant statutory provisions of the Act, including sections 2, 4, 6 and 7. These are extricable questions of law reviewable on the standard of correctness. Whether the evidence established that the proper legal test has been met is a question of fact reviewable on the standard of palpable and overriding error.

[13] Justice Bastarache in *Van de Perre v. Edwards*, [2001] 2 S.C.R. 1014 at paragraph 15, defined a palpable and overriding error as one that "gives rise to the reasoned belief that the trial judge must have forgotten, ignored or misconceived the evidence in a way that affected his conclusion." In *Elders Grain Co. v. Ralph Misener (The)*, [2005] 3 F.C.R. 367 at paragraph 10,

this Court summarized a palpable and overriding error as “an obvious deficiency in the trial judge’s findings of fact that affects the outcome of the trial.”

ANALYSIS

[14] Paragraph 7(b) of the Act prohibits a person from directing public attention to his wares, services or business in such a way as to cause or be likely to cause confusion, at the time he commenced the activity in question, with the wares, services or business of another. As stated by this Court 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, paragraph 7(b) is the equivalent statutory expression of the common law tort of passing off with one exception: for resort to that paragraph, a plaintiff must prove possession of a valid and enforceable trade-mark, whether registered or unregistered.

[15] Accordingly, the first issue to be determined on this appeal is whether the evidence supports a finding that BMW had valid and enforceable trade-marks in the M and M6 marks.

[16] The term “trade-mark”, as defined in section 2 of the Act, requires that a mark be used by a person for the purpose of distinguishing or so as to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others. As such, in order to obtain trade-mark rights, the trade-mark must be “used” by the person for the purpose of distinguishing their wares or services from those of others. As stated by the Supreme Court of Canada, “the gravamen of trade-mark entitlement is actual use”: *Mattel, Inc. v. 3894207 Canada Inc.*, [2006] 1 S.C.R. 772 at paragraph 5.

[17] “Use” is a defined term in the Act. Section 2 provides that “use” in relation to a trade-mark means any use that by section 4 is deemed to be a use in association with wares or services. At issue are BMW’s automobiles, parts and accessories and, as such, we are dealing with wares, not services.

[18] In accordance with subsection 4(1) of the Act, a trade-mark is deemed to be used in association with wares, if, at the 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.

[19] In *Syntex Inc. et al. v. Apotex Inc.*, [1984] 2 F.C. 1012 at page 1020, this Court explained the requirements of subsection 4(1) in the following way:

Use of a trade mark is deemed to have occurred if at the time property in or possession of the wares is transferred, in the normal course of trade, it is “marked on the wares themselves or on the packages in which they are distributed”. The mark thus may come to the attention of the transferee in a direct way at the time of transfer which is the critical point in time. Similarly, for there to be a deemed use, notice of any other manner of association is likewise to be given at that same point in time. It might well be, for example, that the appearance of a trade mark in written material inserted in a package containing the wares even though not marked on the package or on the wares themselves would fall within the second part of s. 4(1)....

[20] Here, there is no evidence that the alleged M and M6 trade-marks were marked on BMW’s wares themselves or on the packages in which they were distributed. Therefore, the only remaining question is whether the evidence establishes that, at the time of the transfer of the property in or possession of the wares, the M and M6 marks were so associated with BMW’s wares that notice of the association was given to the person to whom the property or possession was transferred.

[21] With respect to the M mark, the trial judge found at paragraph 14 that BMW cars are not marked with any stand alone M mark. He further noted that BMW uses the M mark in advertising and promotional items. In his words, at paragraph 36:

The trade-mark M, by itself, has appeared in Canada only in limited BMW M car advertising, in magazines, on television, in brochures, promotional banners, occasional books, tickets and other items, generally with a companion trade-mark of BMW, i.e. the BMW roundel or one of its other trade-marks.

[22] The trial judge appears to have assumed that BMW's limited use of the M mark was sufficient to amount to "use" of a trade-mark under subsection 4(1) without providing any analysis on the issue. In doing so, I believe the trial judge erred. In my view, there was no probative evidence on the record demonstrating an association at the time of transfer of the property in or possession of the wares.

[23] The evidence indicates that the letter M is used in many BMW trade-marks in association with numbers, letters or words. In addition to the registered trade-marks M3, M5, M & Design owned by BMW, the trial judge noted BMW's interest in other marks containing the letter M at paragraphs 9 to 11:

¶ 9 BMW AG also owns other registered marks in Canada which include as one element the letter M. These are the marks: **M SERIES** (Registration TMA 614,701, issued July 13, 2004) for automobiles and their constituent parts; **M POWER** design (Registration TMA 329,972, issued July 10, 1987) (with horizontal color bars in blue, purple and red for the design **M POWER**) for automobiles and their constituent parts, namely engines; **M-THE MOST POWERFUL LETTER IN THE WORLD** (Registration TMA 664,704 dated May 19, 2006), and **M-THE MOST POWERFUL LETTER** (Registration TMA 664,875 dated May 24, 2006), both for automobiles and their constituent parts, and for services: organization of car racing and car club events.

¶ 10 In 2005 and 2006 BMW applied for registration for additional marks including: **M NIGHT** (Application 1,269,440, filed August 22, 2005 and revised February 6, 2006) for retail services in the field of automobiles, motorcycles, and parts and accessories therefore, retail services in the field of fashion accessories, life style articles, sporting articles and clothing, organizing and hosting of automobile theme parties and celebrations; **M** (Application No. 1,271,794 filed September 13, 2005) in relation to automobiles and their parts and to automotive retail services; **M ROADSTER** and **M COUPE** (Applications 1,273,588 and 1,273,589, both filed September 27, 2005) both for automobiles and parts; **M SPORT PACKAGE** and **M EXECUTIVE PACKAGE** and **M PERFORMANCE EDITION** (Application numbers 1,274,093 and 1,274,092 and 1,274,333 respectively, all filed September 30, 2005) all for automobiles and their parts; and **M6** (Application No. 1,244,305 filed April 6, 2006 revised May 2, 2006) for automobiles and parts. All of these applications for registration by BMW, including those for **M** alone and **M6** which are specifically at issue in this case, were filed after commencement of this action by BMW.

¶ 11 BMW has also used the letter M in association with certain automobile parts and accessories, including 16 different "M parts", e.g., M Suspension, M Sports Seats, M steering wheel, M wheels, and with the special packages known as M Sport Package, M Performance Edition, and M Executive Package. Each package consists of M parts and accessories to "dress" a regular BMW car to look, or to perform, in some respects like an M car.

[24] I agree with the trial judge, as held at paragraph 37, that use of the M mark in association with numbers, letters or words is not equivalent to use of M alone as a trade-mark. I also agree with the trial judge's conclusion at paragraph 59 that use of the M & Design mark cannot be considered use by BMW of the M mark.

[25] Based on the evidence, BMW's use of the M mark was limited to advertisements and promotional type materials. Such use of a mark is not in itself sufficient to constitute "use" under subsection 4(1) of the Act. For the use of a mark in advertisement and promotional material to be sufficiently associated with a ware to constitute use, the advertisements and promotional material would have to be given at the time of transfer of the property in or possession of the wares: see *Clairol International Corp. et al. v. Thomas Supply & Equipment Co. Ltd. et al.* (1968), 55 C.P.R.

176 at 190 (Can. Ex. Ct.) and *General Mills Canada Ltd. v. Procter & Gamble Inc.* (1985), 6 C.P.R. (3d) 551 (T.M. Opp. Bd.).

[26] In this case, some of the evidence in itself was problematic. For instance, the BMW Product Guide 2003, although it contained the M mark, was intended for use within the BMW organization, i.e. for retailer sales personnel, and therefore would not have been given to purchasers. There were other types of promotional material which were apparently intended for wide-spread distribution; however, there is no evidence indicating when the advertisements and promotional materials containing the M mark were distributed in Canada, if at all, such that notice of the association was given at the time of transfer.

[27] Similarly, with respect to the M6 mark, the only evidence is that M6 was used in an owners' handbook (date unknown), a 1989 owners' manual and a 1988 technician bulletin. Again, there was no evidence as to how many, if any, of these handbooks, manuals or bulletins were distributed in Canada and when, if at all, and if they were available at the time of transfer of property or possession.

[28] Quite simply, in the absence of evidence indicating whether the advertisements or promotional materials were given to purchasers at the time of transfer of BMW's wares, there is no evidence to support a finding of use of the M and M6 marks as that term is defined in the Act.

[29] In light of the foregoing and on the basis of the record, I find there is no evidence of use on which the trial judge could rely to conclude that the M and M6 marks are unregistered trade-marks in accordance with section 2 of the Act and for the purposes of determining the passing off claim

under subsection 7(b) of the Act. I find the trial judge erred in law in pursuing a paragraph 7(b) analysis without first establishing the existence of the M and M6 marks as trade-marks.

[30] In any event, one of the essential elements of the claim of passing off under paragraph 7(b) was not established. The three necessary components of a passing-off action are: (a) the existence of goodwill; (b) deception of the public due to a misrepresentation; and (c) actual or potential damage to the plaintiff: *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, [1992] 3 S.C.R. 120 at paragraph 33.

[31] In this case, the trial judge accepted the three required components to establish a claim of passing off and was satisfied that all three were met. With respect to the existence of goodwill, the trial judge referred to the evidence of Mr. Kenzie and of individual BMW car enthusiasts and, at paragraph 106, concluded that:

BMW is known among auto journalists and luxury high performance car enthusiasts, particularly BMW owners, for its wares advertised by the M trade-mark, including its automobile the M6. This awareness of special interest groups in a relatively small market of consumers is sufficient in this case to establish BMW's goodwill in the two common law trade-marks it claims and has used.

[32] With respect to the second requirement, the trial judge concluded that there was a likelihood of confusion in respect of the marks M and M6. In his words, at paragraph 108:

In considering the likelihood of confusion in this claim there is a significant difference from the circumstances considered for the claim of infringement under s-s. 20(1) where the M and M6 marks used by Nissan are not the same as BMW's registered trade-marks. In my opinion, use by Nissan in 2005 of the letter M, as a trade-mark, and of the descriptor M6, as a trade-mark, both similar in form to the same trade-marks of BMW, for generally similar wares, automobiles and parts, in essentially the same trade or business as BMW, created a likelihood of confusion between the sources of the wares of the defendant and of the plaintiffs. Whether intentional or not, that confusion was likely because of Nissan's actions.

[33] With respect to the third component, i.e. damages, the trial judge accepted the respondents' argument that, once the first two elements are shown to exist, damages are presumed. At paragraph 109 of his decision, the trial judge stated the following:

In the absence of evidence of damages which, in accord with the Court's pre-trial bifurcation order will be settled after submissions to be made by the parties, I assume, subject to further consideration, that there will be damages, whether nominal or substantial.

[34] As indicated by the trial judge, the Bifurcation Order dated October 5, 2006, orders that the issues of liability be severed from the issues of extent of damages and accounting of profits, and that the production of documents, oral discovery on the issues of extent of damages and accounting of profits be postponed until after judgment on the issues of liability.

[35] Without commenting on the first two elements, I find the trial judge erred in law in assuming that there would be damages. 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: *Tommy Hilfiger Licensing Inc. et al. v. Quality Goods I.M.D. Inc. et al.* (2005), 267 F.T.R. 259 at paragraphs 137-138 (F.C.). A plaintiff must "demonstrate that he suffers or, in a *quia timet* action, that he is likely to suffer damage by reason of the erroneous belief engendered by the defendant's misrepresentation that the source of the defendant's goods or services is the same as the source of those offered by the plaintiff": *Ciba-Geigy Canada Ltd. v. Apotex Inc.*, *supra*, at paragraph 32 citing *Reckitt & Colman Products Ltd. v. Borden Inc.*, [1990] 1 All E.R. 873 (H.L.) at page 880. See also *Pro-C Ltd. v. Computer City, Inc.* (2001), 55 O.R. (3d) 577 at paragraph 24.

[36] 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.

[37] In this case, there was no evidence before the trial judge demonstrating damages and no finding of damages. It was not open to the trial judge to presume damages. In the absence of such evidence, this Court finds that the trial judge erred in law by allowing the claim for passing off of the M and M6 marks under paragraph 7(b) of the Act.

[38] Accordingly, the appeal will be allowed with costs.

"J. Richard"

Chief Justice

"I agree
A.M. Linden J.A."

"I agree
J.D. Denis Pelletier J.A."

FEDERAL COURT OF APPEAL
NAMES OF COUNSEL AND SOLICITORS OF RECORD

DOCKET: A-3-07

**APPEAL FROM THE JUDGMENT OF THE FEDERAL COURT DATED
MARCH 7, 2007, (NO. T-1395-05)**

STYLE OF CAUSE: Nissan Canada Inc. v. BMW
Canada Inc. and Bayerische
Motoren Werke
Aktiengesellschaft

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REASONS FOR JUDGMENT BY: Richard C.J.

CONCURRED IN BY: Linden J.A.
Pelletier J.A.

DATED: July 12, 2007

APPEARANCES:

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