

Federal Court



Cour fédérale

Date: 20101108

Docket: T-1784-06

Citation: 2010 FC 1099

Ottawa, Ontario, November 8, 2010

PRESENT: The Honourable Mr. Justice de Montigny

BETWEEN:

**PHILIP MORRIS PRODUCTS S.A.
and ROTHMANS, BENSON & HEDGES INC.**

**Plaintiffs
(Defendants by Counterclaim)**

and

**MARLBORO CANADA LIMITED and
IMPERIAL TOBACCO CANADA LIMITED**

**Defendants
(Plaintiffs by Counterclaim)**

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I. Introduction

[1] This case concerns the world’s top-selling cigarette product, which is sold in Canada by the Plaintiffs in association with certain design and word marks also associated with the product elsewhere in the world. Internationally, this product is called “Marlboro”. In Canada, the Plaintiffs do not use the word mark MARLBORO in association with their product because that word mark is registered in the name of a competitor, one of the Defendants. Rather, in Canada, the Plaintiffs call their product “Rooftop”, in reference to the design elements used on the package. However, the word mark ROOFTOP does not appear on the individual cigarette packages. This appears to be the first time that a cigarette product has been sold in Canada (and, quite possibly, in the world) without any brand name appearing on the package.¹

[2] The dispute originated with the 2006 launch of this “no-name” product, which the Plaintiffs refer to as “Rooftop”. The Defendants responded to the Rooftop launch with a demand letter to the Plaintiffs, alleging that the new brand infringes its trade-mark registration for MARLBORO. The present action was then commenced, by which the Plaintiffs sought a declaration that the sale of Rooftop cigarettes in Canada does not contravene any rights of the Defendants in its MARLBORO registration. The Defendants responded with a counterclaim alleging precisely that infringement.

¹ Please note the following to better understand these reasons: a) “Marlboro” (appearing in quotation marks) refers to the word itself, as spoken or as written; b) MARLBORO (appearing in upper case letters) refers to the word as a registered as a trade-mark; and c) Marlboro (with an upper-case M only) refers to the word used as an adjective or noun, as in “The store sells Marlboro cigarettes” or “The store sells Marlboros”. The same system is used with respect to the terms “Rooftop”/ ROOFTOP/Rooftop and other brands of cigarettes that are mentioned in these reasons.

[3] This case is unique since it raises an issue that has never been previously addressed. In essence, the Plaintiffs are asserting that they do not infringe the Defendants' trade-mark. Rather, they claim to be merely using a packaging design whose elements were created for and are owned by the Plaintiffs, and which are the subject of trade-mark registrations in Canada. Furthermore, they argue that there is no source confusion, nor has there been any confusion as to what product the Rooftop packages contain. According to their argument, preventing the Plaintiffs from identifying and selling their Rooftop products in Canada would be tantamount to abuse and overextension of whatever trade-mark rights the Defendants may have in the word mark MARLBORO.

[4] The Defendants, on the other hand, submit that the Plaintiffs deliberately invite consumers to associate their products with the internationally-known Marlboro brand by using the same package dressing and by declining to label them with any particular brand name. In doing so, the Plaintiffs would be implicitly and, if I may say, subliminally usurping the Defendants' rights in the word mark MARLBORO, thereby infringing sections 19, 20 and 22 of the *Trade-marks Act*, R.S.C. 1985, T-13 (the "Act").

[5] Further, the Plaintiffs amended their Statement of Claim on January 8, 2008 to allege that the 1996, 2001, and 2007 versions of the Defendants' own Marlboro package are substantial copies and colourable imitations of their copyrighted "Marlboro Red Roof label", which consists of a combination of individual graphic elements. As such, the Plaintiffs allege that the Defendants are thereby contravening sections 2, 3 and 27 of the *Copyright Act*, R.S. 1985, c. C-42 as well as an agreement reached between the parties in 1952.

[6] A week before the trial was set to begin, the Defendants made a motion to amend their Statement of Defence and Counterclaim, with a view to challenge the validity of six of Philip Morris Products S.A.'s (PMPSA) ROOFTOP Design Trade-mark registrations (see Annex B at the end of these reasons). That motion was granted, with leave given to the Plaintiffs to amend their pleadings in response.

[7] In reply and defence to those amendments, the Plaintiffs alleged that the Defendants' registration TMDA55,988 for MARLBORO is invalid as it does not distinguish the wares manufactured and sold by the Defendant Marlboro Canada Limited nor is it adapted to distinguish them, contrary to sections 2 and 18 of the *Trade-marks Act*. They amended their Statement of Claim accordingly.

II. Background facts

A. *The parties*

[8] Both of the Plaintiffs, PMPSA and Rothmans Benson & Hedges Inc. ("RBH") are wholly-owned subsidiaries of Philip Morris International Inc. ("PMI"). PMPSA is incorporated in Switzerland and is the owner of the ROOFTOP Design Trade-marks and the copyrighted Marlboro Red Roof Label design. RBH is a federally-incorporated Canadian company, with a principal place of business in Toronto, Ontario, and is the exclusive licensee of the ROOFTOP Design Trade-marks. RBH manufactures and distributes tobacco products in Canada, and is the second-largest Canadian tobacco company.

[9] The Defendant, Imperial Tobacco Limited (“ITL”) is the largest tobacco company in Canada. ITL is federally-incorporated in Canada, with its principal place of business in Montreal, Quebec. ITL is wholly owned by British-American Tobacco Plc (“BAT”), and is the licensee of trade-mark registration TMDA55,988 for the word MARLBORO. The co-Defendant Marlboro Canada Ltd. (“MCL”) is a federally incorporated entity with its principal place of business located in Montreal, Quebec. MCL is a wholly owned subsidiary of ITL and is currently recorded as the registered owner of the MARLBORO trade-mark.

[10] The respective parent companies PMI and BAT are the two largest publicly-owned tobacco companies in the world. They compete for market share in over 160 countries, including Canada through their Canadian subsidiaries, RBH and ITL.

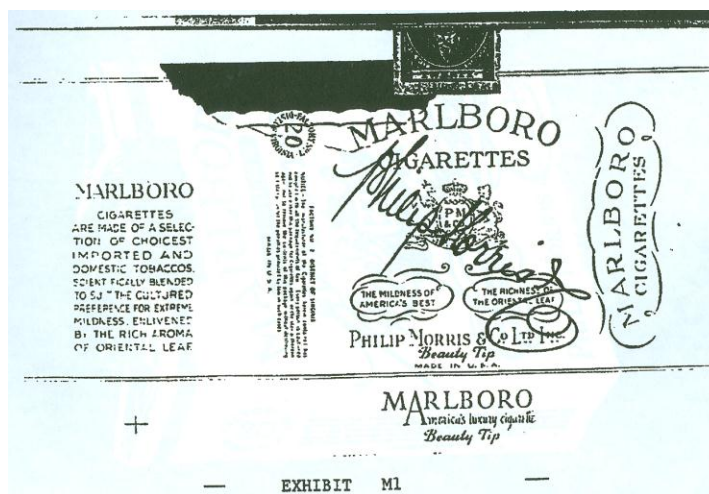
B. Relevant Facts Prior to the Parties’ Dispute

[11] The following summary is drawn in large part from the agreed statement of facts filed by the parties.

(1) The Plaintiffs and their Activities

[12] PMPSA’s predecessors in title and former affiliated companies (“Philip Morris”) originally commenced their tobacco business as a United Kingdom (“UK”) company. They began operations in 1846, and in 1883, began selling Marlboro-branded, unfiltered cigarettes in the U.K. Operations began later in the United States (U.S.) and Canada, with Marlboro-branded cigarettes being sold in

both countries by 1906. The packaging used in both countries (the “Original Marlboro Packaging”) looked as follows:



[13] In 1902, the U.K. company elected to transfer its United States activities to an American company that would eventually become “Philip Morris U.S.”. Shortly thereafter, the U.K. Company assigned to Philip Morris U.S. its rights to the Canadian market.

[14] In 1924, a Canadian tobacco company, the Tuckett Tobacco Company of Hamilton, Ontario (“Tuckett”), began selling Marlboro-branded cigarettes in Canada in the Original Marlboro Packaging. Tuckett also registered MARLBORO in the Canadian Intellectual Property Office in 1932, under Registration number TMDA55,988, in relation to “tobacco in all its forms and particularly to be used in connection with the sale of cigarettes, cigarette papers, cigarette tubes, tobacco, snuff, and cigars”. While the exact circumstances preceding these events cannot be ascertained today, the available evidence from this time period was reviewed in earlier Federal Court proceedings between the parties. In this context, Justice Rouleau inferred that Tuckett had acquired the right to the MARLBORO trade-mark from Philip Morris.

[15] The MARLBORO trade-mark registration came to be owned by ITL's predecessors after they gained control over Tuckett in or around 1930.

[16] Between 1924 and 1969, Tuckett Tobacco, now controlled by ITL, continued to sell cigarettes in Canada in the original Marlboro packaging. Those cigarettes were marketed to females primarily as a sophisticate's cigarette with slogans such as "Mild as May" and "Ivory Tips Caress the Lips". One of the versions had a red filter tip to accommodate and disguise lipstick marks.

[17] Similarly, Philip Morris continued to sell cigarettes in the U.S. in the original Marlboro packaging between 1924 and 1954. The image projected through the advertising was similar to that of Tuckett Tobacco's product – an urban sophisticate's cigarette – and one of its versions also had a red filter tip to accommodate and disguise lipstick marks.

[18] The original Marlboro packaging design used by Tuckett Tobacco until 1969, and by Philip Morris until 1954, did not differ in any material respect. Both of these products experienced declining sales with increasingly limited distribution.

[19] Certain of Tuckett's Canadian advertisements for cigarettes led to a dispute between the parties, which were described in correspondence at the time. In the early 1950s, Philip Morris had alleged that one of Tuckett's Canadian advertisements contravened an understanding between the

parties that had been reached on August 27, 1951. The understanding was described by the president of ITL, Mr. Edward C. Wood, in a letter dated July 22, 1952, as follows:

On August 27th we came to a definite understanding that we had no rights to the use of advertising copy created by you [Philip Morris] or to imitate it nor did we [ITL] have any rights to slogans that you [Philip Morris] might create now or in the future or any new designs or changes in old designs of the label. (...) The whole idea was to come to some understanding and to give you definite assurance that Tuckett had no right to follow changes that you might make in label and packaging designs or to crib on the various advertising campaigns or copy that you were then running or might institute in the future.

Agreed Statement of Facts (“ASF”), para. 18, schedule 5.

As set out in Mr. Wood’s letter, the 1952 Agreement was accepted and acknowledged by the parties, and was confirmation of the Defendants’ understanding and agreement that they would have no rights to any designs of the labels or packaging that the Plaintiffs created in the future, nor would they copy future advertising campaigns run by the Plaintiffs.

[20] In the early 1950’s, Philip Morris’ research showed a trend towards increasing consumption of filter cigarettes. Filters had been theretofore perceived as feminine. Philip Morris wanted to introduce a filter cigarette specifically positioned to attract male smokers. It was decided to adapt the relatively low-selling Marlboro brand for this purpose, and Philip Morris therefore decided to undertake a total redesign of its Marlboro cigarettes, packaging, and image. The company developed a full-flavored American blend for the tobacco, and added filters to the cigarettes. They hired Francesco Gianninoto, a graphic artist, to create a new package design that would have a strong, masculine appearance. Market research at the time showed that angular shapes were perceived as more masculine than round shapes and that red was psychologically the most effective color for this purpose.

[21] The new package design (the “Marlboro Red Roof Label”) was used in a new flip-top packaging format also introduced by Philip Morris, containing 20 king-size cigarettes. It incorporated a striking Red Roof design in association with a Philip Morris Crest and the word MARLBORO in a uniquely modified serif font. Mr. Ross Randolph Millhiser, who from 1973 to 1978 served as President of Philip Morris and who was brand manager for the Philip Morris Marlboro in 1954, guided all aspects of the brand’s reformulation from research and package design to advertising and selling. Here is how he describes this new package in an affidavit sworn in 1987 in legal proceeding in the Supreme Court of South Africa:

The Red Roof device with the cigarette and cork filter tip running through the elongated “t” and “b” or “ascenders” as we termed those letters and into the apex of the white section of the device was designed to project a masculine image and was consistent with the advertising “cowboy” image which (as will appear below) was to be adopted. In addition, the triangle was essentially complemented by the graphically designed elongated “t” and “b” in the word MARLBORO. The design was rendered in this strong abstract form with the intent of being suggestively masculine and macho.

ASF, para. 19-24, 30 and sched. 7. The parties were in agreement that Mr. Millhiser’s affidavit could be read-in at trial for the truth of its contents as Mr. Millhiser passed away in 2003.

[22] Francesco Gianninoto, creator of the Marlboro Red Roof Label, passed away in 1988, but also swore an affidavit in 1987 in the same legal proceeding in the Supreme Court of South Africa. In that affidavit, Mr. Gianninoto confirms his independent creation of the Marlboro Red Roof Label and that all copyright was assigned to Philip Morris. The parties are in agreement that Mr. Gianninoto’s affidavit can be read-in at trial for the truth of its contents.

[23] The parties agree that PMPSA is the owner through assignment of copyright in Canada for the original artistic work created by Francesco Gianninoto and referred to as the Marlboro Red Roof Label:



[24] Philip Morris also undertook advertising campaigns to market its newly-configured and re-designed product. The ads featured rugged cowboys working in “Marlboro country” and used phrases including “Come to where the flavor is. Come to Marlboro Country”. The advertisements were widely run and became very well known.

[25] The product and package redesign and the advertising campaigns were highly successful, and are recognized today among the most successful ever. Philip Morris Marlboro cigarettes came to be sold around the world, in over 160 countries, with the notable exception of Canada. They became the top-selling cigarette in the world by 1972, and the top-selling cigarette in the United States by 1975. Today, the Philip Morris cigarettes have retained their top ranking in many countries, and remain the best-selling cigarettes in the world.

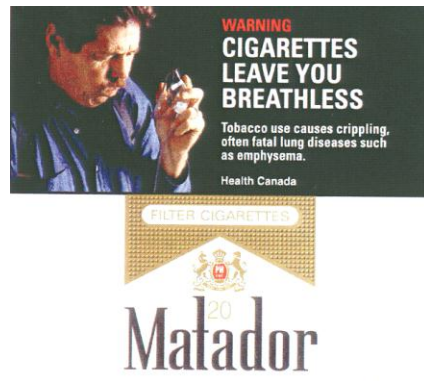
[26] Two other products were sold in Canada using the ROOFTOP Design Trade-marks. In 1958, the Plaintiffs' predecessors began selling the Matador brand of cigarettes in Canada. The product was sold in a red and white package ("Matador Red") using substantially all of the elements of the Philip Morris Marlboro products sold elsewhere in the world by PMPSA, except that the word "Matador" appeared on the package instead of the word "Marlboro". A trade-mark was issued in relation to that package on August 15, 1958 (TMA111,226), as represented below:



[27] The cigarettes provided inside the Matador Red package were Virginia blend Canadian cigarettes. A "light" version of the Matador Red cigarette was later introduced in Canada in or about 1971, and was sold in a gold and white package ("Matador Gold"). The cigarettes inside the Matador Gold package were also Virginia blend cigarettes.

[28] The Matador Red and Matador Gold packages have continually been sold since their introduction, and are currently sold today, containing Virginia blend Canadian cigarettes. The packages have been amended from time to time to comply with changing health warning requirements. They still use the ROOFTOP Design Trade-marks as well as the separately-

registered word trade-marks also owned by the Plaintiffs, MATADOR and COME TO WHERE THE FLAVOR IS:

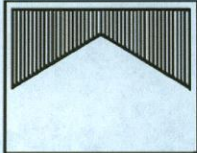

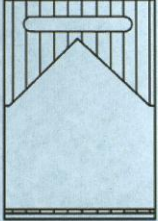


[29] The sale of this product appears to be limited to some regions of Canada, and its market share is currently less than 0.01%.

[30] Also sold by the Plaintiffs' predecessors starting in approximately 1970 was the Maverick brand of cigarettes, which incorporated the ROOFTOP Design Trade-marks in its package design, as well as a separately-registered word trade-mark owned by the Plaintiffs, MAVERICK. This product was discontinued in approximately 1978. The cigarettes sold inside the Maverick package

were Virginia blend Canadian cigarettes. The circulation and sales of this product were also very limited.

[31] On December 21, 1979, Philip Morris filed three applications for the registration of design trade-marks. They were all based on use in Canada since August 8, 1958. Two of them were eventually registered on December 21, 1979, under the Registration numbers TMA252,082 and TMA252,083, while the third one was registered on January 9, 1981 under the Registration number TMA254,670.

	<p>Registration No.: TMA254,670 Registration Date: January 9, 1981 Filing Date: December 21, 1979 Wares: (1) Cigarettes Based on use in Canada since August 8, 1958 The drawing is lined for the colour red.</p>
	<p>Registration No.: TMA252,082 Registration Date: November 4, 1980 Filing Date: December 21, 1979 Wares: (1) Cigarettes Based on use in Canada since August 8, 1958.</p>
	<p>Registration No.: TMA252,083 Registration Date: November 4, 1980 Filing Date: December 21, 1979 Wares: (1) Cigarettes Based on use in Canada since August 8, 1958. The drawing is lined for the colour red.</p>

At the time, proof of usage was demonstrated with Matador packages.

[32] On June 26, 1981, Philip Morris commenced two proceedings against ITL. The goal of its first proceeding was the expungement of Canadian Trade-mark Registration No. TMDA55,988 for the word trade-mark MARLBORO held by ITL. Philip Morris alleged *inter alia* that the trade-mark was not distinctive at the time of its registration nor at the time of the proceedings. Through the second proceeding, Philip Morris attempted to have the Trade-mark Registrar strike out the same registration from the Registry, again for lack of use.

[33] On or about September 14, 1981, ITL commenced an action in this Court against PMI for infringement of Canadian Trade-mark Registration No. TMDA55, 988. They brought this action because PMI had been importing for sale and selling cigarettes in association with the word trade-mark MARLBORO in Canada.

[34] Contemporaneously, Philip Morris filed three applications for the registration of two Marlboro packages quite similar to the Rooftop Trade-mark design based upon projected use, and for a third one again using the rooftop and the colour gold as background, but without any name. The two first applications were eventually withdrawn as a result of the decision reached by this Court and confirmed by the Court of Appeal. The third one was registered under Registration number TMA274,442 on December 3, 1982.



Registration No.: TMA274,442
 Registration Date: December 3, 1982
 Filing Date: October 1, 1981
 Wares: (1) Cigarettes
 Based on use in Canada since at least as early as 1971.
 The drawing is lined for the colour gold.

[35] By the time Justice Rouleau heard the expungement proceedings with respect to TDMA55,988, the Trade-marks Registrar had refused to strike the same registration from the register for non-use pursuant now to section 45 of the *Trade-marks Act*. As a result, Justice Rouleau rendered a decision in both the expungement proceeding and the appeal of the section 45 proceeding. Both the expungement proceeding and the appeal were dismissed, on the basis that ITL's trade-mark was still distinguishable and had not been abandoned. In that respect, Justice Rouleau wrote:

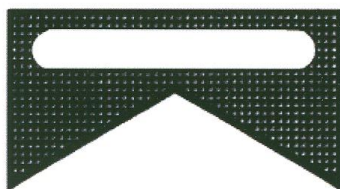
After careful consideration of this issue, I have decided that the survey and the evidence on the circulation of U.S. publications in Canada do not establish, to my satisfaction, the fact that the Canadian trade mark "Marlboro" sought to be expunged, has lost its distinctiveness. Indeed, as noted earlier, the test to be applied is to see if the trade mark used by the respondent on the Canadian market enables it to distinguish its wares from that of others offered on the same market at the date of these proceedings.

(...) The wares produced and sold by the respondent are still distinguishable from that of other found on the Canadian market as well as the applicant/appellant's brand. It has been demonstrated that American Marlboro cigarettes are widely known and recognized, though not generally available on the Canadian market. This demonstrates and supports the influence the spillover advertising has had on the minds of Canadians. They are well known in Canada and no doubt are purchased when our citizens are abroad. However, the survey and the advertising campaigns do not satisfy me that Canadian smokers are unable to distinguish an American brand of cigarette as opposed to a Canadian brand.

Philip Morris Inc. v. Imperial Tobacco Ltd. (1985), 7 C.P.R. (3d) 254, at pp. 272-273.

[36] On September 29, 1987, PMI's appeal of the decision of Justice Rouleau was unanimously dismissed by the Federal Court of Appeal. On January 28, 1988, PMI's motion for leave to appeal to the Supreme Court of Canada was also dismissed.

[37] On September 13, 1995, Philip Morris filed another application for the registration of a label design based on use in Canada since April 12, 1995. The specimens used to demonstrate the trade-mark as used was a package of Matador cigarettes. That design was eventually registered on November 1st, 1996 under Registration number TMA465,532:



Registration No.: TMA465,532
 Registration Date: November 1, 1996
 Filing Date: September 13, 1995
 Wares: (1) Cigarettes
 Based on use in Canada since April 12, 1995
 The background of the design is in gold with black triangular designs thereon, no colour is claimed for the blank oval portion.

[38] Finally, the Plaintiffs also own trade-mark registration TMA693,326 for the word ROOFTOP in association with cigarettes.

[39] Since the Maverick product was taken off the market, the Plaintiffs introduced no new products incorporating the ROOFTOP Design Trade-marks until 2006, when the Plaintiffs commenced sales of the no-name Rooftop cigarettes.

(2) The Defendants' Activities

[40] As previously mentioned, ITL sold Canadian Marlboro cigarettes in the Original Marlboro Packaging in Canada until 1969, when it was discontinued. In 1970, ITL re-launched Canadian Marlboro cigarettes as filtered, Canadian blend cigarettes. New packaging was designed for the product showing western Canadian scenery depicting prairies and a mountain range. The trade-

[42] The authors of that memo made no secret of their intention to play off the US Marlboro advertising so that they could benefit from the reputation of the US. Marlboro. Here is what they wrote in that respect:

Our Canadian Prairies and the Rocky Mountains...conjure thoughts of many things, of freedom, of uninhibited nature, quiet and clean, of individuality, of independence. This theme is to be the mood, the tempo and the design for Project Ranch. The basic creative concept is not original, as it is similar to the current U.S. Marlboro theme. But this concept need not be restricted to any one brand or product line, as the outdoors, especially our Canadian West, is public domaine [sic]. In fact, in 1963 Gold Leaf actually used the Canadian West as its creative theme. With this objective identified and defined it was decided to reactivate the Marlboro trade mark in Canada for Project Ranch.

(...)

The cigarette will be named Marlboro to a) take advantage of any built-in positive attitudes towards the name, b) pre-empt, diminish or diffuse the effect of an anticipated competitive launch.

ASF, para. 44, Sched. 13, at pp. 2,7.

[43] That being said, the authors were conscious of the need to differentiate the Canadian Marlboro from its American counterpart. As a result, they emphasized this goal immediately after having mentioned their expectation that they could benefit from the foreign reputation and goodwill of the Marlboro brand:

Marlboro will be, and must be perceived as a Canadian cigarette, manufactured in Canada, tailored to Canada smoking tastes. Consumers must not think of it as a Canadian edition of an American brand. Marlboro will contain "Finest Canadian Leaf", "Pure Virginia Tobacco", and these elements will be used to emphasize the Canadian nature of our product.

ASF, para. 44, Sched. 13, p. 7

[44] The Defendants have agreed that to the best of their knowledge, all information contained in the Project Ranch memorandum above was accurate at the time it was written. Moreover, available

documentation indicates that the execution of Project Ranch was consistent with ITL's plans as set out in this memorandum. Samples of advertising show the use of western country ranch scenes involving cowboys and horses. The slogan prominently used by ITL on its advertising was "To make it in Canada, you've got to know the country", reminiscent of the tagline used extensively by Philip Morris in its international advertising, COME TO MARLBORO COUNTRY.

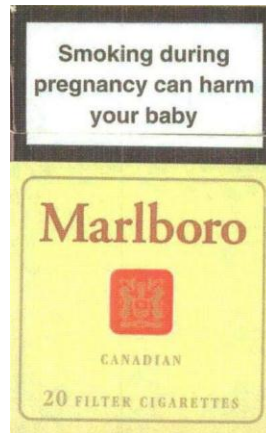
[45] The 1970 ITL Marlboro packaging was used until 1981, at which time it was redesigned. ITL abandoned the brown mountain scenery and introduced a beige package with red and black elements. The word mark MARLBORO was displayed in a black sans serif font:



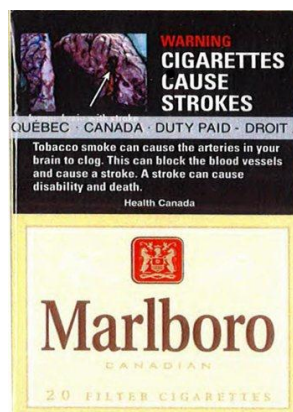
[46] This package was used until 1988, when it was redesigned as follows, to accommodate the newly-required Health Canada warning:



[47] In 1996, the ITL Canadian Marlboro package was again redesigned. The product was offered in a single format at this time, as 20 King Size cigarettes in a flip-top box. As shown below, the 1996 package employed a crest situated under the word MARLBORO, which was now itself displayed in brown ink using a serif style font.



[48] In 2001, the ITL Canadian Marlboro was once again redesigned. In the 2001 design, the placement of the crest relative to the word MARLBORO was changed so that the crest was now placed above the word MARLBORO instead of under it. Another serif-style font was employed for the word MARLBORO.



[49] Following the introduction of Rooftop cigarettes in 2006, ITL responded by commissioning an advertising campaign directed to retailers. The campaign involved the distribution of brochures referring to ITL Canadian Marlboro in the above package, under the tagline “Do you carry the REAL Marlboro?” The “Real Marlboro” campaign ran in Canada in late 2006, and was implemented as a direct response to Rooftop.

[50] After that publicity campaign, the ITL Canadian Marlboro package was again redesigned in 2007. The background colour was changed to silver, and the font for the word MARLBORO was changed to black and was compressed to give the word a more vertical appearance. The crest centered above the “r” and the “o” of the word MARLBORO now included a superimposed red central element, a maple leaf. This remains the package used today:



(3) Relevant Facts Relating to the Canadian Cigarette Market

[51] The first thing to note about the Canadian market with respect to cigarettes is that approximately ninety-nine percent (99%) of the cigarettes sold in Canada are Virginia blend cigarettes, sometimes also referred to as Canadian blend cigarettes. The remaining one percent of the Canadian market comprises American and European blend cigarettes. In contrast to Canada, in

the United States approximately ninety-nine percent (99%) of the cigarettes sold are American blend cigarettes. Similarly, in most of the remainder of the world, the vast majority of cigarettes sold are American and European blend cigarettes. A smoker would describe a Virginia blend cigarette as blander and milder in taste as compared to a more full-flavored American or European blend cigarette. An American blend cigarette is made of a mixture of several different kinds of tobacco, including the same Virginia tobacco used in the Canadian products, the dark-coloured Burley tobacco that gives the American cigarettes their robustness and flavor, and a small proportion of an oriental tobacco to add some aromatic spice.

[52] As already mentioned, the Matador and Maverick cigarettes were made from Canadian-style tobacco commonly known as Virginia blend. In contrast, the no-name, Rooftop cigarettes sold by RBH are made with essentially the same tobacco blend used in Philip Morris Marlboro cigarettes sold elsewhere in the world.

[53] The second relevant factor to consider is the fact that the sale of tobacco products has been increasingly regulated in Canada. Not only are cigarette packages now covered with a health warning that must occupy 50% of the display surface (see the *Tobacco Act*, S.C. 1997, c. 13, s. 15 and the *Tobacco Products Information Regulations*, SOR/2000-272, s. 5), but all provinces have now enacted legislation banning the display of tobacco products in retail shops. Starting with Nunavut in February 2004, all other provinces have followed suit, with the last one being Newfoundland in January 2010. As such, for all intents and purposes, the Canadian market is now what is called a “dark market”. Similarly, the promotion and advertisement of tobacco products is

severely restricted, making it virtually impossible for tobacco manufacturers to communicate directly with consumers except in very limited circumstances.

[54] Finally, a word must be said about the market shares of the three manufacturers in Canada. In the mid-1990's, it appears that the market share of ITL was approximately 69%, while RBH stood at 18% and JTI (the third major world-wide cigarette manufacturer) at 12.5%. [omitted]

[55] Over the last twenty-five years, the sale of cigarettes has declined steadily. While 66 billion cigarettes were sold in 1981, less than half of that number is now sold each year.

[56] Up until 2003, all cigarettes were basically sold at the same price. Around that period, however, a number of smaller regional manufacturers began selling and marketing products in Canada at discounted prices. To counter that phenomenon, the three major manufacturers started to segment their products into "premium", "value", and "budget" products, depending on their price points with a number of sub-classifications that varied over time and from one manufacturer to another. [omitted].

[57] [omitted]

C. The Launch of the Rooftop Brand in Canada

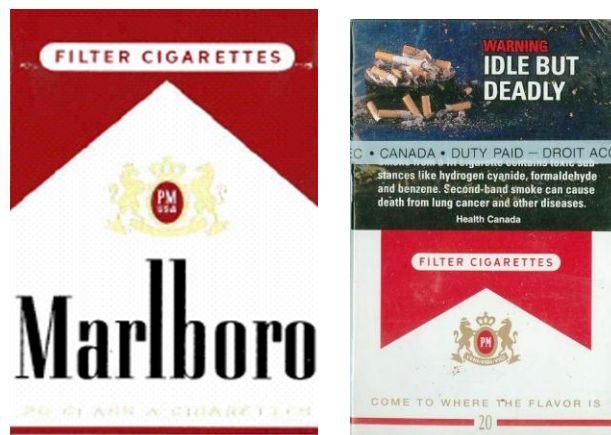
[58] The introduction of Rooftop in 2006 was the first time that the Plaintiff PMPSA's American blend cigarettes had been offered in Canada, other than the Philip Morris US Marlboro cigarettes

that could be purchased at duty free locations. It was also the first time that the ROOFTOP Design Trade-marks were used with such American blend cigarettes in Canada.

[59] This new product shared a number of characteristics with Philip Morris' Marlboro brand cigarette packaging:

- A. the "rooftop" geometric design;
- B. the predominant colours of red, gold or silver (as the case may be) and white;
- C. the Philip Morris crest with the initials PM;
- D. the words "filter cigarettes" displayed in a white oval bubble in the coloured background above the "rooftop"; and
- E. the red, gold or silver (as the case may be) line along the bottom.

It is also interesting to note that the word MARLBORO printed on the Philip Morris' Marlboro cigarettes close to the filter has been replaced by the rooftop design on the cigarettes sold in the no-name ROOFTOP packages.



[60] In countries other than Canada, these American blend cigarettes are sold using both the ROOFTOP Design Trade-marks and the word trade-mark MARLBORO. In Canada, the Plaintiffs

could not use the word mark MARLBORO because the Defendants are the registered owners of that word mark. Instead of using another name, as was done with MAVERICK and MATADOR, the decision was made to sell the new product without using any name at all on the package. It appears to be the first time throughout the world that a cigarette package has been sold with no name on it.

[61] It is not entirely clear why the no-name identifier was used on the package. According to Mr. Tom Garguilo, Senior Director of Marlboro Equity and New Products, the decision was made very early on to design a package that would be authentic to the brand, using only the trade-marks owned by PMPSA and refraining from using any additional element alien to the Marlboro brand equity. It was thought that using any other name than Marlboro on the product would make it look inauthentic or fake. This is why, according to the Plaintiffs, the use of the word ROOFTOP on the package was quickly discarded, even if PMPSA had applied for the registration of this word mark in 2003.

[62] That being said, I think it is also fair to say that the absence of a name on a package with the ROOFTOP Design Trade-marks and some other elements found on the international Marlboro package like “COME TO WHERE THE FLAVOR IS” and the reference to “WORLD FAMOUS IMPORTED BLEND” would make it easier for the consumer to associate that package with the Marlboro cigarettes sold elsewhere in the world. Indeed, Ms. Karen Bodirsky, director of public affairs at RBH, made no secret of that objective in an interview that she gave in August of 2006, shortly after the launch of the Rooftop products:

By leaving the Marlboro name off the package, Rothmans has sidestepped Imperial's defensive measure. “Our belief is that consumers will see the design, see the trade-mark ‘Come to where the flavor is’, both of which are used by Philip Morris in connection

with the Marlboro brand, and we feel consumers are going to make the connection and recognize it as an American-style cigarette”, says Karen Bodirsky, director of public affairs for Rothmans. “We thought that using any other name, or any name at all, would detract from the design.”

Exh. TX-204, Copy of an article by Matt Semansky, entitled “Rothmans introduces no-name cigarette”, published in Marketing Daily, August 14, 2006.

[63] As already mentioned, other elements are also used with the ROOFTOP Design Trade-marks. The trade-mark COME TO WHERE THE FLAVOR IS appears on the Rooftop packages, as well as a reference to “WORLD FAMOUS IMPORTED BLEND”; these elements, interestingly, do not appear on US Marlboro packs or on any packaging of Marlboro cigarettes sold elsewhere in the world. In addition, on the Rooftop point of purchase materials that were permitted in Canada before the market went dark, the fact that Rooftop was an American blend was emphasized. These elements were also included in permitted advertising for Rooftop cigarettes. It is also worth mentioning that the product’s name, Rooftop, is printed on the product cases, even if it is not placed on the individual packages.

[64] The launch of this new product appears to have happened on a major scale. Retailers were sent promotional material and were invited, at least in Ontario, to a well-attended party where Ferrari promotional material was distributed (Marlboro being the sponsor of the Ferrari team). In addition, attendees participated in a draw for a trip to the Monaco Grand Prix. Trade letters were also mailed or hand-delivered to the retailers. One of them, sent on July 25th, 2006 (Exhibit TX-131), announced the introduction of the “cigarette brand famous for its ROOFTOP design that has adorned cigarette packages around the world since 1954.” This letter stated, “Unlike any other trademark, it has become recognized for its high quality and rich tobacco flavor. The pack with the

ROOFTOP design doesn't need a name because after all...It's what's inside the pack that counts – high quality American blend cigarettes made possible by the famous Richmond recipe!". Another one (Exhibit TX-132), dated the same day and accompanying a presentation box containing a package of each of the individual Rooftop products, was even more explicit:

(...)

You will note that this new product is unique in that no brand name appears on the product packaging. Instead of a name, the product is identified by its distinctive ROOFTOP package design. The ROOFTOP package design is owned by Philip Morris Products S.A., with RBH being the exclusive licensee in Canada. You will recognize the ROOFTOP package design as that which is used internationally by Philip Morris Products S.A. and its affiliated companies.

It is important for you, as the retailer, to know that for historical reasons the trademark registration for the word MARLBORO in Canada is not owned by Philip Morris Products S.A., RBH or their affiliated companies. Accordingly, the MARLBORO trademark cannot be used in connection with RBH's new ROOFTOP brand.

A brand of cigarettes is sold in Canada under the name "MARLBORO Canadian/Canadien". That product is not, however, in any way associated with Philip Morris Products, S.A., RBH or their affiliated companies and the packaging design for that product is dramatically different from RBH's new ROOFTOP brand.

(...)

[65] The above-mentioned facts are not contested and therefore form the backdrop of this litigation. More contentious, obviously, is the impact on the consumers of the Plaintiffs' decision to sell their new product without any brand name. This was the focus of much of the evidence given by the various witnesses called to the bar.

III. The Witnesses

[66] The witnesses can be grouped into five categories: a) the Plaintiffs' corporate and historical witnesses; b) the Defendants' corporate witnesses and sales representatives; c) the parties' experts; d) retailers; and e) consumers.

A. *Plaintiffs' Corporate and Historical Witnesses*

[67] The Plaintiffs presented the evidence of four such witnesses at trial. Two witnesses attended at Court to give testimony, and the evidence of two deceased affiants was read in at trial.

[68] **Tom Garguilo** is employed with Philip Morris USA as the Senior Director of Marlboro Equity and New Products, but had also previously worked for other related Philip Morris companies for over 20 years. He had worked extensively with Marlboro over his career in a marketing capacity, and had been involved in developing the packaging and brand positioning for Rooftop cigarettes. He testified on the history of the Philip Morris Marlboro brand in the United States and worldwide, and the marketing rationale behind the design of the Rooftop packages.

[69] Mr. Garguilo explained that he used the brand equities – such as the rooftop, the phrase “Come to where the flavor is” and the crest – in order to present the product in an authentic manner, while adapting it to Canadian regulations requiring half the pack to be covered with a health warning. He also stated that he had not been aware of the Maverick product, sold in Canada during the 1970's, which also used the rooftop design and the crest but which was made of Virginia tobacco. He learned of this product during his preparation for this litigation, and realized that much

of the imagery associated with Marlboro internationally had also been used in Canada in association with Maverick.

[70] According to Mr. Garguilo, the reason why the brand name “Rooftop” does not appear on the pack is simply because Philip Morris is very concerned with the authenticity of its products, and also because the most important element is the product inside a pack, not the name on it. After considering various options (including calling the product “Rooftop” or “Red Roof”), it was therefore decided not to add any foreign element to the authentic product and to leave the package without a brand name on it. The only element that appears on the Rooftop package but that does not appear on Marlboro packages anywhere else in the world (though it is traditionally used in advertising materials and direct mail) is the mention, on the side panel, that it is the “WORLD FAMOUS IMPORTED BLEND”; this mention was added to signal that it is indeed the American blend product.

[71] On cross-examination, Mr. Garguilo stressed that the objective of launching the Rooftop product was to prompt consumers to associate the rooftop design with the Marlboro cigarettes sold elsewhere in the world by Philip Morris. As a result, PMI did not consider using the brand name “Matador” to introduce the international PM Marlboro product made of American blend tobacco. Nor did PMI consider the possibility to create a new package and new design to introduce the Rooftop product, because it did not want to use foreign equities for the sale of an established brand. The objective was clearly that consumers would associate the Rooftop package and the international PM Marlboro cigarette. Using another name would have led the consumer to think that it was not the authentic product but a “fake”. That being said, Mr. Garguilo stated that the name used to

communicate with retailers and wholesalers nowadays, and the name found on invoices, order sheets and on the big cases containing the cartons is “Rooftop”. He also highlighted the similarities and differences between the Canadian Rooftop packages and the US Marlboro packs, and accepted that there are a few differences between the three versions of the Rooftop products and the ROOFTOP Design Trade-mark registrations owned by PMPSA in Canada.

[72] **Francesco Gianninoto** was the graphic designer who created the Marlboro Red Roof Label in 1954. He was deceased at the time of the trial, but had sworn an affidavit on May 18, 1987 in another court proceeding, which the parties agreed could be read in at trial for the truth of its contents. In his affidavit, Mr. Gianninoto confirmed his creation of the Marlboro Red Roof Label and his prior transfer of all copyright in this work to PMI.

[73] **Randolph Millhiser** had been a director of Philip Morris Companies Inc., a holding company of PMI. He was also deceased at the time of trial, but had sworn an affidavit on April 28, 1987 in the same court proceeding as Mr. Gianninoto. The parties agreed that Mr. Millhiser’s affidavit could also be read in at trial for the truth of its contents. Mr. Millhiser had been involved in the redesign of the Philip Morris Marlboro brand in the early 1950s. His affidavit described the events and thinking surrounding the redesign, and the subsequent launch of the new Philip Morris Marlboro in 1955.

[74] **Derek Guile** is the Director of Marketing and Sales for RBH and has worked with the company for 26 years. He is responsible for the development and execution of all sales and marketing strategies for RBH, and oversaw the strategies employed for Rooftop cigarettes. He testified regarding the Canadian marketplace and regulatory environment for tobacco products, and

discussed the introduction of the Rooftop brand and its reception in Canada. He also testified regarding the use of a crest design on cigarette packages distributed by RBH and its predecessor, Benson & Hedges.

[75] According to Mr. Guile, the market is tiered in different ways: package size (20s versus 25s), pricing (above premium price, premium price, value price, low price), fine cut or cigarettes, strength, size of the cigarettes (regular length, king size, 100 millimetres), blend, with or without menthol. Before 2003, the Canadian marketplace was basically a unique price market; but as a reaction to some smaller regional manufacturers who began selling and marketing products at discounted prices in Québec, RBH lowered the price of one of its premium brands and successfully increased its share of the market. Since then, there has been a proliferation of either existing or new brands on the Canadian market sold at a lower price. At the moment, 60% of the cigarettes sold in Canada are priced below premium, and there is even a significant range of prices within the value tier.

[76] [omitted]

[77] The next topic addressed by Mr. Guile was the regulation of the Canadian market. As he explained, there are five essential “P”s in marketing: packaging, product, price, promotion and place. In Canada, tobacco companies are more or less at liberty to do what they want with respect to pricing, packaging and product, but are severely restricted when it comes to place and promotion.

[78] Promotion of tobacco products – that is, marketing through in-store display, sponsorship activities, media advertising and billboards – is now banned in Canada. Media advertisement has been banned for many years, sponsorship has been prohibited since 2000, and starting in 2003 up until January 1st of 2010 in Newfoundland, all provinces have banned in-store display. The *Tobacco Act* and the *Tobacco Products Information Regulations*, SOR/2000-272 similarly prohibits the direct promotion of tobacco to adult consumers through coupons, sampling, etc.

[79] As for the locations where tobacco products may be distributed, there are also severe restrictions. For example, tobacco companies are not allowed to sell their products in outlets such as drugstores. Even in stores where cigarettes may be sold, they cannot be displayed to the consumers, as already mentioned.

[80] Moving on to the sale and distribution of their products, Mr. Guile indicated that RBH sells its cigarettes to wholesale distributors. These wholesale distributors range in their level of service from full service delivery where a retailer can phone, fax or order a product via internet, to a cash-and-carry wholesale distributor like Costco. On the other hand, ITL has its own proprietary distribution system with direct shipment to retailers. Mr. Guile was referred to an order sheet from Costco; after identifying it (Exhibit P-6), he pointed out that tobacco products are listed in alphabetical order, with a shaded section for international products that are mostly super-premium and blended products. The Rooftop products on that order sheet are identified as “rooftop red”, “rooftop gold” and “rooftop silver”.

[81] The last part of Mr. Guile's public testimony was devoted to the launch of the Rooftop products. They were first introduced in Ontario in July 2006, and were gradually sold in all other provinces except Newfoundland before the end of that year. The decision to launch the product was made in October of 2005 by Mr. Guile, along with the president and chief executive officer of RBH and the president of the Latin America and Canada division of PMI. At the time, the ultimate design of the product had not been finalized but it had already been determined that the available elements of the packaging registered in Canada were to be used. The decision to refer to the product as "Rooftop" without labelling it as such was only made in the spring of 2006, by the RBH executive team. They decided not to put a brand name on the package because a name not associated with the product inside might deter consumers and lead them to believe that it was not a genuine product.

[82] According to Mr. Guile, the launch of that product was no different from the launch of previous similar products. Sales representatives began by selling the product to wholesale distributors, and then went to individual retail stores to inform the owners about the wholesale option or to sell small quantities of the product directly through shipment or cash sale. The witness pointed out that in 2006, most of the provinces still allowed visible displays.

[83] Mr. Guile confirmed that one of the marketing tools used to launch the product was trade letters mailed or hand-delivered to retailers in July 2006, referred to above at paragraph 64 of these reasons. He added that many meetings were held with sales representatives to explain to them why the product had no brand name on it and that the name Marlboro was owned by someone else. The

sales representatives were also instructed to refer to the product as “Rooftop”, just like in the trade publications, ordering sheets and promotional material.

[84] Mr. Guile also referred to a bundle of trade publications produced as Exhibit TX-147, which was exclusively distributed to trade people and where tobacco advertisements are permitted because they are not addressed to consumers, and to a trade piece prepared by a distributor in Quebec. All of these materials emphasized that the three new Rooftop products were American blends. Other examples of advertisements in adult publications were also produced in a bundle as Exhibit TX-148. According to the witness, these advertisements were permitted for a few months in 2009. Again, these promotional materials all emphasized that the top-selling cigarette in the world was now available in Canada and that it was an American blend. All kinds of other marketing material (Exhibits TX-118, 120, 121, 123, 126, 128, 129 and 130) were also prepared, with similar messages emphasizing the new product as an American blend. Of course, all of these advertising techniques and materials designed to draw consumers’ attention to tobacco products are now banned from the Canadian dark market. In cross-examination, the witness also identified a number of promotional materials (shelf strip, presentation box, poster, sticker, flip-up sign, hanging sign artwork, countertop stand, branded lighter and ashtray, etc.) addressed to retailers (and in a few cases to consumers in adult publications) to launch their new Rooftop products (Exhibits TX-114 to TX-159).

[85] According to Mr. Guile, the reason why the American blend feature was so heavily emphasized was simply because in a predominantly Virginia blend market, it was important to send consumers the message that Rooftop is the American blend usually associated with the design

elements of the globally popular cigarette. He insisted that each of the three Rooftop products is ordered by cash-and-carry wholesalers as “Rooftop”, and that non-cash-and-carry wholesalers who distribute the products to retailers via order sheets would also identify them as “Rooftop”.

B. Defendants’ Corporate Witnesses and Sales Representatives

[86] **Ed Ricard** is Division Head, Strategy, Planning, and Insights, for ITL. He testified on ITL product market shares, sales activities, the organization of employees at ITL, and package designs.

[87] [omitted]

[88] Mr. Ricard also discussed the evolution of advertisement restrictions, giving a similiar synopsis to that provided by counsel for the Defendants in cross-examination of Mr. Guile (Exhibit D-24). Today, the primary means of communication with consumers is the package itself. Indeed, the packaging has always been very important. Unlike with many other kinds of products, the cigarette package is something that the consumer deals with several times a day, so the consumer needs to feel comfortable with. The cigarette package, in the minds of many consumers, also says something about them to others. Now as in the past, the colours, name designs, symbols are all things that are studied carefully, updated, and changed on occasion to ensure that the consumer continues to feel comfortable with the brand that communicates the image the consumer wants. All of this is even more important today, in a dark market context.

[89] Mr. Ricard indicated that 75% of all cigarettes are distributed through convenience stores and gas stations. Some grocery and department stores sell cigarettes as well. There are specialty

smoke shops, bars, restaurants, hotels and numerous other locations that also sell cigarettes. Half of convenience stores and gas stations that sell cigarettes are national or regional chains. The ITL distribution system changed in 2006; now, the distribution goes directly to retailers. Meanwhile, their competitors still distribute their products through the wholesale network. There is no exclusivity within the distribution of tobacco at retail stores. However, some shelf space is secured with certain retailers via individual contracts regarding the carried volume of the product, the location, the available stock in the retail and sometimes the position of the product on the back wall. Prior to the dark market, the sales representatives would go into retail stores and negotiate with the retailer for the space, the number of brands, the amount of space, etc. These representatives ensured proper display and quality of the product at retail by paying weekly visits to the retailers. With the dark market, the importance of having the prime visual space is no longer an issue because the products are no longer visible. Therefore, the important factor today is that the product be placed in a position of easy access to the retailer and that the same company's brands are merchandised together to avoid confusion.

[90] On cross-examination, Mr. Ricard identified a document emanating from ITL dating from 2002 (Exhibit P-34) stating that “[a]lthough not legitimately available for sale in Canada, Marlboro US has respectable consumer share particularly amongst younger adult smokers”. Mr. Ricard commented that it does not necessarily mean that this product was purchased in Canada, although he recognized that he was aware of sales representatives occasionally finding US PM Marlboro cigarettes at legitimate retail outlets in Canada. Counsel for the Plaintiffs also drew Mr. Ricard’s attention to other excerpts of the same document stating that “the brand suffers from very low levels of distribution”, and that consumer share for Marlboro Canadians is very low amongst all target

groups”, and concluding that options must be explored to optimize the returns from this brand, including “increased distribution efforts”, “re-design”, “new recipe (US taste, blended)”, “distribution arrangement with P.M.”, and “sell/trade the rights of Marlboro”.

[91] Despite a lengthy interrogation by Plaintiffs’ counsel, Mr. Ricard did not confirm that he knows for a fact that the ITL Marlboro advertisement campaign and the 1970 redesign of the ITL Marlboro package reflecting countryside, mountains, and horses was a direct result of the Project Ranch memo referred to above (Exhibit P-35). Mr. Ricard was asked to comment on the many references in that document to RBH’s upcoming launch of its Maverick product and ITL’s need to counteract with its own Marlboro brand. He answered that “the talk about “Maverick” was more about the timing of a particular activity or in response to a potential competitive activity, rather than, necessarily, a primary objective of the project”.

[92] **Richard Frasier** is employed by ITL as their Market Insights Manager. He initiated and directed the 2001 redesign of ITL Canadian Marlboro, working with Jennifer DeVito of Axion Design. He also testified on ITL’s brand market share data and brand boards.

[93] He explained that the redesign was triggered by Bill C-71, which introduced extended pictorial health warnings to most cigarette packages. The objective was to modernize the brand while keeping it recognizable for consumers. As for colours, Axion Design was directed to move away from the yellowish-beige background, but at the same time to stay away from the red and white colour scheme typically associated with the US PM Marlboro brand. Many proposals were made to ITL, as evidenced by Exhibits D-77 to D-80. In the end, the font chosen was meant to be

more modern, but recognizable and in keeping with the overall design. As for the placement of the crest, it was centered above the word MARLBORO, in order to retain the symmetry of the previous design; it was also thought that positioning the crest in this way would help consumers locate the brand in an in-store environment with shelf strips.

[94] **Jennifer DeVito** is President and Creative Director of Axion, a San Francisco graphic design company that was previously retained by ITL. She testified as to her involvement in the 2001 redesign of ITL Canadian Marlboro. On cross-examination, Ms. De Vito mentioned that the professional relationship between Axion and ITL ended about a year and a half ago.

[95] Ms. De Vito testified that she was asked to refresh and update the Marlboro package as part of an evolution of the original design without falling into a revolutionary redesign. She was aware of the brand situation and of the importance of preventing confusion with the US PM Marlboro. No specific instructions were given in regard to colours, except that she was to start from the 1996 version. The font was also left to Axion, so long as the modernization objective was met. Similarly, no specific directions were given with respect to the placement of the crest.

[96] In the course of the first phase of design exploration, Ms. De Vito bought a US PM Marlboro pack; she was also provided with all the competitors' brands sold in Canada along with a selection of different tobacco designs in the US. This Phase 1 translated into the graphic design proposals found in Exhibit D-78 and narrative descriptions of these designs provided by Ms. De Vito in Exhibit D-77. The different suggestions explore the size, shape, and placement of the crest

and font. It was obvious to Axion that it had to be careful with the red colour because it is predominant in the US PM Marlboro.

[97] On cross-examination, she mentioned that the font was not elongated or manipulated during the first phase of the project; the fonts used were all available to everyone on the market. In the end, the difference between the 1996 and the 2001 Marlboro packages fonts is that on the latter featured a condensation of a larger Utopia semi bold letters, while the former exhibited a smaller non-compressed Garamond font. The word MARLBORO was also centered, but no specific manipulation was made to centre the letters “l” and “b”.

[98] The placement of the crest on the 2001 ITL package was chosen to reflect a logical hierarchy of information. It also took into consideration the fact that only the upper part of a package would be visible on store shelves. Ms. De Vito accepted that this pyramidal hierarchy was also used on the US PM Marlboro pack, but added that this was the case with a number of brands.

[99] **Louis-Philippe Pelletier** is ITL’s Brand Manager for its duMaurier cigarettes, but had previously been a member of the group that managed Player’s and ITL Canadian Marlboro. He testified about the 2006 “Real Marlboro” advertising campaign, as well as the 2007 redesign of ITL Canadian Marlboro.

[100] After taking charge of the Marlboro brand in February 2006 and studying its sales volume, market shares, distribution, and consumer profile, Mr. Pelletier concluded that the Marlboro brand was not profiting from an optimal distribution and that the 2001 design should be updated in order

to increase the market share of the brand. In a document entitled ‘Project Initiation Brief addressed to the marketing management of ITL, Mr. Pelletier recommended increasing the quantity of distribution and creating a new design for Marlboro. With the approval of the managers, he instructed Pigeon Branding + Design to redesign and repackage the Marlboro product to emphasize its Canadian image, to refresh it with a modern package that would attract younger adult smokers, and to increase the premium nature and the projected quality of the product.

[101] In a preliminary series of proposals made in November 2006, Pigeon Branding + Design came up with a few designs and the following texts: “Do you carry the REAL Marlboro?” and “Product Distributed by Imperial Tobacco Canada”. This was motivated by the recent launch of the Rooftop product, as it was felt important to emphasize that the only Marlboro brand in Canada was the one belonging to ITL. Mr. Pelletier insisted that the agency was given no directions as to the font, the colours to be used, or the positioning of the crest. In consultation with other managers, Mr. Pelletier opted for the incorporation of the maple leaf in the crest, because it was an interesting way to incorporate the two elements. The colour red associated with the word Canadian was also thought to meet the project objective, while the overall change of colours achieved the desired “premium” and “modern” look. The option of using a different font was excluded, thought to be too different from the one used in 2001. The option displaying the crest and maple leaf above the word MARLBORO was preferred because it made the two elements more visible.

[102] Further refinements were considered until the design was finalized in January 2007. It was finally decided not to introduce the new package in the super premium segment, but to launch the redesigned product in the premium segment and to then increase its price gradually. Mr. Pelletier

also mentioned that some of the new background textures were not approved by the legal department because of potential similarity with the American PM Marlboro background.

[103] On cross-examination, Mr. Pelletier confirmed that when he began working on the Marlboro brand, the number of stores carrying the brand was limited, as was the availability of the product across the country. He also reiterated that the decision to put “Do you carry the REAL Marlboro?” on the 2007 trade flyers was made in order to emphasize that the product is Canadian and that the only Marlboro product on the Canadian market was the ITL Marlboro. Finally, he confirmed that the 2007 package was meant to be an evolved version of the 2001 package, rather than a revolution or a break from the older package.

[104] **Olivier Chevillot** was a graphic designer employed by ITL’s current design agency, Pigeon Branding and Design, to create the 2006 Real Marlboro brochures and the 2007 ITL Canadian Marlboro package. He testified on principles of graphic design generally, as well as on the rationale for the placement of the elements on the 2007 ITL Canadian Marlboro package.

[105] Mr. Chevillot confirmed that the objectives that ITL communicated to Pigeon Design were to reinforce the Canadian and the premium features of the product (which led to the addition of the maple leaf) and to refresh the brand to make it more appealing for younger consumers. The client did not give specific directives as to colours or other design elements. He also added that when creating or updating a package, designers typically look at all the other cigarettes packages within the same price segment, to ensure that the product is distinctive from the competition.

[106] The witness explained the rationale behind the silver background. Metallic colours in general suggest a high-quality product, while silver in particular (as opposed to gold) suggests a younger premium product. He also explained that the decision to center the logo on top of the brand name is not unusual, since such centering is done in 90% of cases because such an arrangement reflects the classical image of a logo and the natural order in which people read a package.

[107] Mr. Chevillot then considered the font used for the word MARLBORO, which on the final redesigned package is a compressed version of the Utopia. The compression means that the height of the letters stays the same, while the width is reduced. On both the 2001 and 2007 packages, the word MARLBORO is typed with a Utopia font compressed by 70%. However, the size of the font was reduced on the 2007 package. A reduction is different from a compression: when the font is compressed, only the width of a character (and not the space between the characters) is shrunk while the height remains untouched. In contrast, when the font is reduced, the height and width of a character are reduced proportionally.

[108] The size reduction in the 2007 version was aimed to make the package look more premium, similarly to the colour change to the silver background and black characters. Another change in the final design of the 2007 package was the addition of a discrete drop shadow for the word MARLBORO, again in order to increase the perception of quality. One of the characteristics of the Utopia font that was chosen is that it features lower case letters “l”, “b”, “h” and “k” that are always slightly higher than capital letters. This feature makes reading easier by keeping the height and proportions of letters harmonious, a characteristic that is not unique to this font. Finally, Mr.

Chevillot mentioned that the brand name was centered along the middle axis, which is a common practice to make the design look more classical and balanced.

[109] On cross-examination, Mr. Chevillot admitted that a similar result could have been achieved by starting with smaller size letters and elongating them instead of compressing the Utopia semi bold font by 70%. This result is not surprising, as compressing the width of the letters or starting with a smaller size of letters and elongating them amounts to the same thing mathematically. He also confirmed that the small size of the maple leaf on the package was a careful and deliberate choice to demonstrate the Canadian origin of the product, without making the leaf too big and bold to detract from a premium product.

[110] **Marc-André Lacroix** has been employed as an ITL sales representative for the Montreal East district since June 2006. He is the sales representative for two of the retailers who testified, Mr. Sam Hajjali and Mr. Samer Tarbouche. Mr. Lacroix testified as to his functions in his role as a sales representative, and also made statements as to what he recalled in terms of the sales and displays of Rooftop.

[111] **Julie Lucier** has been employed full-time as an ITL sales representative since 2006, covering the Plateau Mont-Royal and La Petite Patrie areas of Montreal. She testified generally as to her duties in merchandising and distributing cigarettes. Ms. Lucier had also participated in a study commissioned by ITL in 2008 to review the shelving of ITL Marlboro in retail stores.

[112] **Aris Zervos** has been a sales representative with ITL since June 2006, and has served the areas of Stoney Creek, Yorkville and Scarborough. He testified generally as to his job functions in merchandising and distributing ITL products.

[113] **Mark Doerr** has been a sales representative with ITL since May 2006, working in the west end and downtown areas of Toronto. One of his accounts is the store at which one of the retailer witnesses, Jake Shim, is employed.

[114] All of the sales representatives testified that the territories they cover comprise approximately 90 to 100 stores that they visit for approximately 20 minutes once or twice a week. They take orders from retailers, do product returns and inform retailers about ITL's products and launches.

[115] Their testimonies were remarkably similar in many respects. For example, they all mentioned that they had frequently seen the Rooftop packages placed close to the Canadian Marlboro on the shelves, both before and after the dark market. They also indicated that the Rooftop products were often found behind flaps identified as "Marlboro" by the retailer. Finally, they all mentioned witnessing hundreds of consumers purchasing the Rooftop products in retail stores and referring to them as "Marlboro"; similarly, retailers conversing with consumers about the Rooftop products would almost always refer to these cigarettes as "Marlboro".

[116] On cross-examination, they all agreed that their jobs include ensuring that the ITL products are shelved properly, ensuring that other competitive brands are not shelved where ITL products

should be, and educating retailers about ITL products and their differences with competitors' products. The witnesses also recounted the memorable launch of the Rooftop products, stating in some cases that it was the most important and high-profile launch they had seen. Finally, they all explained that when a consumer asks for "Marlboro", the retailer would usually grab the Rooftop red. If this is not the product the consumer wants, the latter would specify that he wants the gold or the silver. The witnesses therefore accepted that there is a process of interpretation by the retailer, but that in the end, the consumer gets what he wants. They added that retailers give the Rooftop products when asked for a "Marlboro" because when they give the ITL Marlboro, the consumers almost always reply that this is not the product they want.

[117] Mr. Lacroix said that he was familiar with the ITL "Alternate Product Guide". This is a document designed for ITL representatives to be used in their dealings with retailers, suggesting ITL products as possible substitutes for other manufacturers' brands. Before placing the guide before him, he was asked by counsel for the Plaintiffs to confirm that the guide did represent that ITL Canadian Marlboro should be provided as an alternative to an American blend. He was able to confirm this from memory. He then tried to backpedal and said, when shown the English version of that guide, that he did not know that version because he used the French one, that he did not use it much in any event, that there had been several versions of that document, and that he was not sure whether Marlboro was presented as an alternative to American blend cigarettes in the French version of the guide. When shown a scanned French version of that document (Exhibit P-47), however, he identified it as the document he is familiar with and recognized that the same comparison is made between the Canadian Marlboro and the American blend Camel or Winston.

[118] At the hearing, counsel for the Defendants objected to the production of this document in its two versions (French and English), first because neither the witness nor the representative of the company could identify it, and also because it was allegedly not relevant since there was no allegation of passing-off against the Defendants. Later on, counsel for the Defendants advised the Court that the Defendants had confirmed the existence of these documents, and accepted that they be filed as confidential exhibits; however, he maintained his objection as to the relevance of that document. Having now had the benefit of considering all of the evidence submitted by both parties, I am of the view that these documents should be admitted. I agree with counsel for the Plaintiffs that it is very much relevant as to how the Defendants themselves position their Marlboro product, much in the way that the shelving and the store positioning discussed in the witness's testimony is relevant.

[119] Ms. Lucier testified on direct examination that behind a given shelf label for MARLBORO, one would very frequently (at least in 70% of the cases) find both the ITL Canadian Marlboro and the Rooftop products. Yet upon a review of the 16 stores that she had visited with a paralegal in 2006 for the purposes of the study commissioned by ITL to review the shelving of ITL Marlboro, there were only four instances where Rooftops and ITL Canadian Marlboros were shelved near each other, and only one instance in which a Rooftop product was located behind a "Marlboro" shelf label (Exhibit P-49). Interestingly, when confronted with the photographs taken during this investigation, she could not remember whether retailers were asked to correct their labeling.

[120] Mr. Zervos admitted that it is more and more common for retailers to adopt scanning systems with bar codes for each product, recording the transaction and displaying the product and

price when scanned. When asked specifically about two stores visited by counsel for the Plaintiffs, he could not confirm whether or not the screen displaying the name of the product and the price could be seen by consumers. Mr. Zervos also accepted that stores that have scanning systems can generate a receipt on which the name of the product is displayed, but stated he could not recall a situation where such a receipt was given for a tobacco product or requested by a consumer.

[121] Mr. Zervos also confirmed that he was familiar with the “Alternative Product Guide” (Exhibit P-48), provided to sales representatives by ITL and positioning the ITL Canadian Marlboro as the number one alternative to the American brands CAMEL and WINSTON. He said that he was not familiar with the letter sent to retailers by RBH at the launch of the Rooftop product, nor could he recollect seeing any of the trade materials sent to retailers and promoting Rooftop as an “American Blend”.

[122] As for Mr. Doerr, he was confronted with the evidence given by one of the retailers that he visits on a weekly basis, Mr. Shim, who stated that he refers to the Rooftop product as “Rooftop”. Mr. Doerr answered that he could not recall Mr. Shim referring to the Rooftop product by that name, nor could he recall where the Rooftop product was placed in Mr. Shim’s store.

C. The Parties’ Experts

[123] Five expert witnesses were called by the parties, three by the Plaintiffs and two by the Defendants. In the following paragraphs, I will attempt to capture the gist of their reports and testimonies; a more thorough and critical analysis of their submissions will be undertaken as part of my discussion of the substantive issues raised in this trial.

[124] **Robert Klein** was presented by the Plaintiffs as an expert in marketing research and surveys. He is the president and co-founder of Applied Marketing Science Inc., a market research and consulting firm in Massachusetts, USA. Mr. Klein has testified as an expert in many proceedings in Canada and in the United States. He presented the results of two surveys he had conducted in four shopping malls throughout Canada (Vancouver, Edmonton, Toronto and Montreal). Measures were taken to ensure the quality of the results, such as the “double blind” nature of the study where neither the respondents nor the interviewers are aware of the purpose of the study or the validation of the interviews.

[125] In the first survey (the “Rooftop survey”), respondents were shown the Rooftop package and asked questions regarding their recognition of its source. The purpose of that study was to assess consumer views, if any, on the product origin or source of the Rooftop cigarette package. The respondents were first questioned about the brand of cigarettes they smoke. Afterwards, they were shown a red Rooftop package and asked:

- A. whether they had seen this brand ever before and, if yes, where;
- B. whether they had ever purchased this brand and if yes, where;
- C. how they would refer to the brand if purchasing it, and why;
- D. what else they can tell about the brand; and
- E. whether they associate the design and appearance with another brand, and if yes how they would refer to that other brand, why they make that association, and where is that other brand sold.

[126] According to the witness, that study led to the following conclusions:

- A. None of the respondents reported that Marlboro or Rooftop was their regular brand;
- B. Only 23% of the smokers who were shown the Rooftop package had ever seen it before;
- C. Only 15% of the smokers who were shown the rooftop package would call or refer to it as “Marlboro”;
- D. 96% of the respondents who would call or refer to the Rooftop package as “Marlboro” based that response on their familiarity with the Marlboro product marketed outside of Canada by Philip Morris;
- E. None of the respondents who would call or refer to the Rooftop package as “Marlboro” indicated they believed the product was in any way associated with ITL;
- F. An additional 32 respondents (out of a total of 389) said that they associated the design and appearance of the Rooftop package with “Marlboro”. 88% of these respondents based their answer on their familiarity with the Marlboro product marketed outside of Canada by Philip Morris;
- G. None of the respondents indicated that they believed the product was in any way associated with ITL;
- H. Only 0.5% referred to or called the product “Rooftop”.

[127] The purpose of the second study (the “Marlboro Canadian study”) was to assess consumer views on the product origin of ITL’s Marlboro Canadian cigarette package. The respondents were first asked what brand of cigarettes they smoked. Afterwards, they were shown either the current silver Marlboro Canadian package, the older beige Marlboro Canadian package, or a Belvedere

package. The Belvedere package was a control package, used to detect and filter out random guessing on the part of the participants. The respondents were then asked, with respect to each of the packages they were shown:

- A. whether they had seen this brand ever before and if yes, where;
- B. whether they had ever purchased this brand and if yes, where;
- C. what else they could tell about the brand;
- D. whether they associate the design and appearance with another brand, if yes how they would refer to that other brand, why they do they make that association, and where is that other brand sold.

[128] That study showed that 72% of the respondents who believed they recognized the ITL Marlboro Canadian product (an average of the results for both ITL's packages) attributed their recognition to a product from outside of Canada. Considering that Philip Morris is the only company that markets Marlboro outside of Canada, and that Marlboro is the number one selling cigarette in the world, these respondents appear to have been referring to the Philip Morris Marlboro product sold outside of Canada. The familiarity of the consumers who recognized the ITL Marlboro appears to be largely based on prior exposure to the Philip Morris Marlboro brand sold outside of Canada.

[129] **Gilles Robert** is a graphic design consultant specializing in a number of facets of graphic design, including typography, product and corporate logos, and graphic communications. He has over 45 years of experience in the field, having worked and taught in graphic design since 1995. He has been called the "father of modern graphic design" in Quebec. He was asked to review each of

the various ITL Canadian Marlboro packages and compare them to the PM US Marlboro package in order to assess the importance of any similarities to the overall look of the PM US Marlboro package.

[130] Mr. Robert found that the package designs for the 1970, 1981 and 1988 versions of the ITL Canadian Marlboro packages differ significantly from the PM US Marlboro package in their design, colouring, layout and font. The 1996, 2001, and 2007 versions of the ITL Canadian Marlboro packages, however, incorporate changes that cause them to bear substantial similarity to the PM US Marlboro package. In his view, the most striking changes are twofold, and relate to the font used for the word MARLBORO and the crest.

[131] Mr. Robert first provided some background on typography, and explained that there are two broad categories of font styles for printed text: non-serif and serif. A serif is a small projection that finishes off the stroke of a letter. Further sub-classifications within these broad categories form four principal families of fonts. In the PM US Marlboro package, the word MARLBORO is a modified version of the Corvinus Skyline font, which belongs to the serif classification of fonts in the Didot family. It is characterized by a relatively sharp, thin serif. In comparison to the unmodified font, the Corvinus Skyline used on the PM US Marlboro is compressed to make the word appear narrower and taller. The capital “M” has been elongated, but not as much as the middle “l” and “b” which are taller than every other letter including the capital “M”.

[132] The 1970, 1981, and 1988 ITL Marlboro packages used different versions of a sans-serif font of the Antique family. In 1996, the font was changed for a sans serif font called Utopia Semi

Bold; the font was modified to stretch vertically the “M”, “T” and “b”, with these three elongated letters all of the same height. In the 2001 package, the word MARLBORO remains in Utopia Semi Bold font, but was stretched vertically by 51% in order to appear taller and narrower; this means that the width occupied by each character was condensed by that same proportion. Finally, in 2007, the font was again changed with a further elongation of the word MARLBORO by approximately 30%.

[133] Mr. Robert believes that the Utopia Semi Bold font used in the ITL Canadian Marlboro packages differs from the Corvinus Skyline font used on the PM US Marlboro package, but that to the untrained eye of a consumer, the difference would be too small to perceive.

[134] The second change relates to the placement and styling of the crest. It was first moved on top of the word MARLBORO, in the identical relative placement to that seen on the PM US Marlboro. It was later coloured differently, with a red centre added in the form of a maple leaf. These changes, in Mr. Robert’s view, cause the crest element to bear a significant similarity to the crest of the PM US Marlboro in the context of the overall package design.

[135] **Stephen Candib** was the third expert witness called by the Plaintiffs. He has been involved in brand development and design management for over 25 years. He was asked more or less to testify on behalf of Mr. Don Watt, who had provided an expert affidavit but unfortunately passed away in December 2009. Since the period for the exchange of expert reports had passed and the trial had been set down, counsel for the Plaintiffs asked Mr. Candib to review Mr. Watt’s affidavit; having done so, Mr. Candib was comfortable adopting Mr. Watt’s analysis and conclusions except

for his views on the 1996 ITL Canadian package. While Mr. Watt felt that the changes introduced to the 1996 package resulted in a significant overall resemblance to the PM US Marlboro package, Mr. Candib did not find that the general impression left by the package suggested that it was a copy of the PM US Marlboro package.

[136] The same cannot be said of the 2001 and 2007 packages. In 2001, the name MARLBORO was placed below the crest instead of above it. The typeface for the word MARLBORO was compressed with its width reduced and its height increased. The background colour became lighter with a stronger contrast between the word MARLBORO and the background. In this version of the ITL Marlboro package, there is greater similarity with the PM US Marlboro. In changing the order of the elements and arranging the “T” and “b” to point directly to the red crest, the overall resemblance is stronger.

[137] As for the 2007 package, several other changes were introduced. First, the new crest, featuring a red maple leaf, on the 2007 ITL package is reminiscent of the red oval in the center of the crest on the PM US Marlboro package. Second, the placement of the crest above the word MARLBORO with the letters “T” and “b” pointing right up at the crest reinforces the impression of similarity. Third, the white and silver background is similar to the PM US Marlboro package, especially given the contrast with the word MARLBORO typed in black. Fourth, the compressed vertical typeface is very similar to the PM US package. Finally, the health warning covers the upper part of the face of the package, just as in the 2001 version, which could give the impression to a consumer familiar with the PM US Marlboro package that the warning is covering the red roof portion of the package.

[138] **Chuck Chakrapani** was presented as the Defendants' expert in marketing and surveys. He is a highly qualified expert in the field of statistical and marketing research and data analysis. He holds a number of university degrees related to psychology, statistics, mathematics, and consumer behaviour, and has done market research and data analysis for over 30 years. He is currently the Research Mentor and Industry liaison advisor at Ted Rogers School of Management and a Senior Research Fellow at the Centre for the Study of Commercial Activity at Ryerson University in Toronto. He has also appeared as an expert witness in six other cases before this Court.

[139] Dr. Chakrapani's mandate was to assess the possible misidentification by consumers and retailers in Canada between the no-name RBH brand referred to as "Rooftop" and the international PM Marlboro marketed outside Canada. The studies took place before the implementation of the dark market, between January and April 2007, in Vancouver, Edmonton, Toronto, and Montreal.

[140] For the Consumer Study, interviewers showed smokers de-branded Rothmans, de-branded Dunhill, and Rooftop packages. They were first asked for each brand: "Can you tell me the brand name of this cigarette or not?" They were then asked: "Why do you say that? Anything else?" The reason why Dunhill and Rothman brands were also shown was to correct for random guessing, since they shared common elements of the international PM brand. The three brands were presented on clipboard and their order was rotated to minimize possible order bias.

[141] 57% of respondents claimed to know the Rothman brand, 58% the Dunhill brand and 44% the Rooftop brand. Among the 44% of all respondents who claimed to know the Rooftop brand,

61% of them misidentified the Rooftop brand as “Marlboro”. Consequently, of those who identified a brand, 6 in 10 misidentified the Rooftop package as “Marlboro”. Of all respondents interviewed, 40% of smokers correctly identified Rothmans, 23% correctly identified Dunhill, while 26% misidentified Rooftop as “Marlboro”. After accounting for 3% (the second highest misidentification with another brand) of guessing, there is still remaining about 24% who misidentify the Rooftop brand as “Marlboro”. So in average, one out of four smokers interviewed misidentified the Rooftop brand as “Marlboro”. There was no evidence of horizontal misidentification: neither de-branded Rothmans nor de-branded Dunhill was misidentified as “Marlboro”, not even by a single respondent. There was no meaningful vertical misidentification either: The Rooftop brand was consistently misidentified as “Marlboro”, and “Marlboro” only. The main reasons given by smokers for the misidentification of Rooftop as “Marlboro” were the colour scheme, the graphic design on the package and the familiarity with the brand.

[142] In the second study, retailers drawn from the same cities were visited, on two separate occasions, by interviewers who identified themselves as consumers. During the first visit, the interviewer pointed to the Rooftop package and asked: “What’s that brand?”, followed by “What can you tell me about it?” During the first visit, almost one third of all retailers misidentified the Rooftop brand as “Marlboro”. Only one in five identified it as “Rooftop”. Such misidentification was the highest in Toronto (79%). In response to the second question during the first visit, 49% of those who misidentified the product as “Marlboro” could not or would not say anything further. The remaining 51% gave various responses, including the following: it is a new brand, it is Canadian or American, it is a popular brand, it is a type of Marlboro or made by Marlboro, it is an American blend, it is made by Benson & Hedges, etc. During the second visit, when asked if they

carried “Marlboro”, retailers pointed to or handed over the Rooftop brand in 38% of the cases. Of all the places included in the study, the misidentification of the Rooftop brand as “Marlboro” by retailers was highest in Toronto (78%). 21% of retailers handed over or pointed to the ITL Marlboro, and 42% of them did not hand any package to the interviewer.

[143] On the basis of these two studies, Dr. Chakrapani concluded that:

- A. A. the potential for misidentification of the Rooftop brand as “Marlboro” is high: 1 in 4 of all smokers, 6 in 10 of all those who said that they knew the brand shown misidentified the Rooftop cigarettes in such a manner;
- B. a large proportion of retailers knowingly or otherwise suggested that the Rooftop brand is Marlboro or some variation of it;
- C. a large proportion (nearly 4 in 10) of retailers, when asked for “Marlboro”, handed Rooftop cigarettes to their customers, or pointed to them.

[144] Finally, the Defendants presented **Till Telmet** as their graphic design expert. Mr. Telmet is the principal of Telmet Design Associates, a design communications consultancy firm that he established in 1985. He has over 40 years of experience in the field of design, including corporate identity and packaging.

[145] The Defendants asked Mr. Telmet to review the 1996, 2001, and 2007 ITL Marlboro packages and compare them to the Philip Morris Marlboro package. The purpose of the review was to identify the graphic design elements of each, as well as the similarities, if any, between the 1996, 2001, and 2007 ITL packages and the PM Marlboro. He was also asked to comment on the

affidavits of Don Watt and Gilles Robert. Mr. Telmet also reviewed and compared the PM Marlboro package to the Rooftop no-name package.

[146] According to Mr. Telmet, the strength of the PM Marlboro package lies in its simplicity, power of scale and composition, and dramatic use of colour. He outlined what are in his view the five most important graphic elements of the package: the red roof component, the white house below the red roof, the unique modified typeface in which the word “MARLBORO” is rendered, the white oblong bubble on the red roof containing the words “Filter Cigarettes” and the red band at the bottom of the package that creates a foundation for the house. The overall impression created by the combination of these elements is a simple, strong and very masculine image that is distinct and memorable. As for the crest, Mr. Telmet does not consider it to be a particularly important element; it is a decorative add-on that he views as a secondary visual statement.

[147] Commenting further on the type face used for the word MARLBORO on the PM package, Mr. Telmet opined that it is a dramatically modified version of the Corvinus Skyline typeface. This typeface is characterized by very thin serifs and round letters with flattened sides. The flattening of the round letters results in a condensation of the letters, with an overall vertical look. In an unmodified Corvinus Skyline typeface, the letter “M”, “T” and “b” are at equal height. On the PM Marlboro package, the “M”, “T” and “b” have been greatly elongated, with the “T” and “b” to a much greater extent. This uneven elongation results in an exaggerated stretching of the middle two letters of the word, which serves to accentuate the peak of the white house and red roof. The elongated letters also points to the crest, because it is a central axis composition. These dramatic modifications to the Corvinus Skyline typeface render the PM typeface unique and distinct.

[148] In Mr. Telmet's opinion, the 2007 ITL package and the PM Marlboro package are very different because the ITL package is complex and cluttered, while the PM Marlboro package is simple and uncluttered. In fact, none of the five important graphic elements of the PM Marlboro package are found on the 2007 ITL package. By contrast, the 2007 ITL package consists of the following graphic elements: a silver background within a white frame; the word MARLBORO in a very different typeface, a centre light vignette in the background, a silver drop shadow behind the word MARLBORO, and a red maple leaf crest contained within a square shape with rounded corners.

[149] The 2007 ITL Marlboro also includes the word "Canadian" in red below the word MARLBORO, which is of no importance from a graphic design perspective in Mr. Telmet's opinion. It does not have the same visual impact and importance as the bottom red band on the PM Marlboro package. Other than the common use of the colour red, associated with the Canadian flag and the Canadian identity, there is no similarity between the two elements. Similarly, Mr. Telmet does not consider the crest to be an important element of the 2007 ITL Marlboro package and does not find that its mere use ties the package to the PM Marlboro package.

[150] Mr. Telmet does not believe that the health warning appears to cover the red roof of the PM Marlboro on the 2007 ITL package, since there is no hint of that component on the ITL package whatsoever. Even if we were to cover the red roof on one side, it would be present on the other sides, especially since the PM Marlboro design relies on its three dimensional effect.

[151] As for the typeface used on the 2007 ITL package, Mr. Telmet believed that the Utopia Semibold typeface used by ITL for the word Marlboro has been compressed by 70% from the standard typeface, but that otherwise there has been no other manipulation. Mr. Telmet comes to that conclusion after having superimposed the word MARLBORO in a 70% compressed version of the Utopia Semibold onto the typeface as used on the 2007 package. This is clearly not the case with the PM Marlboro package, where the Corvinus Skyline typeface has been dramatically modified; again, Mr. Telmet comes to that conclusion after having superimposed the unmodified Corvinus Skyline typeface onto the PM Marlboro typeface.

[152] Moreover, according to the witness, there are many differences between the two typefaces, even though they are both serif typefaces. First of all, the serifs are different: the Corvinus Skyline has a slab, straight, perpendicular serif, while the Utopia Semibold has very rounded serif. The Utopia Semibold also has rounded letterforms and ends versus straight-sided and vertical Corvinus Skyline letters. As well, the Corvinus Skyline has extreme thin and extreme thick parts, which accentuate the masculinity of the overall image. Finally, one should note the excessively elongated “M”, “T” and “b” in the Corvinus Skyline as manipulated for the PM package, which has no equivalent on the ITL 2007 package.

[153] In Mr. Telmet’s view, there are a number of other typefaces that more closely resemble the Corvinus Skyline typeface than the Utopia Semibold, such as the Bodoni Poster Compressed and Didot Bold typefaces. Furthermore, the use of serif typefaces is common in the marketplace and the fact that ITL chose such a typeface is not surprising.

[154] Mr. Telmet prepared a mockup “Carlbone” package of cigarettes with a 70% compressed Utopia Semibold. In his opinion, if the “Marlboro” brand name is removed, the package does not bear any similarity with the PM Marlboro package. Mr. Telmet therefore concludes that the only real similarity between the 2007 ITL package and the PM Marlboro package lies in the common use of the word MARLBORO. He comes to the same conclusion with respect to the 1996 and 2001 ITL packages, none of which include any one of the important graphic elements of the PM Marlboro package.

D. The Retailers (Defendants' Witnesses)

[155] **Jake Shim** is a cashier at a Toronto convenience store called Busy Bee King Mart. **Jim Kargakos** is the owner of an Ottawa convenience store called Kars Confectionery. **Sam Hajjali** is the owner of a convenience store in Montreal called Variété Plus. **Samer Tarbouch** is the owner of a specialty tobacco store in Montreal called Tabagie St.Laurent, in which the display of tobacco products is still permitted. They all testified on their experience in selling and ordering Rooftop cigarettes.

[156] All of the witnesses stated that the vast majority of consumers purchasing Rooftop products refer to them as “Marlboro”, and mentioned that if they give consumers ITL Marlboros, most will reply that this is not what they want. They confirmed that very few consumers would ask for a printed receipt when buying cigarettes, although their system can generate a receipt upon request that would show the name of the cigarette package purchased. Some of them also described the Rooftop launch as something they had never seen before. Mr. Kargakos explained that each attendee of the Toronto launch was promised \$200 worth of Ferrari merchandise, a jacket, and a

backpack, and was also entitled to participate in a draw for a VIP weekend at the Monaco Grand Prix. In his words, it was an “amazing” launch.

[157] On cross-examination, Mr. Shim indicated that he is very rarely asked for the ITL Canadian Marlboro product, and that this was the case even before the introduction of the Rooftop product in 2006. He said that he keeps the Rooftop products with the other American blend cigarettes, and that the Canadian Marlboro is placed on the same shelf, but separated by about four other brands. The shelf where the Rooftop product is placed is labeled “Rooftop”. He was also aware of the fact that the order sheets to buy cigarettes from wholesale outlets list the Rooftop products under a section identified as “U.S.”, and are referred to as “U.S. Rooftop Red”, “U.S. Rooftop Gold”, and “U.S. Rooftop Silver”. Finally, he mentioned that customers generally ask for “Marlboro Red”, “Marlboro Silver”, or “Marlboro Gold” when they want Rooftop products; if they only ask for “Marlboro”, he will ask them which one they want. When asked how he knows that they want a Rooftop when they order “Marlboro”, he answered most of them are either tourists or immigrants. So when they ask Mr. Shim for “Marlboro”, he points at the Rooftop product and says that it is called Rooftop in Canada. Mr. Shim himself tries as much as possible to refer to the product as “Rooftop”.

[158] On cross-examination, Mr. Kargakos admitted that he received, along with the Rooftop launch promotional material, a letter (Exhibit P-46) stating that no brand name would appear on this new product, that it would be identified by its distinctive rooftop design, and that RBH did not own the trade-mark registration for the name MARLBORO in Canada. The letter also explained that the trade-mark MARLBORO cannot be used in association with the Rooftop product. Mr. Kargakos

said that his first concern when it comes to sales is to make it as convenient as possible for customers; since everybody refers to the Rooftop product as “Marlboro”, he therefore gives them Rooftops without explaining too much. He doesn’t stock the Canadian Marlboro anymore, because of the confusion it created in his customers’ minds; in any event, he said the customers who get the Rooftop cigarettes when they ask for “Marlboro” are satisfied.

[159] Mr. Hajjali testified that when the Rooftop product was launched, his RBH representative told him that it should be called “Rooftop” and not “Marlboro”. While he used to sell about 30 packs of ITL Marlboro, he very rarely sells them since the launch of the Rooftop. On cross-examination, he confirms that the Rooftop products are identified as “Rooftop Red”, “Rooftop Silver”, and “Rooftop Gold” on the order sheet of the wholesaler from whom he buys the RBH products. He also said that he places the Rooftop cigarettes next to the Winston products, and not on the same shelf or close to the Canadian Marlboro products. Finally, he added that when someone comes in the store and asks for “Marlboro Red”, “Marlboro Gold”, or “Marlboro Silver”, he will offer him the equivalent Rooftop product without always wasting time to ask further questions or to explain the difference. If, on the other hand, they only ask for “Marlboro”, he will give them the Canadian Marlboro.

[160] Finally, Mr. Tarbouch confirmed on cross-examination that the order forms at Costco refer to the Rooftop product as “rooftop red”, “rooftop silver”, and “rooftop gold”. He also mentioned that he always offers the ITL Marlboro when someone asks for “Marlboro”. If a customer then specifies that he wants the “real Marlboro”, or the “red”, the “light” or the “extra light” one, he will then give him the appropriate Rooftop version. He used to correct the customers and explain that

this product was called “Rooftop”, but he stopped doing so after a while because the customers did not pay attention.

E. The Consumers (Plaintiffs’ Witnesses)

[161] **Michelle Horrigan, Richard Lloyd, and Michael McLaughlin** are all smokers. The first witness said that she had heard about the case before being asked to appear as a witness about one month before the trial, as her fiancée plays in a band with one of Plaintiffs’ counsel. However, she said that she didn’t know much about the case except that it had to do with Marlboro. As for the two other witnesses, they were identified by an owner or employee of the retail store where they regularly buy Rooftop cigarettes and were then referred to Plaintiffs’ counsel.

[162] They all mentioned that flavor was a very important criterion when it comes to choose a brand of cigarettes. They all smoked Rooftop cigarettes as their main brand or occasionally since they discovered the brand in the last 2 to 4 years. They were all familiar with the US Philip Morris Marlboro and smoke it when they are travelling in the United States. They find the Rooftop cigarettes to be very similar to the US Marlboro.

[163] They have all tried the Canadian ITL Marlboro in the past, thinking at first that it was the same product than the US Marlboro. They all stated that they did not like the flavor of it and did not want to smoke it again.

[164] They also said that when they first tried the Rooftop products, they either asked the retailers for “Marlboro” or described the package. When they asked for “Marlboro”, they were handed the

ITL Marlboro and had to describe the package to the retailer in order to get the Rooftop cigarettes. They also mentioned that when they now ask the retailers for this brand of cigarettes, they call it “Rooftop” because otherwise, if they say they want a pack of “Marlboros”, they will get the ITL Marlboro.

IV. Issues

[165] These proceedings raise a number of issues, pertaining both to trade-mark law and copyright law. With respect to trade-marks, the following questions must be addressed:

- A. Are the Defendants estopped from challenging the use of the ROOFTOP Design Trade-marks, or have they otherwise acquiesced to such use?
- B. Are the ROOFTOP Design Trade-mark registrations a full defence to the Defendants’ allegations of infringement? If so, are the ROOFTOP Design Trade-mark Registrations valid?
- C. Have sections 19 and 22 of the *Trade-marks Act* been contravened?
- D. Has section 20 of the *Trade-marks Act* been contravened?
- E. Is the MARLBORO registration valid?

[166] With respect to copyright, the following question must be determined:

- A. Do the Defendants’ 1996, 2001, and 2007 ITL Canadian Marlboro packages infringe PMPSA’s copyright in the MARLBORO Red Roof Label, contrary to sections 2, 3, and 27 of the Copyright Act, and/or do these packages breach the parties’ Agreement memorialized in 1952?

V. Analysis: the Trade-marks issues

[167] There is no dispute between the parties as to the nature and purpose of a trade-mark or of the *Trade-marks Act*. The purpose of a trade-mark is to differentiate the wares of a manufacturer from those of its competitors. As such, they serve an important and useful public function by indicating to prospective purchasers that the goods or services at issue are of the same quality as that of other goods and services which they have come to associate with that particular trade-mark, as a result of coming from the same source. Fundamentally, therefore, trade-marks serve to distinguish one's wares in the marketplace, and to protect consumers by communicating what they are purchasing and from whom.

[168] In today's global and complex world, where manufacturers are sometimes part of vast holding companies and traded with little public knowledge, it is not necessary for consumers to know the precise identity of the source associated with the trade-marks displayed on wares. The key is that if the consumer favours the quality or characteristics of a product bought under a certain mark, he can use the mark as a short-cut to facilitate his identification of that product in the future. As recognized by the Supreme Court of Canada in *Mattel, Inc. v. 3894207 Canada Inc.*, 2006 SCC 22, at para. 2 (*Mattel*), this has always been the *raison d'être* of marks:

Merchandising has come a long way from the days when "marks" were carved on silver goblets or earthenware jugs to identify the wares produced by a certain silversmith or potter. Their traditional role was to create a link in the prospective buyer's mind between the product and the producer. The power of attraction of trade-marks and other "famous brand names" is now recognized as among the most valuable of business assets. However, whatever their commercial evolution, the legal purpose of trade-marks continues (in terms of section 2 of the *Trade-marks Act*, R.S.C. 1985, c. T-13) to be their use by the owner "to distinguish wares or services manufactured, sold, leased, hired or performed by him from those manufactured, sold, leased, hired or performed by others". It is a

guarantee of origin and inferentially, an assurance to the consumer that the quality will be what he or she has come to associate with a particular trade-mark (...). It is, in that sense, consumer protection legislation.

See also: *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée*, 2006 SCC 23, at para. 18.

[169] That being said, the protection given to trade-marks by the *Trade-marks Act* should not be overextended, lest it stifle fair competition. As stated by the Supreme Court once again, “[C]are must be taken not to create a zone of exclusivity and protection that overshoots the purpose of trade-mark law”: *Mattel*, above, at para. 22. Though the facts underlying the case at bar are novel and quite unique, they raise once more the delicate time-old balancing between free competition and fair competition.

A. Are the Defendants estopped from challenging the use of the ROOFTOP Design Trade-marks, or have they otherwise acquiesced to such use?

[170] Counsel for the Plaintiffs argued that the Defendants, because of their past conduct, are estopped from alleging that the Plaintiffs’ use of their ROOFTOP Design Trade-marks infringes any of the Defendants’ rights, and from challenging the validity of the ROOFTOP Design Registrations. More particularly, they argue that the Defendants, by not opposing the seven registrations at issue (the first of which goes back to 1958), should now be prevented from alleging infringement of their rights by the ROOFTOP Design Trade-marks.

[171] Estoppel by acquiescence is an equitable defence, which has previously been considered in the context of trade-marks. The basic principle is that if a party alleging infringement has previously led the accused party to believe that their use of the mark was acceptable, then the party may be estopped, by his acquiescence, from asserting that right. The broad test was articulated by

the English Court of Appeal in *Habib Bank Ltd. v. Habib Bank AG Zurich*, [1981] 2 All E.R. 650, the following extract of which (at p. 666) was quoted by the Federal Court of Appeal in *Anheuser-Busch* and adopted as the law on laches and acquiescence:

Furthermore, the more recent cases indicate, in my judgment, that the application of the *Ramsden v Dyson* (1866) LR 1 HL 129) principle (whether you call it proprietary estoppel, estoppel by acquiescence or estoppel by encouragement is really immaterial) requires a very much broader approach which is directed rather at ascertaining whether, in particular individual circumstances, it would be unconscionable for a party to be permitted to deny that which, knowingly or unknowingly, he has allowed or encouraged another to assume to his detriment rather than to inquiring whether the circumstances can be fitted within the confines of some preconceived formula serving as a universal yardstick for every form of unconscionable behaviour.

Anheuser-Busch, Inc. v. Carling O'Keefe Breweries of Canada Ltd. (1986), 10 CPR (3d) 433 at 448.

[172] After reviewing the relevant case law on the topic, Mr. Justice Shore set out the following criteria required to establish acquiescence:

[...] 1. Something more than mere delay is required. Silence alone is not sufficient to bar a proceeding (...) 2. the rights holder must know of its right and must know of the other party's breach of that right (...) 3. the rights holder must encourage the other party to continue the breach (...) 4. the other party must act to its detriment in reliance upon the encouragement by the rights holder

Remo Imports Ltd. v. Jaguar Cars Ltd., 2005 FC 870, at p. 127.

[173] It is no doubt true that there has been a considerable delay in the Defendants' assertion of rights against the Plaintiffs' registrations. Of the seven trade-marks at issue, the first was registered in 1958 (TMA111,226) while four others were registered in the early 1980s: TMA252,082 and TMA252,083 were registered on November 4, 1980, TMA254,670 was registered on January 9, 1981 and TMA274,442 was registered on December 3, 1982. Even TMA465,532 was registered

almost fifteen years ago (on November 1, 1996). Indeed, the only registration that can be called “recent” is TMA670,898, which was registered on August 23, 2006. Delay, however, is but one factor to be taken into consideration and is not sufficient, in and of itself, to constitute acquiescence.

[174] Plaintiffs also alleged that the Defendants knew about each of the ROOFTOP Design Trade-marks shortly after they were registered. This is borne out by several admissions made by counsel for the Defendants at the discovery stage of the proceedings. However, I agree with the Defendants that we should not read too much in these admissions. Counsel for the Defendants submitted that they had no reason to object to these various registrations at the time, since the ROOFTOP Design Trade-marks were then used only in connection with cigarettes sold in packages with the “Matador” name rather than in a no-name format.

[175] Indeed, Registrations TMA252,082, TMA252,083 and TMA254,670 were all based on claim of use (revendication d’usage) in Canada since August 8, 1958, in conformity with the declaration of use for the registration of the Matador package. Moreover, the drawings and specimens filed as proof of usage for these registrations were the Matador packages.

[176] The same is true of TMA274,442 and TMA465,532. From the date that these trade-marks were claimed to have been used in Canada (1971 for the first one and November 1, 1995 for the second), they had only been used in association with the trade-mark MATADOR. The drawings and specimens files as proof of usage for TMA465,532 were again Matador packages (no such proof of usage was required at the time of filing of TMA274,442).

[177] On the basis of those facts, it would be preposterous for the Plaintiffs to argue that the Defendants should be precluded from objecting to the validity or use of the ROOFTOP Design Trade-marks as they appear on the Rooftop cigarette packages. It cannot seriously be argued that the Defendants had, by their conduct, led the Plaintiffs to believe that their use of the marks as is now being challenged was acceptable. At the time of the marks' registration, the Defendants had no basis to oppose these registrations before the Trade-Mark Commissioner. For acquiescence to be established, the Plaintiffs need not only show that the Defendants were aware of their registration, but that they were also aware of the use to which the marks. In the case at bar, this last requirement has not been met.

[178] Plaintiffs tried to contend that the Defendants gave explicit or at least implicit encouragement to continue with what they now claim to be an infringement of their own MARLBORO trade-mark, first by filing for an extension of time to oppose TMA670,898 in 2006 and ultimately choosing not to oppose it, and second by engaging in discussions from time to time regarding trade-mark issues. With all due respect, the conduct of the Defendants which the Plaintiffs point to falls far short of the threshold required for acquiescence to be established.

[179] As regards the ROOFTOP Design Trade-mark TMA670,898, it is not disputed that ITL filed for an extension of time to oppose this mark, but did not ultimately oppose it. At the time the application for that registration was filed, however, the Defendants had no way of knowing that this new design trade-mark would be used without any brand name on a cigarette package. Mr. Ricard testified that the request for an extension of time had to do with the use of the logo on the package, which was thought to be similar to a logo used by the Defendants on the Canadian market. It was

only after outside counsel had advised not to oppose the entire registration solely on that basis that the decision was made not to oppose it at all. This testimony has not been contradicted, and there is no reason to believe it does not accurately reflect the rationale behind the request for an extension of time and the final decision not to pursue the opposition to that trade-mark.

[180] As a matter of fact, the no-name brand product of the Plaintiffs was launched on July 25, 2006, 20 days after the expiration of the delay for the filing of an opposition, and the declaration of use was filed on July 28. Once again, it is impossible in those circumstances to infer that the Defendants thereby agreed with the Plaintiffs' right to use their ROOFTOP Design Trade-marks in association with a no-name cigarette package. If any doubt remained with respect to the Defendants' intention, it has been dispelled by subsequent events: ever since the Defendants learnt of the Plaintiffs' new marketing strategy, they have opposed every application for registration filed by the Plaintiffs in connection with a ROOFTOP Design Trade-mark (see Exhibits TX-32, TX-34 and D-47).

[181] As for the contention that discussions have taken place between the parties since 1960 and as recently as in 2005-2006 with respect to the possible sale of the MARLBORO trade-mark, with no indication that any complaint was ever raised regarding the ROOFTOP Design Trade-marks in Canada, I fail to see how these talks can be seen as an implicit indication that the Defendants had accepted the Plaintiffs' latest use of their trade-marks. First of all, we know nothing about the extent of those discussions. More importantly, this argument does not address the gist of the Defendants' position, that is, that they did not know and could not foresee at the time that the Plaintiffs would use their ROOFTOP Design Trade-marks other than in association with the

“Matador” name or, at the very least, with any other brand name. This was clearly not an unreasonable assumption, considering that the Plaintiffs had always used their trade-marks in Canada on cigarette packages bearing the name “Matador” (or, for a short period of time, “Maverick”), and considering also that there appears to be no known precedent for no-name cigarette packages throughout the world.

[182] For all of the above reasons, therefore, I am of the view that the Defendants cannot be estopped from alleging infringement of their rights by the ROOFTOP Design Trade-marks.

B. Are the ROOFTOP Design Trade-mark registrations a full defence to the Defendants’ allegations of infringement? If so, are the ROOFTOP Design Trade-mark registrations valid?

[183] Counsel for the Plaintiffs argued that their trade-mark registrations for the Rooftop design are a full and complete answer to the allegations of infringement made by the Defendants. Relying on section 19 of the *Act*, they assert that the holder of a validly registered trade-mark has the exclusive right to use that mark throughout the country.

[184] Such an argument has been endorsed by the Ontario Court of Appeal in *Molson Canada v. Oland Breweries Ltd.*, [2002] O.J. No. 2029, which involved trade-marks used in association with beer. The plaintiff commenced an action for passing-off alleging that the defendant’s trade-mark OLAND EXPORT ALE used in association with beer, along with the get-up of the defendant’s goods, caused or were likely to cause confusion with the plaintiff’s beer sold under the trade-mark MOLSON EXPORT ALE. The defendant had obtained a registration for the trade-mark OLAND EXPORT ALE. The action was dismissed on the basis that the plaintiff had not made out its claim for passing-off. However, the trial judge had found that the mere fact that the defendant had

registered the mark was not a defence to a passing-off. The Ontario Court of Appeal allowed the appeal, on the narrow ground that the trial judge had made a fundamental error by failing to conclude that the respondent's trade-mark registration was a complete defence to the plaintiff's claim. Relying on *Chemicals Inc. and Overseas Commodities Ltd. v. Shanahan's Ltd* (1951), 15 C.P.R. 1 (B.C. C.A.), *Building Products Ltd. v. B.P. Canada Ltd.* (1961), 36 C.P.R. 121 (Exch. Ct.) and *Mr. Submarine Ltd. v. Amandista Investments Ltd.*, [1988] 3 F.C. 91 (F.C.A.), the Court stated:

[12] A proper review of the relevant case law reveals that, in Canada, the holder of a registered trade-mark has the exclusive right to use the mark throughout the country until such time as the mark is shown to be invalid.

(...)

[16] My conclusion from this review of the case law is that the respondent is entitled to use its mark throughout Canada in association with its beer. If a competitor takes exception to that use its sole recourse is to attack the validity of the registration. If it were otherwise, a plaintiff complaining of confusion caused by a competitor's registered mark would himself be infringing on the mark by establishing that confusion. This follows from section 20 of the *Act*, which provides that a registered mark is deemed infringed by a person who sells wares with a confusing trade-mark or trade name.

[185] Counsel for the Defendants vigorously opposed this argument, and argued that the Plaintiffs are not entitled to rely on their registrations as a defence for four reasons:

- A. the assignment of the MARLBORO registration by the Plaintiffs' predecessors-in-title and the effect of *res judicata* or issue estoppel blocks their claim;
- B. the principle that a right must be exercised in good faith;
- C. the Plaintiffs do not use the ROOFTOP Design Registrations as they are registered;
and
- D. *Oland* is bad law and should not be followed.

Moreover, and as already mentioned, the Defendants have amended their pleadings at the very last minute to challenge the validity of certain of the ROOFTOP Design Trade-mark Registrations, with a view no doubt to undermine the Plaintiffs' argument. In the next paragraphs, I will address in turn each of these four arguments put forth by the Defendants.

[186] The Defendants base their first argument on the assignment of the MARLBORO registration by the Plaintiffs' predecessors-in-title and the effect of *res judicata*. As explained by Justice Binnie on behalf of the Supreme Court in *Danyluk v. Ainsworth Technologies Inc.*, 2001 SCC 44 (*Danyluk*), a number of techniques have been developed to prevent an abuse of the judicial system. One of those is the doctrine of estoppel, which extends both to the cause of action that has been litigated as well as to the issue that has been adjudicated.

[187] While the Defendants have not particularized their argument on this point, I take it that they are not raising "cause of action estoppel" but rather "issue estoppel" as a bar to the Plaintiffs' reliance on their registrations. Indeed, I do not think it can be disputed that the judgment rendered by Justice Rouleau in 1985 and subsequently by the Federal Court of Appeal dealt with a completely different cause of action. In that case, it will be recalled, Philip Morris Incorporated was attacking the registration of Imperial Tobacco Ltd. for the trade-mark MARLBORO and claimed that it should be expunged on the basis that the original registrant had not acquired title to the mark from the original user, and that the mark was in any event no longer distinctive as a result of the spill-over effect in Canada of the advertising in the United States for the PM Marlboro. These causes of action are clearly separate and distinct from the cause of action in the case at bar, which is focused on the use by the Plaintiffs of their ROOFTOP Design Trade-mark and its potential

infringement of the Defendants' rights arising from their registration of the word mark MARLBORO.

[188] Can it be said, however, that the issue estoppel doctrine should apply to prevent the Plaintiffs from raising their registrations as a defence to any claim of infringements based on section 19, 20, or 22 of the *Act*? I do not think so. The requirements for the application of that doctrine have been set out by Justice Dickson in *Angle v. Minister of National Revenue*, [1975] 2 S.C.R. 248 (at p. 254), and reiterated more recently in *Danyluk*, above:

- A. that the same question has been decided;
- B. that the judicial decision which is said to create the estoppel was final; and,
- C. that the parties to the judicial decision or their privies were the same persons as the parties to the proceedings in which the estoppel is raised or their privies.

[189] The second and third conditions are clearly met. As previously indicated, leave to appeal the decision of the Federal Court of Appeal was dismissed by the Supreme Court of Canada. As for the identity between the parties, there is no question that both the Plaintiffs and the Defendants are the same parties or successors in right to the parties involved in the previous litigation.

[190] However, the first condition – that the same question has already been decided – has not been established. Even accepting that estoppel will extend to the issues of fact, law, and mixed fact and law that are “necessarily bound up” with the determination of the legal or factual issues determined in the prior proceeding, as stated by Justice Binnie in *Danyluk*, above (at para. 54), I fail to see how the findings made by Justice Rouleau can be of any help to the Defendants in the case at

bar. His decision was not related at all to the Plaintiffs' right to use their ROOFTOP Design Trade-marks in Canada, but was focused entirely on the validity of the MARLBORO word mark registered by the Defendants. This is clearly illustrated by the opening paragraphs of Justice Rouleau's decision:

By a notice of motion dated June 26, 1981, Phillip Morris Incorporated (U.S.) sought to have the trade mark "Marlboro" registered under No. 260/55988 struck from the Trade Marks Register or amended, pursuant to section 57 of the *Trade Marks Act*, R.S.C. 1970, c. T-10. It alleges that the registered notice did not, at the time this action was brought, correctly define the existing rights of Imperial Tobacco Limited, the respondent in this action (court No. T-3387-81).

The applicant/appellant is also appealing the decision of the Registrar of Trade Marks dated November 16, 1983, in which he refused to strike or amend the Trade Marks Register for the MARLBORO trade mark, pursuant to section 44 of the Act (court No. T-91-84).

I must therefore decide whether or not the trade mark MARLBORO registered on September 1, 1932, must be struck from the Trade Marks Register or amended.

[191] Justice Rouleau then outlined the corporate histories of the parties and examined the evidence surrounding the transfer of the trade-mark MARLBORO, to conclude that Tuckett (later to be bought by Imperial Tobacco) had acquired the rights to the trade-mark MARLBORO in Canada before the end of 1924 from a predecessor of Philip Morris Inc., and that it was the owner of the trade-mark in Canada at the time of the registration in 1932. Having so found, Justice Rouleau went on to say that the circulation of U.S. publications in Canada was not sufficient to establish that the trade-mark MARLBORO had lost its distinctiveness; to find otherwise, the Court of Appeal added, would be to subject Canadian registrants to a *force majeure* over which they had no effective control (*Philip Morris Inc. v. Imperial Tobacco Ltd. (No. 1)* (1987), 17 C.P.R. (3d) 289, at p. 297).

[192] Counsel for the Defendants made much of the following paragraph, where Justice Rouleau wrote (at p. 274):

Furthermore, since I have previously concluded that the applicant/appellant had transferred the Canadian right to the trade mark MARLBORO to the predecessors of the respondent and considering that during 49 years the applicant/appellant neither sold its cigarettes legally in Canada nor complained of the use of the trade mark by the respondent, it is difficult for me to be persuaded that the applicant/appellant could in fact recover the rights to the Canadian market through unilateral acts aimed at conquering and improving its own market. I should also note the apparent determination of the respondent to fight for its own market. It has initiated proceedings in the Federal Court in which the respondent brings suit against the applicant/appellant for infringement of its trade mark MARLBORO.

[193] According to the Defendants' counsel, the Plaintiffs should not be allowed to do indirectly that which they were prohibited from doing in 1985. In other words, they should not be allowed to recover the right to sell Marlboro cigarettes in Canada by putting on the market a no-name package dressed with the well-known Rooftop design, just as they were prevented from selling their cigarettes in packages bearing the name Marlboro. As interesting as this argument may be, it cannot be said that it has already been brought forward and decided, even implicitly, in previous litigation between the parties. There is nothing whatsoever in the past decisions of this Court or of the Court of Appeal pertaining to the use by the Plaintiffs of their registered trade-mark designs, whether in isolation or in association with a brand name. It is worth noting that nowhere in their written submissions or in their oral representations have the Defendants explicitly specified the issue that would be re-litigated if the Plaintiffs were allowed to proceed with their argument; nor did the Defendants refer the Court to any excerpt from the previous cases that would lend any credence to their estoppel argument. In those circumstances, I am unable to accept the Defendants' argument.

[194] The Defendants' second argument relies on the principle that a right must be exercised in good faith. In particular, the Defendants base their argument on a doctrine known in Québec as *abus de droit*, according to which a party may not exercise a right in an unreasonable manner. It is far from clear that this doctrine can find application in the context of a statutory right as opposed to a contractual right. In their memorandum, counsel for the Defendants refers to a decision of the Supreme Court of Canada which appear to support their thesis in the context of copyright law: see *Euro-Excellence Inc. v. Kraft Canada Inc.*, 2007 SCC 37, at para. 97. Yet, a careful reading of that decision and of the entire paragraph referred to shows that Justice Bastarache (writing for himself and two of his colleagues) did not consider recourse to that doctrine to be necessary for the resolution of the issue raised in that case, while the six other judges did not even mention the doctrine.

[195] Despite the limited applicability of *abus de droit*, it is fair to say that the zone of exclusivity enjoyed by the owner of a registered trade-mark should not be overextended. Beyond what is required by fairness and the protection of the investment made by a trade-mark owner, care should be taken not to restrict the ability of other merchants to commercialize their products in a free market economy. Can it be said, then, that the Plaintiffs have exceeded these boundaries by putting their ROOFTOP products on the market? Once again, the Defendants rely on the sale by the Plaintiffs of their word mark MALRBORO in Canada, on the decision of Justice Rouleau, and on the context surrounding the registration of the various ROOFTOP Design Trade-marks to contend that the Plaintiffs should not be allowed to rely on its registrations in defence of possible infringements to the *Act*.

[196] As previously mentioned, there is no evidence that the Plaintiffs have not acted at all times in good faith and in reliance on their own property rights. They were most certainly entitled to change their marketing strategy and, to that effect, to make full use of their own registered trade-marks. The 1952 Agreement clearly demonstrates that despite the rights in the word MARLBORO acquired by the Defendants in 1924, these rights did not extend to any future packaging designs or advertising concepts developed by the Plaintiffs or to limit in any way the Plaintiffs' right to use MARLBORO in any other country. There is no doubt that the 1952 Agreement covers the ROOFTOP Design Trade-marks and that the Defendants have no claim over these packaging elements.

[197] The fact that the Plaintiffs had always used their ROOFTOP Design Trade-marks in association with a brand name up until 2006 cannot amount to a recognition, legally or otherwise, that these registered rights could only be used in such a way. The Plaintiffs may not have been as transparent as they could have been leading up to the Rooftop products launch, especially given that the launch occurred 20 days after the expiration of the delay granted to the Defendants to oppose registration no. TMA465,532. To be fair, the Plaintiffs also contend that the Defendants did not act in good faith either, by imitating the Plaintiffs' international MARLBORO products and derogating from their express contractual obligations. In any event, good or bad faith has nothing to do with the extent of the rights conferred by the registration of a trade-mark. If the Plaintiffs are correct in their view that they were entitled to use their marks the way they did, their mindset in doing so matters not. As a result, the Plaintiffs cannot be prevented from using their marks as a defence to the allegations of infringements as a result of their behaviour. Bad faith has not been established

and, in any event, it would not be relevant to the legality of the use they have made of their trade-marks.

[198] The third argument raised by counsel for the Defendants is that even if a registered trade-mark could be used as a shield against an alleged infringement of the *Trade-marks Act*, the Plaintiffs have not used any of their Rooftop registrations (i.e. TMA252,082, TMA 252,083, TMA 254,670, TMA274,442, TMA465,532 and TMA670,898) as they are registered and therefore cannot rely on any of these registrations as a defence against an allegation of infringement. According to the case law, the use of a registered trade-mark is an absolute defence to an action in passing-off if the trade-mark is used exactly as registered or does not substantially deviate from the mark as registered:

Jonathan, Boutique Pour Hommes Inc. v. Jay-Gur International Inc., 2003 FCT 106 at paras. 4-5; *Remo Imports Ltd. v. Jaguar Cars Ltd.*, 2007 FCA 258, at para. 111 (F.C.A.). In the case at bar, argue the Defendants, there are many differences between the no-name brand package and the design trade-marks of the Plaintiffs. For example, the words “Filter cigarettes” in the white oblong bubble appear in only one of the registered trade-marks, and the same is true of the PM crest (“Filter cigarettes” appears only in TMA274,442 and the crest only appears in TMA670,898). Moreover, the phrase COME TO WHERE THE FLAVOR IS cannot be found on any of the registered trade-marks. The red line at the bottom of the package is not found on three of the six registered trade-marks, and the white oblong bubble is not on two of the registered trade-marks. In short, they contend that none of the registered design trade-marks is similar to the actual no-name package.

[199] Once again, I find this argument without merit. To the extent that there are minor variations between the ROOFTOP Design Trade-marks that appear on the Rooftop packages and those

featured in the registration certificates, the jurisprudence is clear that variations between the mark as registered and the mark as placed on a package are permissible, as long as the mark as placed on a package is not substantially different from the mark as registered, and the deviations would not deceive or injure the public. Such use of a mark including such minor variations would still qualify as “use” under the *Act*.

[200] Put another way, as long as the dominant features are maintained and the differences are not so significant that they would mislead a purchaser, variations would not detract from use of the mark as registered. This was the principle set forth by the Federal Court of Appeal in *Promafil Canada Ltée v. Munsingwear, Inc.* (1992), 44 C.P.R. (3d) 59 (at pp. 71-72). A “slim penguin” design had been registered for use on golf shirts, but the design actually used on clothing featured a “corpulent penguin”. Justice MacGuigan held that despite the penguin’s change in figure, there had been use of the registered design, and therefore allowed the registration to be maintained. In doing so, he stated:

(...) variations can be made without adverse consequences, if the same dominant features are maintained and the differences are so unimportant as not to mislead an unaware purchaser.

Small and unimportant differences between various designs are explainable when one considers the various materials on which penguins used in connection with sales of shirts may need to be affixed...One thing that was clear even from the poor-quality photocopies in the record of this case was that the appellant had made use, and often simultaneous use, of slightly different penguin designs. I see no inherent fault in that leading to a conclusion of abandonment, provided that the continuing commercial impression remains the same.

The law must take account of economic and technical realities. The law of trade marks does not require the maintaining of absolute identity of marks in order to avoid abandonment, nor does it look to miniscule differences to catch out a registered trade mark owner

acting in good faith and in response to fashion and other trends. It demands only such identity as maintains recognizability and avoids confusion on the part of unaware purchasers.

See also: *Nightingale Interloc Ltd. v. Prodesign Ltd.* (1984), 2 C.P.R. (3d) 535, at 538.

[201] Therefore, I agree with the Plaintiffs that some variations on the use of a mark as registered are permitted, as long as they are not so significant that the mark is unrecognizable and a purchaser is misled. It is not necessary or realistic to require a trader to register the entire package.

[202] A comparison of each of the ROOFTOP Design Registrations and the Rooftop products sold in Canada clearly shows the use of the registrations. The dominant feature of all of the design trade-marks, the ROOFTOP design, coloured red, gold or silver, has been used on the no-name products. There are minor changes in the proportions and spacing of the elements as registered in order to accommodate them properly on the package face, in light of the health warning requirement. As for the grounding line that appears on some registrations, it has been incorporated with the minor variation of a split in the centre to accommodate the number 20. But these are small changes of no great significance.

[203] Some additions, however, are of more import. The words "Filter Cigarettes" in the white oblong lozenge and the phrase COME TO WHERE THE FLAVOR IS at the bottom, as well as the crest which is only found in TMA670,898 are obviously not as insignificant as those mentioned in the preceding paragraph. But these features do not modify the Rooftop design; they only add to it. After having carefully weighed these factors, I have come to the conclusion that the dominant characteristics of the registered marks remain fundamentally unaltered on the package and that the

addition of other secondary elements would not prevent a consumer from appreciating that the ROOFTOP design marks are being used as trade-marks to distinguish these wares.

[204] The fourth and final argument made by the Defendants with respect to the Plaintiffs' use of their trade-marks is that the *Oland* decision of the Ontario Court of Appeal was wrongly decided and ought not to be followed. Counsel for the Defendants strenuously argued that *Oland* dismissed a previous decision of this Court (*Wing v. Golden Gold Enterprises Co.* (1996), 66 C.P.R. (3d) 62) (*Wing*), itself based on an old U.K. Court of Appeal decision (*Re Lyle & Kinahan Ltd.* (1907), 24 R.P.C. 249), on the misguided assumption that the Canadian *Trade-marks Act* differs from the U.K. *Trade Marks Act, 1905*, 5 Edw. VII, c. 15 (the "U.K. Act").

[205] The U.K. *Act* had a similar provision to our section 19, but it also had section 45 reading:

Nothing in this Act contained shall be deemed to affect rights of action against any person for passing off goods as those of another person or the remedies in respect thereof.

[206] Since there is no comparable provision in the Canadian Act, the Court of Appeal found that the trial judge (similarly to this Court in *Wing*, above) erred in relying on old English authorities to conclude that the holder of a registered trade-mark does not have the right to use the mark if such use would cause deception or confusion. According to counsel for the Defendants, this interpretation is erroneous as it goes against the well-entrenched principle according to which the registration of a mark does not create a new right but merely recognizes a pre-existing right and makes it enforceable throughout Canada. Counsel also argued that section 45 of the U.K. *Act* merely codifies the existing common law and did not purport to make new law.

[207] As interesting as it may be, this thesis put forward by counsel for the Defendants does not hold sway. It is at least equally plausible to read into the absence of any equivalent to section 45 of the U.K. *Act* evidence of the Canadian Parliament's clear intention to do away with the common law, at least on this aspect. After all, section 19 of the Canadian *Trade-marks Act* is quite explicit in giving the owner of a registered trade-mark the untrammelled right to use it throughout Canada. Moreover, Parliament was no doubt aware of the U.K. *Act* and could have inserted a provision equivalent to section 45 had it wanted to preserve the equivalent rights of action against passing-off. It seems to me, therefore, that there are compelling reasons to find that section 19 provides the holder of registered mark with not only the negative right to prevent others from using the mark, but also a complete defence to any claim of infringement of another trade-mark registration.

[208] This interpretation is also consistent with logic. A valid trade-mark registration necessarily means that the mark so registered is distinctive marker of the source of the products on which it appears. A distinctive trade-mark cannot be confusing with another valid trade-mark registration, because that other valid trade-mark registration must itself be distinctive in order to have been validly registered. As stated in *Oland*, above, if one registered trade-mark is confusing with another, then one or the other is not distinctive of its source and is therefore invalid. The remedy, in such a case, is to seek the expungement of the infringing trade-mark.

[209] Be that as it may, and whatever the merit of the Defendants' position, I am bound by the decision of the Ontario Court of Appeal. No compelling reasons have been offered to justify this Court not following a precedent from a provincial court of appeal. Indeed, counsel for the Defendants himself recognized that *Oland* has been followed twice by this Court (see *Jonathan*,

Boutique Pour Hommes Inc., above, at para. 4 and *Advantage Car & Trucks Rentals v. 1611864 Ontario Inc.*, 2005 FC 325, at paras. 7 and 11) and by the Federal Court of Appeal in *Remo Imports Ltd. v. Jaguar Cars Ltd.*, above. In that last case, Mr. Justice Létourneau wrote for a unanimous court:

111 The case law stands for the proposition "that the use of a registered trade-mark is an absolute defence to an action in passing off" where there is no significant difference between the mark as registered and the mark as used: see Jonathan, *Boutiques Pour Hommes Inc. v. Jay-Gur International Inc.* (2003), 23 C.P.R. (4th) 492 (F.C.T.D.), at paragraphs 4 and 6.

112 A similar conclusion was reached by the British Columbia Court of Appeal in *Chemicals Inc. and Overseas Commodities Ltd. v. Shanahan's Ltd.* (1951), 15 C.P.R. 1, at page 13 and by the Ontario Court of Appeal in *Molson Canada v. Oland Breweries Ltd.* (2002), 9 O.R.(3d) 607. (...)

113 This legal conclusion also finds support in the following *obiter* from Binnie J., at paragraph 16 of his reasons for judgment in the *Veuve Clicquot Ponsardin* case:

The respondents say that the 1997 registration of their trade-mark *Cliquot* and *Cliquot "Un Monde à part"* is a complete answer to the appellant's claim. I do not agree. The appellant has put the validity of the registrations in issue and seeks expungement. Were the appellant to succeed in obtaining expungement, no doubt the respondents could argue that they ought not to be liable to pay compensation attributable to the period during which their own registrations were in effect. However, as the appellant has not succeeded on this appeal, the scope of compensation is not an issue that arises for determination in this case. [Emphasis added]

[210] On the basis of these binding precedents and for the additional reason that such an interpretation appears to be good law and consistent with principles of statutory interpretation, I am

therefore unable to accept Defendants' argument. I must therefore conclude that their validly registered trade-marks must operate as a complete defence to the allegations of infringement.

[211] No doubt to preclude the possibility of such a conclusion, counsel for the Defendants sought (and obtained) permission, on the eve of trial, to amend their pleadings in order to challenge the validity of the ROOFTOP Design Trade-mark registrations. The specific grounds of invalidity have been pleaded as follows:

(55) Canadian trade-mark registration nos. TMA252,082; TMA252,083; TMA254,670; TMA274,442; TMA465,532; and TMA670,898 are invalid, void, and of no effect as the trade-marks registered under said registration nos., used in association with a tobacco product having no brand name, are not distinctive of Philip Morris Products, contrary to Section 2 and 18(1)(b) of the Trade-marks Act.

(56) More specifically

a. Said trade-marks, used in association with a tobacco product having no brand name, suggest a connection to Philip Morris and/or its MARLBORO brand and cause the Canadian consumer to associate said trade-marks with the name MARLBORO. The trade-mark MARLBORO is owned in Canada by MARLBORO Canada; and

b. Said trade-marks are also devoid of distinctiveness given the plaintiffs' own use of features in said trade-marks in association with the name MATADOR or MAVERICK.

Second Fresh Amended Statement of Defence and Counterclaim,
dated March 10, 2010, Amended Trial Record.

[212] As a starting point in the analysis of the question of invalidity, the *Trade-marks Act* confers a presumption of validity upon the owner of a registered trade-mark. Consequently, the legal onus and burden of proof of demonstrating invalidity falls entirely on the Defendants: *Hughes on Trade-marks*, 2nd ed., s. 21, p. 601.

[213] According to the Defendants, the six ROOFTOP Design Trade-mark registrations are invalid as they infringe section 18(1)(b) of the *Trade-marks Act*, and the latest two registrations (TMA465,532 and TMA670,898) would also be invalid pursuant to sections 18(1)(a) and 12(1)(d) of the same Act. These provisions read as follows:

When trade-mark registrable	Marque de commerce enregistrable
<p>12. (1) Subject to section 13, a trade-mark is registrable if it is not</p> <p>(d) confusing with a registered trade-mark;</p>	<p>12. (1) Sous réserve de l'article 13, une marque de commerce est enregistrable sauf dans l'un ou l'autre des cas suivants :</p> <p>d) elle crée de la confusion avec une marque de commerce déposée;</p>
When registration invalid	Quand l'enregistrement est invalide
<p>18. (1) The registration of a trade-mark is invalid if</p> <p>(a) the trade-mark was not registrable at the date of registration,</p> <p>(b) the trade-mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced, or</p>	<p>18. (1) L'enregistrement d'une marque de commerce est invalide dans les cas suivants :</p> <p>a) la marque de commerce n'était pas enregistrable à la date de l'enregistrement;</p> <p>b) la marque de commerce n'est pas distinctive à l'époque où sont entamées les procédures contestant la validité de l'enregistrement;</p>

[214] Three conditions must be met for a mark to be considered distinctive. They were set out succinctly by Justice Rouleau in the earlier decision of this Court opposing the same parties:

- (1) that a mark and a product (or ware) be associated; (2) that the "owner" uses this association between the mark and his product and

is manufacturing and selling his product; and, (3) that this association enables the owner of the mark to distinguish his product from that of others.

Philip Morris Inc. v. Imperial Tobacco Ltd., supra, at p. 270. See also: *Drolet v. Stiftung Gralsbotschaft*, 2009 FC 17, at para. 169.

[215] At first sight, the first two conditions appear to be easily met. There is no doubt that the registered ROOFTOP Design Trade-marks are used on Rooftop packages. The second condition is also met. The owner of these trade-mark registrations (PMPSA) is using the association between the marks and the products sold through its licensee RBH, which is selling the product in Canada in association with these marks. This has been the case in Canada since 1958. The use of the Rooftop started with the Matador brand, and beginning in 2006 has been marked on the Rooftop products at issue in this action.

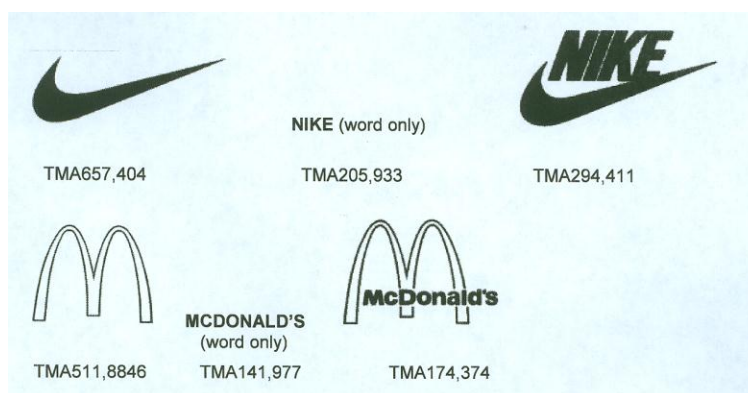
[216] The third condition – whether the association between the mark and product enables the mark's owner to distinguish his product from that of others – is the one upon which the parties disagree. According to the Defendants, consumers associate the Rooftop designs on the no-name packages with the Marlboro name found in foreign markets, thereby infringing the Defendants' registration TMA55,988 for the word mark MARLBORO. In other words, Canadian consumers recognize the no-name brand package dress as being equivalent to the package that houses the world-famous cigarettes associated with the MARLBORO brand. To that extent, the packaging of the Plaintiffs' no-name products could not have been registered. As a result, the same must be true of the various components of this get-up that are the subject of Plaintiffs' ROOFTOP Design Trade-mark registrations, since they similarly create confusion with the Defendants' MARLBORO registration. Therefore, they must be declared invalid because they were not distinctive at the

beginning of this trial, and (for the two most recent) because they were not registrable at the date of registration.

[217] Counsel for the Defendants further contends that because the ROOFTOP Design Trade-mark registrations have been used in the past with the word marks MATADOR and MAVERICK, they are not distinctive. This argument can be easily dismissed. Firstly, MAVERICK has not been used in association with the ROOFTOP Design Trade-marks since 1978. More importantly, such use with other trade-marks does not impact their distinctiveness. The law is clear that two marks may be used at the same time on a package. As long as they are not combined in a way to render the individual marks indistinguishable, validity of the individual marks so used is not affected: see, for example, *A.W. Allen Ltd. v. Canada (Registrar of Trade Marks)* (1985), 6 C.P.R. (3d) 270 (F.C.), at p. 272; *Loro Plana S.P.A. v. Canadian Council of Professional Engineers* (2008), 72 C.P.R. (4th) 220 (T.M.O.B.), at pp. 223-224, aff'd 2009 F.C. 1095.

[218] There is no prohibition on a design mark and a word mark appearing concurrently on the same wares. There are many well-known examples of registered word and design trade-marks that

are registered both independently and in combination with one another. Two examples that have been referred to in Court are shown below:



[219] The same appears to be true in the tobacco market in Canada. Based on the evidence submitted for the trial, design and word trade-marks frequently enjoy independent goodwill but are used together. In these cases, the appearance of a word mark in combination with a design mark does not lead to the conclusion that the design mark is not in use.

- Trial ex. P-25 to P-27
- Testimony of Ed Ricard, vol. 7A, pp. 1234-1238.

[220] Finally, the source of the products has always been the same: the source of the wares featuring the ROOFTOP Design Trade-marks used in association with the MATADOR or MAVERICK word marks is the same source as the wares featuring the ROOFTOP Design Trade-marks on the Rooftop products. For all of the foregoing reasons, I am therefore of the view that this second argument of the Defendants is without merit.

[221] The first argument is not so easily disposed of, as it raises the same issues of distinctiveness and confusion that are core to the allegation of infringement based on section 20 of the *Act*. A

substantial part of the documentary and testimonial evidence introduced by the parties deals precisely with this issue. The discussion of the Defendants' argument as it pertains to the validity of the ROOFTOP Design Trade-mark registrations is therefore better left after a discussion of the allegations of infringement, to which I shall now turn.

C. Have sections 19 and 22 of the Trade-Marks Act been contravened?

[222] As already mentioned, section 19 of the *Trade-marks Act* gives the owner of a registered trade-mark the right to its exclusive use throughout Canada in respect of the wares and services for which it is registered. This section reads as follows:

Rights conferred by registration

19. 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.

Droits conférés par l'enregistrement

19. Sous réserve des articles 21, 32 et 67, l'enregistrement d'une marque de commerce à l'égard de marchandises ou services, sauf si son invalidité est démontrée, donne au propriétaire le droit exclusif à l'emploi de celle-ci, dans tout le Canada, en ce qui concerne ces marchandises ou services.

[223] This provision has been interpreted quite narrowly, and has been limited to cases where the infringer uses a mark identical to the registered trade-mark for the same wares or services as those associated with the registered mark: see *Canadian Council of Blue Cross Plans v. Blue Cross Beauty Products Inc.* (1971), 3 C.P.R. (2d) 223, at p. 231 (F.C.); *Cie Générale des Établissements Michelin-Michelin & Cie v. C.A.W. Canada* (1996), 71 C.P.R. (3d) 348, at p. 358 (F.C.); *Mr. Submarine v. Amandista Investments Ltd.* (1987), 19 C.P.R. (3d) 3, at p. 8 (F.C.A.); *A&W Food Services of Canada Inc. v. McDonald's Restaurants of Canada Ltd.* (2005), 253 D.L.R. (4th) 736, at

p. 742; *417394 Alberta Ltd. v. Beverages Ltd.*, 2005 FC 224. Moreover, for an infringement to be found, the mark must not simply be used, but must be used as a trade-mark. In other words, it is not sufficient to use the mark on the goods or in connection with the services: the person using the mark must also have intended it to indicate the origin of the goods or services. This requirement flows from the definition of “trade-mark” at section 2 of the *Act*.

[224] Section 20 expands the scope of section 19 to cover cases of infringement in which the infringer has used a mark not identical to the registered mark. There will be an infringement of this section whenever the impugned trade-mark or trade-name creates confusion (as interpreted by section 6 of the *Act*) with the registered trade-mark, regardless of the wares, services, or business for which it is used. I shall return to the alleged infringement of this provision in the next section of these reasons.

[225] Section 22 goes even further, since under that section the infringing mark need not even be confusing, as long as its use is likely to depreciate the value of the goodwill enjoyed by the original mark. This section reads as follows:

Depreciation of goodwill

22. (1) No person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto.
Action in respect thereof

(2) In any action in respect of a use of a trade-mark contrary to

Dépréciation de l'achalandage

22. (1) Nul ne peut employer une marque de commerce déposée par une autre personne d'une manière susceptible d'entraîner la diminution de la valeur de l'achalandage attaché à cette marque de commerce.
Action à cet égard

(2) Dans toute action concernant un emploi contraire

subsection (1), the court may decline to order the recovery of damages or profits and may permit the defendant to continue to sell wares marked with the trade-mark that were in his possession or under his control at the time notice was given to him that the owner of the registered trade-mark complained of the use of the trade-mark.

au paragraphe (1), le tribunal peut refuser d'ordonner le recouvrement de dommages-intérêts ou de profits, et permettre au défendeur de continuer à vendre toutes marchandises revêtues de cette marque de commerce qui étaient en sa possession ou sous son contrôle lorsque avis lui a été donné que le propriétaire de la marque de commerce déposée se plaignait de cet emploi.

[226] But before determining whether the use of a trade-mark will likely depreciate the value of the goodwill associated with that mark, it must be shown that a defendant has used the registered trade-mark or a very close variation of it. Indeed, to contravene either of section 19 or section 22, there must be “use” of the mark alleged to be infringed. As Justice Teitelbaum stated in *Cie générale des Établissements Michelin*, above, at p. 364, “[t]he grounds for infringement move from their narrowest in section 19 to their most expansive in section 22 but “use” remains the basic building block or linchpin for all of the grounds”.

[227] Sections 2 and 4(1) of the *Act* define what is meant by the term “use” These provisions state:

Definitions

2. In this Act,

“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;

Définitions

2. Les définitions qui suivent s'appliquent à la présente loi.

« 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.

When deemed to be used

4. (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 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.

Quand une marque de commerce est réputée employée

4. (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, 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.

[228] The Plaintiffs have clearly not used the MARLBORO word trade-mark of the Defendants on their products, on the packaging, or on the boxes used to deliver the product. There are even admissions, made in discovery by the Defendants, that the Plaintiffs did not use the word mark MARLBORO, at least not in a direct and explicit way.

[229] However, these are not the only way a trade-mark is deemed to be used in association with wares. A trade-mark is also deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, 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”.

[230] Understandably, counsel for the Defendants put great weight on that third alternative in his oral and written submissions. According to the Defendants, the consumers inevitably make the connection between the no-name product of the Plaintiffs and the internationally recognized cigarettes associated with the word mark MARLBORO as a result of the similarity between the no-name package and the American Marlboro package and of the context surrounding the Canadian product. In other words, because PMPSA sells cigarettes in countries other than Canada in association with both the ROOFTOP Design Trade-marks and the word mark MARLBORO, some Canadians smokers would have acquired an awareness of this foreign use and as a result of this awareness, the use of the ROOFTOP Design Trade-marks in Canada would necessarily call to mind the name “Marlboro”.

[231] At paragraph 59 of these reasons, I have already drawn attention to the characteristics that the no-name (Rooftop) product of the Plaintiffs share with the international Marlboro package and cigarettes. Counsel for the Defendants also stressed that two other phrases traditionally connected to the international Marlboro package (“COME TO WHERE THE FLAVOR IS” and “WORLD FAMOUS IMPORTED BLEND”) have been put on the no-name package to reinforce the association between the Canadian product and the international Marlboro brand. He also submitted that many Canadians would know about the international product because of their trips abroad, televised sporting events sponsored by the Plaintiffs, and the numbers of immigrants now living in Canada who come from countries where the international Marlboro product is sold. Finally, it was argued that the launch of the no-name product and the promotional gadgets distributed to retailers were also meant to link the international Marlboro and the Canadian no-name product.

[232] This thesis is flawed in many respects. First of all, the evidence does not entirely support the Defendants' claim that a large number of Canadians are familiar to the Philip Morris international Marlboro brand and associate the no-name product to that brand because of their shared features, as we shall see when examining the infringement claim based on section 20 of the *Act*. Moreover, the evidence shows not only that the Plaintiffs never display the word "Marlboro" in association with the Rooftop products, let alone mark it on the wares, but that they have instructed retailers not to call their no-name product "Marlboro". In addition to the launch letter sent to all retailers and Mr. Guile's evidence on this point, the Defendants' own retailer witness, Mr. Hajjali, testified as to the Plaintiffs' sales representatives having told him that the brand was called "Rooftop" and not to use the term "Marlboro".

[233] Moreover, the connection that some consumers may make because they are aware of the use of the ROOFTOP Design Trade-marks with the MARLBORO word mark in markets foreign to Canada cannot create a "use" in Canada. Mr. Justice Rouleau's decision stands for the proposition that only the sale of wares in the Canadian market is relevant in assessing the question of distinctiveness and, by extension, of use, of a Canadian trade-mark registration. The consequential effect of spill-over advertising and consumer associations with wares sold outside Canada is irrelevant to the inquiry of distinctiveness and use in Canada.

[234] Perhaps more importantly, I fail to see how a mark could be said to be used only as a result of some abstract intangible mental association in the mind of a consumer. Such an expansive interpretation of the word "use" would not only be inimical to the intent and purpose of Parliament

in defining this word in section 4 of the *Act*, but would also run counter to the very meaning of a “mark”.

[235] Counsel for the Defendants is correct in pointing out that the words “in any other manner so associated with the wares” have given rise to a number of cases expanding the ways in which a mark can be deemed to be used. In *Loblaws Ltd. v. Richmond Breweries Ltd.* (1983), 78 C.P.R. (2d) 236 (T.M.O.B.), for example, the trade-mark “NO NAME” prominently displayed in advertising appearing in retail outlets, particularly on the bins or shelves where the wares were displayed, was held to have been used within the scope of section 4(1) of the *Act*. See also, in the same vein: *General Mills Canada Ltd. v. Procter & Gamble Inc.* (1985), 6 C.P.R. (3d) 551 (T.M.O.B.).

[236] Similarly, it has been held that leaflets, product literature, and pricing stickers bearing the trade-mark, as well as catalogues, can provide the required notice of association between the trade-mark and the wares to the purchaser when they are used in ordering and purchasing: see, for example, *Hudson’s Bay Co. v. Sklar-Peppler Furniture Corp.* (2007), 60 C.P.R. (4th) 174 (T.M.O.B.); *Bélanger v. Accuride Corp.* (2004), 31 C.P.R. (4th) 300 (T.M.O.B.); *Swabey, Ogilvy Renault v. Miss Mary Maxim Ltd.* (2003), 28 C.P.R. (4th) 543 (T.M.O.B.); *Gowling, Strathy & Henderson v. Degrémont Infilco Ltd.* (2000), 5 C.P.R. (4th) 550 (T.M.O.B.). The same will be true of invoices bearing the trade-mark when they are given to the customer at the time of purchase: *Central Soya of Canada Ltd. v. 88766 Canada Inc.* (1993), 51 C.P.R. (3d) 509 (C.F.). Even a web page bearing a trade-mark will be considered sufficient to establish the deemed use of that trade-mark in association with wares if it pops up when a program is downloaded upon purchase: *Info*

Touch Technologies Corp v. HE Holdings, 2005 Carswell Nat 3154 (T.M.O.B.); *BMB Compuscience Canada Ltd. v. Bramalea Ltd.*, [1989] 1 C.F. 362 (C.F.).

[237] While all of these cases demonstrate the need to adapt the narrow definition of “use” in order to take into account commercial realities and technological innovations, the requirement of a visual use of the mark has never been discarded or played down. The suggestion that “notice of the association” of the trade-mark MARLBORO trade-mark with the no-name product is so elastic that it could be said that the trade-mark comes to the attention of Canadian consumers even though the Plaintiffs never visually represent the mark in any manner deprives the section of its ordinary or rational and accepted meaning. Indeed, the visual aspect is very much at the core of a trade-mark, whether it is a word mark or a design mark. To fulfil its objective to differentiate the wares of a manufacturer from those of its competitors, a mark must necessarily be displayed in some way. As Justice Pinard decided in *Playboy Enterprises Inc. v. Germain* (1987), 16 C.P.R. (3d) 517 (C.F.), use of a verbal description would not amount to the use of a trade-mark within the meaning of the *Act*. As he stated (at p. 523):

...in order to be deemed to be used in association with wares, at the time of the transfer of the property in or possession of such wares, the trade mark must be something that can be seen, whether it is marked on the wares themselves or on the packages in which they are distributed or whether 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.

I do not understand the words “in any other manner” in section 4(1) of the *Act* as depriving the word “mark” of its normal and true meaning; I consider those words simply to mean that the “mark” can be associated with the wares (and still be visible) otherwise than by being marked on the wares themselves or on the packages in which the wares are distributed.

[238] That decision has been consistently followed by the Trade Mark Opposition Board: see, in addition to the cases already referred to, *Alex World Wrestling Federation Entertainment Inc.* (2008), 68 C.P.R. (4th) 244; *Halliburton Energy Services Inc. v. Enviroseal Technologies (Canada) Inc.* (2008), 69 C.P.R. (4th) 313; *Cassels, Brock Blackwell v. Abex Corp.* (2001), 16 C.P.R. (4th) 562. I am therefore of the view, on the basis of that case law and of the rationale of the *Trade-Marks Act* as a whole, and also as a matter of statutory interpretation of section 4(1) of that *Act*, that the association of the mark with the wares cannot exist only in the mind of the purchaser at the time of the transfer but must be ascertainable in a more tangible way. I agree with the Plaintiffs that to ascribe abstract notions of trade-mark use that might arise through the mental associations that consumers might make would lead to uncertainty as to the scope of trade-mark rights generally and both the acquisition and infringement provisions generally.

[239] Having found that the Plaintiffs have not use the MARLBORO word mark of the Defendants, they can not be held to have infringed either section 19 or section 20, since “use” is a precondition for the application of both of these provisions. Ultimately, the Plaintiffs cannot be held liable for having used the trade-mark MARLBORO by not having used it.

D. Has section 20 of the Trade-Marks Act been contravened?

[240] The Defendants allege that the Plaintiffs’ use of their ROOFTOP Design Trade-marks infringes their MARLBORO trade-mark, contrary to section 20 of the *Trade-marks Act*. They claim that the Plaintiffs infringe their trade-mark on the word MARLBORO even though they do not use that trade-mark or any other confusing word trade-mark. In other words, according to their theory, the absence of a word mark on the package and the overall presentation (“habillage”) and

get up of the product would evoke, in the minds of some Canadian smokers, an association with the international Marlboro brand, and therefore would create confusion with the Defendants' trade-mark Marlboro. This thesis is quite novel and original, to say the least, and warrants careful examination.

[241] Section 20 of the *Trade-marks Act* reads as follows:

Infringement

20. (1) The right of the owner of a registered trade-mark to its exclusive use shall be deemed to be infringed by a person not entitled to its use under this Act who sells, distributes or advertises wares or services in association with a confusing trade-mark or trade-name, but no registration of a trade-mark prevents a person from making

(a) any bona fide use of his personal name as a trade-name, or

(b) any bona fide use, other than as a trade-mark,

(i) of the geographical name of his place of business, or

(ii) of any accurate description of the character or quality of his wares or services,

Violation

20. (1) Le droit du propriétaire d'une marque de commerce déposée à l'emploi exclusif de cette dernière est réputé être violé par une personne non admise à l'employer selon la présente loi et qui vend, distribue ou annonce des marchandises ou services en liaison avec une marque de commerce ou un nom commercial créant de la confusion. Toutefois, aucun enregistrement d'une marque de commerce ne peut empêcher une personne :

a) d'utiliser de bonne foi son nom personnel comme nom commercial;

b) d'employer de bonne foi, autrement qu'à titre de marque de commerce :

(i) soit le nom géographique de son siège d'affaires,

(ii) soit toute description exacte du genre ou de la qualité de ses marchandises ou services,

in such a manner as is not likely to have the effect of depreciating the value of the goodwill attaching to the trade-mark.

Exception

(2) No registration of a trade-mark prevents a person from making any use of any of the indications mentioned in subsection 11.18(3) in association with a wine or any of the indications mentioned in subsection 11.18(4) in association with a spirit.

d'une manière non susceptible d'entraîner la diminution de la valeur de l'achalandage attaché à la marque de commerce.

Exception

(2) L'enregistrement d'une marque de commerce n'a pas pour effet d'empêcher une personne d'utiliser les indications mentionnées au paragraphe 11.18(3) en liaison avec un vin ou les indications mentionnées au paragraphe 11.18(4) en liaison avec un spiritueux.

[242] The term “confusing” is further described in section 6(1) and 6(2) of the *Act*, to which the definition of “confusing” in section 2 of the *Act* refers. These two paragraphs state:

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.

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.

Idem

(2) The use of a trade-mark causes confusion with another trade-mark if the use of both trade-marks in the same area would be likely to lead to the inference that the wares or services associated with those trade-marks are manufactured, sold, leased, hired or performed by the same person, whether or not the wares or services are of the same general class.

Idem

(2) L'emploi d'une marque de commerce crée de la confusion avec une autre marque de commerce lorsque l'emploi des deux marques de commerce dans la même région serait susceptible de faire conclure que les marchandises liées à ces marques de commerce sont fabriquées, vendues, données à bail ou louées, ou que les services liés à ces marques sont loués ou exécutés, par la même personne, que ces marchandises ou ces services soient ou non de la même catégorie générale.

[243] In determining the issue of confusion, the Court and the Registrar are required by section

6(5) to have regard to all surrounding circumstances, including the following:

When mark or name confusing**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

Quand une marque ou un nom crée de la confusion**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

been in use;	noms commerciaux ont été en usage;
(c) the nature of the wares, services or business;	c) le genre de marchandises, services ou entreprises;
(d) the nature of the trade; and	d) la nature du commerce;
(e) the degree of resemblance between the trade-marks or trade-names in appearance or sound or in the ideas suggested by them.	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.

[244] Section 20 is obviously broader than section 19, since the impugned mark and the wares associated with it need not be identical to the registered mark and the wares it has been used with.

As explained in *Fox on Canadian Law of Trade Marks and Unfair Competition*:

In contrast to the very limited application of s. 19 to identical trade-marks used in association with identical wares or services, s. 20(1) deems an infringement where the impugned trade-mark or trade-name is confusing with the registered trade-mark, regardless of the wares, services, or business for which it is used. [...] Section 20(1) is thus much broader in scope and application than s. 19 and a plaintiff will be able to enjoin the use of any trade-mark or trade-name in association with any wares, services, or business provided the impugned trade-mark or trade name is confusing with the registered trade-mark.

Gill, Kelly and Jolliffe, R.S., *Fox on Canadian Law of Trade Marks and Unfair Competition*, 4th ed., loose-leaf (Toronto: Carswell, 2009) at pp. 7-19 and 7-20.

[245] The standard of proof is the same with respect to confusion, whether it arises in the context of infringement or opposition to registration; in both cases, it is enough to show that the use of the trade-mark on the wares associated with it would be likely to lead to the inference that they were produced by the same source. The test to be applied concerns the first impression in the mind of a casual consumer, who is somewhat in a hurry, with no more than an imperfect recollection of one

trade-mark when faced with the other: see *Mattel Inc. v. 3894207 Canada Inc.*, 2006 SCC 22, at paras. 56-58; *Veuve Clicquot Ponsardin v. Boutiques Cliquot Ltée*, 2006 SCC 23, at para. 20.

[246] The protection to the trade-mark registrant offered by section 20 of the *Act* is broader in scope than that offered by the common law action for passing-off, which is codified by section 7(c) of the *Act*. First of all, the plaintiff in an infringement proceeding need not show that the goods or services are marketed in the same area, as is the case for a passing-off action. Moreover, no damages need to be proven, nor indeed must an attempt to deceive be made in order to succeed: see *Pink Panther Beauty Corp. v. United Artists Corp.*, [1998] 3 F.C. 534 (C.A.). Once again, it is worth quoting from Fox to distinguish an action for infringement from an action for passing-off:

The action for infringement is thus to be distinguished from the action for passing off. An infringement action is based upon the exclusive right to use a trade mark conferred upon the registered owner by statute and in order to succeed the plaintiff must show that the defendant is using that mark or a confusing trade mark. The statutory law relating to infringement differs from the law relating to passing off in two particulars: first, it is concerned only with one method of passing off, namely, by the use of a registered trade mark; secondly, the statutory protection is absolute in the sense that once a mark is shown clearly to offend, the user of it cannot escape by establishing that by something outside the actual mark itself he has distinguished his goods from those of the registered owner.

Harold G. Fox, *The Canadian Law of Trade Marks and Unfair Competition*, 3rd ed. (Toronto: Carswell, 1972) at p. 59.

[247] It is therefore of no use and completely irrelevant, for a defendant in an action for infringement pursuant to section 20 of the *Act*, to establish that he did not engage into any misrepresentation. Nor is the motive of the alleged infringer material to the issue of confusion. The only relevant question is whether the public will likely be confused into believing that the wares on which the trade-marks are used come from the same source.

[248] The case at bar is somewhat peculiar if only because of the Defendants' claim: that the Plaintiffs are guilty of creating a reverse confusion with their no-name product. Direct confusion occurs when customers mistakenly think that the junior user's goods come from the same source as, or are connected with, the senior user's goods. Conversely, with reverse confusion, customers purchase the senior user's goods under the mistaken impression that they are getting the junior user's goods. This concept, developed in the United States, has not found much favour in Canada. Like my colleague Justice O'Reilly in *IA&W Food Services of Canada Inc. v. McDonald's Restaurants of Canada Ltd.*, 2005 FC 406, I am not sure that this concept adds much to the analysis of confusion required by section 20 of the *Act*, and I agree with him that the *Act* is broad enough to accommodate both direct and reverse confusion. At the end of the day, likelihood of confusion remains the key factor of inquiry.

[249] Relying on section 6(5)(e) of the *Act*, and in particular on the words "...or in the ideas suggested by them", counsel for the Defendants argued that the way a product is packaged and, as a consequence, the way the mark is used and presented to the public, can lead to confusion with a word mark. Indeed, there have been cases where the registration of a word mark has been refused because it was likely to be confusing with a figurative trade-mark: see, for example, *WWF World Wide Fund for Nature v. 140808 Canada Inc.* (1993), 50 C.P.R. (3d) 445 (T.M.O.B.); *Munsingwear Inc. v. Prouvost S.A.* (1992), 47 C.P.R. (3d) 114. But apart from the fact that in those cases, it is the word mark that was found to be confusing with a pre-existing design trade-mark and not the other way around, there was an inescapable relationship between the word mark for which a registration application was made and the design trade-mark. While the possibility that the get up of a mark, or

the way a mark is used on a package, could similarly lead to confusion cannot be excluded, the relationship would have to be similarly evident. In the noted cases above, the words PANDA WEAR clearly evoked the idea of a panda bear, which had been for a long time the logo of the World Wide Fund for Nature. As for the word mark PINGOUIN in the second case, it plainly called to mind the penguin design trade-mark of the opponent. In the case at bar, the Defendants' challenge is to show that the ROOFTOP package, which uses various design trade-marks held by the Plaintiffs, suggests or calls to mind the word mark MARLBORO as clearly as in those cases. Section 6(5)(e) cannot be read to extend to any and all possible "ideas" suggested by a mark.

[250] Relying on cases such as *Mr. Submarine Ltd. v. Amandista Investments Ltd.*, [1988] 3 F.C. 91, *Miss Universe Inc. v. Bohna*, [1995] 1 F.C. 614 and *Maison Cousin (1980) Inc. v. Cousins Submarines Inc.*, 2006 FCA 409, counsel for the Defendants also argued that extrinsic factors such as the price of the wares, the market segment for which these wares are designed or even the composition of those wares (in the case at bar, the blend of the cigarettes) should not be taken into account for the purposes of an infringement action pursuant to section 20 when the counterfeited wares are of the same nature as those listed in connection with the registered mark. I am not sure, however, that the above mentioned cases stand for that proposition.

[251] In the *Mr. Submarine* case, above, the registered owner of the trade-mark MR. SUBMARINE had taken action for infringement by the defendant in respect of its use of the marks MR. SUBS'N PIZZA AND MR. 29 MIN. SUBS'N PIZZA for very similar wares. The Court of Appeal found that the trial judge had erred in considering that there was no similarity in the style of lettering used and the colouring of the signs of the parties, and that the appearances of the two

marks as actually used on the signs, boxes, etc. were quite different. While these would be very relevant considerations if the proceeding had been a passing-off action at common law, the Court held that they were irrelevant in a proceeding for infringement of a registered trade-mark and should have been given no weight in determining whether the trade-marks and trade names in issue are confusing with the plaintiff's registered mark.

[252] Similarly, the Court of Appeal ruled that the trial judge erred in emphasizing the differences in the nature of the services and in the nature of the trade rather than considering the likelihood of confusion if the two businesses were carried on in the same area in the same manner. In that case, the Applicant had applied for the registration of a proposed trade-mark in Canada consisting of the words "MISS NUDE UNIVERSE" in association both with specific wares and specific services. The registered owners of the registered trade-mark "MISS UNIVERSE" filed a statement of opposition, alleging that the proposed trade-mark would be confusing with its mark. The Court held that the differences allegedly intended by the respondent – though neither guaranteed by him nor referred to in his application for registration – such as the contest location, the conditions to be met by the participants, and the ambiance of the events, were insufficiently significant in light of the basic similarity between the services involved. The Court also held that these differences were irrelevant to the extent that regardless of the present intention of the respondent, either he or any successor in title, should the trade-mark "MISS NUDE UNIVERSE" be found registrable, would be free to change the format, location, style, or character of his beauty pageants at any time.

[253] Finally, the Court of Appeal reiterated this principle in *Maison Cousin*, above, on the basis of similar facts. In that case, the trial judge had ruled that the wares sold by the applicant were very

different from those sold by the registered owner of the trade-mark “MAISON COUSIN” and that the products in question were not sold through the same commercial networks or in the same types of establishments, since the applicant’s products were sold in convenience and grocery stores, whereas the owner of the registered trade-marks sold his products in its restaurants. The Court found that the products were not so different as to rule out any possibility of confusion since they were all food products, and that in any event the distinction between the products was not sufficient to eliminate any possibility of confusion in light of subsection 6(2) of the Act, which provides for the possibility of confusion even if the products in question are not of the same general class. The Court went on to add (at para. 15):

As far as the nature of the trade is concerned, the judge was wrong to compare the respondent’s present way of operating with that of the appellant. The respondent is still entitled to change its distribution networks and sell its products in the same convenience stores or other establishments as the appellant. Its application for registration does not in any way restrict its scope of operations with respect to the distribution of its products. The judge not only had to consider what the respondent was doing, but also what it could do, considering the lack of restrictions in the registration of its trade-mark: *Mattel, supra*, at paragraph 53.

[254] In all of these cases, not only were the services or the wares of the applicant very similar to those of the registered owner of an existing trade-mark, but the word mark for which the applications for registration was made were also very similar to the previously-registered word mark. In such cases, it is logical to disregard features that are extrinsic to the mark in assessing the potential for confusion (such as the appearance of the word mark, the set up and requirements for a particular service or the trade channels for the distribution of a product), because these features are not immutable and can be changed once the mark has been registered.

[255] In the present case, however, the Court faces a different scenario. While the products associated with the marks owned by the Plaintiffs and the Defendants are very similar, the marks used by the Plaintiffs are design trade-marks and have nothing to do with the registered word mark of the Defendants. In such a scenario, it seems to me the Court is entitled and is, indeed, required to take into account factors extrinsic to the marks themselves to determine whether the Plaintiffs' use of their ROOFTOP Design trade-marks is nevertheless confusing with the Defendants' MARLBORO trade-mark. In other words, because the trade-marks used by the Plaintiffs in association with their no-name products have nothing in common with the Defendants' MARLBORO trade-mark, I believe that the price of their cigarettes, the targeted clientele, and the particular blend of these cigarettes are all part of the "surrounding circumstances" that must be considered pursuant to section 6(5) of the *Act* to determine the likelihood of confusion.

[256] A trade-mark is a mark used by a person to distinguish his or her wares or services from those of others. The mark, therefore, cannot be considered in isolation, but only in connection with those wares or services. This is evident from the wording of subsection 6(2). The question posed by that subsection does not concern the confusion of marks, but the confusion of goods or services from one source as being from another source. What, then, can we make of the testimonial evidence introduced by both parties in support of their claims that the no-name product of the Plaintiffs is or is not confusing with the registered mark of the Defendants?

[257] Counsel for the Plaintiffs presented three consumers, who were unanimous in stating that they call the Plaintiffs' no-name product "Rooftop". All of them knew of the IITL Canadian Marlboro product, and none of them believed that the Rooftop cigarettes came from the same source

as that product. In fact, the very reason that each of the consumers purchased Rooftop cigarettes appears to be their belief that it came from the same source as the Philip Morris International Marlboro. While these witnesses appeared to have been truthful and unconnected to the parties or to counsel, I do not think much weight can be given to their testimonies. It is no doubt true that counsel for the Defendants could have called witnesses of their own to dispute their testimonies, which was not done. The fact remains that the Plaintiffs' three witnesses do not appear to have been selected randomly; they were approached by one of Plaintiffs' counsel because they were known to call the no-name product Rooftop. For that reason, they cannot be said to be necessarily representative of the Canadian smokers, nor even of those who are familiar with this product.

[258] On the other hand, counsel for the Defendants called four retailers and three sales representatives. The four retailers all testified that the vast majority of their customers (one even said 99%) refer to the no-name product of the Plaintiffs as "Marlboro". Interestingly, however, these retailers did not appear themselves to be confused as to the source of that product. They were all well-informed as to which products came from which company. In fact, two of the retailers testified that they had been familiar with Philip Morris International Marlboro in their home countries. Most of them said they would correct a customer asking for a Marlboro upon ascertaining that he or she really wanted the Plaintiffs' product, by informing the customer that the product is called "Rooftop". The retailers' knowledge of the Rooftop brand's source is not surprising, if only because they themselves were educated by the Plaintiffs' representatives. Moreover, this understanding of product sources is necessary for retailers to obtain and order both products. Rooftop cigarettes, along with other products offered by RBH, are ordered from wholesalers using order forms that specify "Rooftop" and are picked up by the retailer at the

wholesale location. ITL Canadian Marlboro is directly ordered from an ITL sales representative, who then delivers the product to the store.

[259] Counsel for the Plaintiffs argued that the testimony of retailers and sales representatives should be given no weight or declared inadmissible because it is hearsay evidence. It is true that they all testified about how customers refer to the no-name product of the Plaintiffs. But I do not think that the Defendants can be faulted for having chosen to rely on evidence from retailers and sales representative instead of calling consumers who could provide direct testimony that he or she calls the product MARLBORO. It was obviously much more practical and time-efficient to call retailers and sales representatives to testify about the way customers refer to the no-name product than it would have been to call each and every one of those customers.

[260] I do not agree with the Plaintiffs that this type of evidence can be characterized as hearsay. The rule against the admissibility of hearsay is based on the principle that the value of such testimony as evidence rests on the credibility of an out-of-court assertion, where the asserter is not subject to the safeguards of being under oath or subject to cross-examination. But this rule applies only when the statement by a third party is introduced to prove the veracity of its content. As

Sopinka stated:

Written or oral statements, or communicative conduct made by persons otherwise than in testimony at the proceeding in which it is offered, are inadmissible, if such statements are tendered either as proof of their truth or as proof of assertions implicit therein.

Sopinka, J. et al, *The Law of Evidence in Canada*, 2nd ed., 1999, Butterworth, Toronto, para. 6.2

[261] In the present case, the statements made by retailers and, for that matter, by ITL representatives, hearing customers request Rooftop cigarettes by the name “Marlboro”, are not offered to substantiate the allegation that the no-name products of the Plaintiffs are indeed Marlboro cigarettes, but merely to attest to the fact that this is how customers refer to that product. The witnesses can be questioned, as they were, on these statements of fact, just as they could have been questioned as to what they had observed. Accordingly, the testimonies of the retailers and of the sale representatives can not be rejected on the basis that they constitute hearsay.

[262] That being said, I am of the view that the testimony of the four retailers suffers from the same weakness as that of the consumers. Despite the fact that they all appear to be truthful and well-intentioned, there is no way to know how they were selected, and it is therefore impossible to determine how representative they are. It is interesting to note, in that respect, that counsel for the Defendants vigorously objected to the introduction into the evidence, as part of the cross-examination of Mr. Aris Zervos (one of the sales representatives), of sales receipts for cigarette products in two outlets located in the area for which Mr. Zervos was responsible, on the basis that this would only provide a very narrow snapshot of what is taking place at the retail level. What is true of the sales receipts, it seems to me, must also be true of the testimony provided by the four retailers. As a result, I do not think they should be given much weight.

[263] The same is true for the evidence provided by the Defendants’ sales representatives, although for a host of other reasons. First of all, they are all employees of a party to this action and rely on good relationships with their employer for their livelihood. This employer-employee relationship of subordination undermines the reliability of those testimonies. Furthermore, they

were all relatively inexperienced and they made sweeping statements that did not always withstand cross-examination and were even at times contradictory one with another.

[264] For example, Ms. Lucier testified on direct examination that behind a given a shelf label for “Marlboro”, one would very frequently find both the ITL Canadian Marlboro and Rooftop products. Yet upon a review of the 16 stores in her territory represented in the photographs from a study that she had participated in with a paralegal to review the way that ITL Canadian Marlboro and Rooftop were being shelved in stores, it appears that there were only four instances when Rooftops and ITL Canadian Marlboro were shelved near each other, and only one instance in which a Rooftop product was located behind a “Marlboro” shelf label.

[265] Similarly, Mr. Lacroix testified that in his territory, almost all of the retailers give Rooftop cigarettes when asked for “Marlboro” by a customer. However, this was inconsistent with testimony from two retailers that Mr. Lacroix services. As already mentioned, both Mr. Sam Hajjali and Mr. Samer Tarbouche advised that they give the ITL Marlboro product when customers ask for “Marlboro”. Further, Mr. Lacroix gave inconsistent evidence regarding a document put to him, the 2009 ITL “Alternative Product Guide”, which falsely represents ITL Canadian Marlboro as an American blend. Before placing the guide before him, he was asked on cross-examination to confirm that the guide did represent that ITL Canadian Marlboro should be provided as an alternative to an American blend, Camel Filters. He was able to confirm this from memory. However, after the document was placed before him, he tried to avoid his earlier statement, saying that he did not recall precisely that the ITL Canadian Marlboro was identified as a replacement product for Camel because he was not focusing on those brands with his retailers. Finally, Mr.

Lacroix contradicted himself, first stating that the “Alternative Product Guide” presented to him had been one of several versions of that document that he had encountered, only to correct himself immediately and to state that the version presented to him was the first he had seen.

[266] Similarly, Mr. Doerr testified that he could not recall a retailer referring to Rooftop by that name, stating that all retailers call this product “Marlboro”. When confronted with the fact that Mr. Shim, whom Mr. Doerr knows and who works at one of the stores that Mr. Doerr visits twice weekly, does refer to the Rooftop product as “Rooftop”, Mr. Doerr replied “I can’t say I have ever heard him refer to it as ‘Rooftop’”, and he could not recall either where this retailer kept the Rooftop product in his stores. This is clearly hard to believe, if he spends 30 minutes at each store for which he is responsible once or twice a week, as he claims. In the same vein, he also testified that he has heard Rooftop being requested as “Marlboro” hundreds of times, without any further name. Yet, on cross-examination, he accepted that when a customer only mentions “Marlboro”, he may have to ask him what version of Marlboro (red, gold or silver) is preferred; and if he gives the customer the red Marlboro without asking, the customer would have to correct him if that was not the version he was looking for.

[267] In light of the foregoing, I come to the conclusion that very little weight should be given to the testimonies of the sales representatives. Not only are they not independent from the Defendants, of whom they are all junior employees, but their overstatements and the contradictions internal to their testimonies and in relation to the retailers seriously impeaches their reliability.

[268] The Court is therefore left with the survey evidence presented by the two experts, Mr. Klein for the Plaintiffs and Mr. Chakrapani for the Defendants. It is by now well-established that survey evidence presented by a qualified expert can be admitted in evidence, provided that the findings are relevant to the issues and the survey is properly designed and implemented: see *Mattel Inc. v. 3894207 Canada Inc.*, 2006 SCC 22, at paras. 43-50.

[269] As already mentioned (see para 126 of these reasons), Dr. Klein's study led to the conclusion that the vast majority of Canadian smokers interviewed (three out of four) did not recognize the Rooftop packages, and only 15% of stated that they would call them "Marlboro". Almost all of those consumers who would call or refer to the Rooftop package as "Marlboro" based that response on their familiarity with the Marlboro product marketed outside of Canada by Philip Morris. Not a single respondent indicated ITL as the source of the Rooftop packages.

[270] The Defendants is right to point out that the percentage of smokers who associated the Rooftop product with the Philip Morris Marlboro is somewhat higher (43%) when one takes into account only those smokers who indicated they had seen the Rooftop products before, as opposed to all the smokers. It is also true that of the 389 smokers surveyed, only 2 referred to the Rooftop product by the name "Rooftop". Counsel for the Plaintiffs stressed that such a result was not surprising, considering that prior exposure to Rooftop was not a prerequisite to entering the study, [omitted]. The fact remains that 89 of the 389 smokers who were shown the Rooftop package answered that they had seen it before, and that only 2 of them identified it as "Rooftop". Finally, the Defendants are also correct in stressing that the smokers who made a connection between the Rooftop product and the Philip Morris Marlboro product did so either because they had previously

seen the product outside Canada, or because of the specific package design elements found on the Philip Morris product.

[271] But there is nothing in these further clarifications that detract from Mr. Klein's central conclusion; that is, that there is no confusion as to the origin or source of the Rooftop product. Those respondents, who thought the source of the Rooftop product was Philip Morris, for whatever reason, were clearly not mistaken. Conversely, none of the respondents who called the Rooftop package "Marlboro" associated it with the Defendants' Canadian Marlboro brand.

[272] The Defendants also tendered two surveys designed and implemented by their expert, Dr. Chakrapani: a consumer survey and a retailer survey (the "Consumer Study" and "Retailer Study", respectively). As already mentioned, the Consumer Study led to the following results:

- A. 1 in 4 of the smokers surveyed made a connection between the plaintiffs' Rooftop product and the Philip Morris Marlboro;
- B. The main reason stated by respondents for making a connection between the Rooftop product and the Philip Morris Marlboro product related to shared design elements of the two packages, including the colour scheme and the "Red Roof Device";
- C. Of the 406 smokers surveyed, only one referred to the Rooftop product by the name "Rooftop".

[273] I agree with counsel for the Plaintiffs that these survey results are of limited usefulness to the issues in this case, as the surveys were not designed to evaluate confusion as to the source of the

Rooftop products and the Defendants' Canadian Marlboro product. It is nevertheless interesting to note that a significantly larger proportion of respondents could not associate the Rooftop package with any brand name than was the case for the two other brands. Of equal significance is the fact that 27% of all respondents correctly found the source of the Rooftop cigarettes was the same as that of the International Marlboro; indeed, 60% of those respondents who claimed to know the brand name of the Rooftop product identified it as "Marlboro".

[274] I also agree with counsel for the Plaintiffs that Dr. Chakrapani's Consumer Study suffers from significant design flaws. First of all, the respondents were told that they were going to be shown "some cigarette packs with no brand name". As Dr. Chakrapani stated in cross-examination, this is telling the respondents that there is nothing on the pack that could be considered a brand name. That preamble, combined with the first question "Can you tell me the brand name of the cigarette or not?", is essentially prompting respondents to assign the missing brand name that had been removed from the packaging rather than to point out any other material on package, such as "PM". Moreover, it restricts the brand name to a word as opposed to a design.

[275] More significantly, the two mocked-up control packages (the Rothmans and Dunhill packages) were displayed at the same time and on the same board as the Rooftop product. Dr. Chakrapani admitted in cross-examination that anybody familiar with the Rothmans or the Dunhill packs, if it had not been clear from the preamble to the questionnaire, that it would be clear upon seeing the clipboard that the brand names had been removed. Furthermore, respondents might also have thought that the brand name had been removed from the Rooftop package if they were familiar with the international Marlboro brand; in fact, Dr. Chakrapani stated that this is precisely what he

was trying to test. With that goal in mind, it was perhaps not surprising that respondents were not told to exclude cigarette products sold outside of Canada. In such a context, respondents could have been led to fill in the missing brand name with reference to any brand name they may have seen associated with that packaging design, irrespective of whether or not they had prior exposure to Rooftop cigarettes. Therefore, limited weight can be attributed to the findings of this study.

[276] The Retailer Study was not designed to measure source confusion either, but was also seriously flawed in its execution. Moreover, it was conducted sometime before the market went dark, thereby diminishing its relevance to the dark market conditions that now exist across Canada.

[277] The first question asked did not concern the name of the no-name product, but “What is that brand?” That led to serious problems of identification, since brand is much broader in meaning and can encompass all different attributes of the product. As such, many retailers apparently gave answers that attempted to describe the product and its attributes, sometimes with reference to “Marlboro”. Such responses, in fact any response which included the word “Marlboro”, were counted and attributed as a “misidentification” of Rooftop cigarettes as Marlboro cigarettes. For example, responses such as “Those are American Marlboro” or “It’s Marlboro. It’s a Canadian type of Marlboro. It’s a Canadian-American Blend. It’s like a Marlboro. I can’t remember the name” were coded and reported as Marlboro “misidentifications”. The lack of specificity in not asking for the “brand name” was therefore further compounded by Dr. Chakrapani categorizing any mere mention of “Marlboro” as a “misidentification”. As a result, it cannot accurately be said that 32% of retailers “misidentified” Rooftop cigarettes as “Marlboro”; at most, one could say that 32% of retailers made some mention of the word “Marlboro” when describing the brand.

[278] The Retailer Study was also very seriously flawed in terms of execution. First, the retail locations were not randomly chosen. The selected sample of retailers should have been obtained by random sampling such that each and every retailer operating in the geographic area has a known probability of being selected. Instead, the retail locations were simply taken from a limited list of retailers received from counsel for the Defendants. Without knowing anything about how the list was generated, combined with the complete lack of random sampling, the results of that study must be considered with great caution.

[279] Second, the implementation of the study was further seriously undermined by the interviewers themselves. They did not follow Dr. Chakrapani's explicit instructions. While the interviewers were instructed to write down all answers "verbatim", it is abundantly clear from the response sheets that such reporting did not occur. Both in Toronto and in Montreal, upwards of 25% of the response sheets had identical wording for what apparently transpired at the retail store and communicated no verbatim responses at all.

[280] This two-phase aspect of the Retailer Study design is also problematic. There were no instructions given to the interviewers on whether to return to the store for the second visit at the same time of day or to deal with the same clerk that they had interviewed earlier, or in contrast, to seek out a clerk different than the clerk they had dealt with on the first visit. Some interviewers did not follow the instructions properly and did the second interview later on the same day within a matter of hours. Moreover, from the records it is impossible to know whether the same clerk was dealt with on the second visit. As a result, the first visits may well have had an influence on the

second ones. For example, asking questions about the Rooftop product and then later returning for a second visit that same day and asking the same clerk for “Marlboro” cigarettes could result in seriously skewed results if during the first visit, the clerk had explained, for example, that Rooftop cigarettes were similar to the international Marlboro and recalled the conversation from the previous visit. It would not, therefore, be unusual for that clerk to offer the Rooftop package to that same individual, when he returns on his next visit and asks for “Marlboro”.

[281] The Retailer Survey also showed dramatic differences in results as between the four cities with an apparent 79 retailers in Toronto being coded as “misidentifying” Rooftop cigarettes as “Marlboro”, while there were only eight from Montreal, eight from Vancouver, and thirty from Edmonton to do the same. Dr. Chakrapani had no explanation for this very large divergence in results. Moreover, a large number of response sheets for Montreal and Toronto indicated the exact same answers to the question “Do you carry Marlboro?”. The answers, “Yes, the Retailer handed to me Rooftop” and “Pointed to no-name brand Rooftop” were presented as being recorded verbatim many times over. This curious repetition of precise wording to describe what happened at so many Toronto and Montreal locations, which stands in stark contrast to the much more fulsome verbatim answers recorded in Vancouver and Edmonton, is suspicious, to say the least. Combined with the dramatic differences in reported results amongst the four cities for which Dr. Chakrapani had no explanation, it suggests the possibility of dishonest interviewers inventing data; the fact that no verification was undertaken does nothing to alleviate this unfortunate possibility.

[282] What shall the Court make of the survey evidence presented by both parties? Despite the shortcomings of Dr. Chakrapani’s surveys identified above, I am prepared to accept that there is a

significant degree of confusion how to refer to the no-name product, especially among consumers. A large number of respondents seem to associate the Plaintiffs' product to the international PM Marlboro, for a variety of reasons, although more commonly in the case of the consumers than the retailers. Are these facts sufficient to conclude that the Plaintiffs' use of their ROOFTOP Design Trade-marks is likely to create confusion with the Defendants' MARLBORO trade-mark? I do not think so.

[283] The first factor to be considered in considering whether confusion is likely is the inherent distinctiveness of the trade-marks or trade-names and the extent to which they have become known (s. 6(5)(a)). I think it is fair to say, and no evidence to the contrary has been filed, that both marks are inherently distinctive and well known. The word MARLBORO and the ROOFTOP design in the shape of a roof, are both inherently distinctive for use with cigarettes. They are both entitled to a wide scope of protection, as they are neither descriptive nor suggestive.

[284] The second factor relates to the length of time these marks have been in use (s. 6(5)(b)). Once again, both the MARLBORO and the ROOFTOP Design Trade-marks have been used in Canada for a significant period of time. As mentioned in the factual summary of these reasons, MARLBORO has been used in Canada since the early 1900s, whereas the ROOFTOP Design Trade-marks have been used since 1958 in association with the Matador brand of cigarettes.

[285] As for the nature of the wares and of the trade (s. 6(5)(c) and (d)), the evidence reveals the following. Clearly, the products bearing the two trade-marks are of the same nature and are sold in the same establishments. Despite that apparent similarity, the Defendants' Marlboro cigarettes and

the Plaintiffs' no-name packages are distinct in some respects. First of all, the ITL Marlboro brand offers a Virginia blend, whereas the Rooftop products present a certain American blend. The evidence reveals that smokers are very particular in their smoking preference and will not easily switch from one brand to another, let alone from a Virginia blend to an American blend.

[286] Second, retailers purchase the parties' products differently. The ITL Canadian Marlboro cigarettes are distributed differently from the Rooftop brand cigarettes. The Rooftop brand is purchased wholesale by retailers, who complete an order from and pick up the product themselves from the wholesale location. In contrast, ITL Canadian Marlboro cigarettes are sold and distributed directly to retailers by ITL sales representatives.

[287] As well, the nature of the sales transaction by which consumers purchase cigarettes further diminishes any likelihood of confusion. Cigarettes must be specifically ordered at the store counter, and the sales transaction involves interaction between the participants to ensure that the correct product is purchased. Some conversation appears to be necessary between the consumer and the retailer, if only because the Plaintiffs' products come in three different flavors whereas the Defendants' Marlboro cigarettes come in only one flavor. For the retailer to make sure that he is providing the consumer with the correct product, he must in most instances elicit some clarification from the consumer, which makes it unlikely that the consumer will accidentally, through confusion, purchase a different brand of cigarettes than he intended to do.

[288] Finally, there is no degree of resemblance in appearance, sound, or ideas suggested by the parties' respective marks (s. 6(5)(e)). The word "Marlboro" was likely derived from the name of a street or region in England, whereas the Rooftop symbol looks like the roof of a house.

[289] In addition to these factors, the efforts taken by RBH to reduce the likelihood of confusion are also relevant. These efforts began with a letter to retailers concurrent with the launch of the no-name product, which provided key information about Rooftop products (see para. 64 of these reasons). In addition to the launch materials, all further announcements, advertisements, point of sale materials (lighters, match cases, ashtrays, shelf talkers, bin row inserts, etc.), and retail items emphasized "Rooftop", with reference to the word and inclusion of the Rooftop symbol, and with reference to the key distinguishing feature of the Rooftop product – the American Blend. In addition to creating, distributing, and displaying the materials listed above, the evidence shows that RBH went to great lengths to train their sales representatives to properly and accurately communicate with retailers, and to educate them as to the nature of the product and the fact that it could not be called "Marlboro".

[290] The Defendants argue that the Plaintiffs' use of their ROOFTOP Design Trade-marks gives rise to the "same ideas suggested" as their MARLBORO trade-mark. I have already mentioned that such an interpretation of section 6(5)(e) would be an unwarranted overextension of the breadth of that provision, and that the "ideas suggested" should be restricted to those ideas inherent to the nature of the trade-marks in question (for example, the design of a Penguin giving the idea of a penguin). But there is a further reason still to reject this argument in the context of the present case. The line of reasoning suggested by the Defendants necessarily depends on associations formed in

the minds of Canadians derived from use in foreign markets. This kind of association was found to be irrelevant in considering the distinctiveness of the Defendants' MARLBORO trade-mark in *Philip Morris Incorporated v. Imperial Tobacco Ltd. et al*, above. In that case, Justice Rouleau explicitly stated that the appreciation of the distinctiveness of a mark is to be made in relation with the Canadian market only, and not in relation to foreign market. For that reason, he determined that the Defendants' MARLBORO mark had not lost its distinctiveness, despite the fact that American Marlboro cigarettes are widely known and recognized by Canadians as a result of the "spill over" of American publicity campaign on Canadian territory. The same basic principle must apply when assessing confusion. The association that Canadian consumers may make as a result of the use of a mark in a foreign market should not be relevant to determining whether the use of that same mark is likely to create confusion in Canada.

[291] Having carefully considered the factors set out in section 6(5) of the Act, as well as the documentary and testimonial evidence filed and presented by both parties, I come to the conclusion that there has been no confusion caused by the Plaintiffs' use of its ROOFTOP Design Trade-marks, nor is there any confusion likely to occur. While some consumers do refer to the no-name product of the Plaintiffs as "Marlboro", there is no confusion as to the source of the Plaintiffs' product. The "Marlboro" to which they refer to is the American PM Marlboro brand, and not to the IITL Canadian Marlboro. Indeed, there is no evidence that Canadian consumers mistakenly believe that the Defendants are the source of the Plaintiffs' no-name product. Since section 20 of the *Act* seeks to prevent source confusion and not name confusion, that provision is not engaged in the present instance. Not only are the Plaintiffs not using the registered word mark of the Defendants, but their use of their own design trade-marks does not lead consumers to believe erroneously that

their product is somehow associated with that of the Defendants. For these two reasons, I am therefore unable to find that section 20 has been infringed.

[292] For the same reasons, the ROOFTOP Design Trade-marks must be held to be valid. As I have set out above, the Defendants argued that registrations TMA252,082, TMA252,083, TMA254,670, TMA274,442, TMA465,532, and TMA670,898 were invalid as of the date of the Defendants' amendment of their statement of defence (i.e. March 1st, 2010), because they are not distinctive of Philip Morris Products, contrary to section 2 and 18(1)(b) of the Act. This argument is without merit. The ROOFTOP Design Trade-marks were validly registered and are properly serving their functions as trade-marks. The evidence shows that the Plaintiffs' marks are in fact distinctive of the Plaintiffs' products sold in the Canadian marketplace. To the extent that some consumers associate these marks with the Philip Morris International Marlboro products, they are not misled as this is a correct identification of the source of the Rooftop products.

[293] In addition to this ground of invalidity, the Defendants have also alleged that TMA465,532 and TMA670,898 were not eligible for registration as the Plaintiffs were not entitled to their registration on the basis that they were confusing with the Defendants' MARLBORO word mark registration as of the date of their registrations. For reasons that should by now be abundantly clear, I am unable to find that these marks are confusing or misleading, in and of themselves or as a result of their use on the no-name packages of the Plaintiffs.

E. Is the MARLBORO registration valid?

[294] The Plaintiffs allege that if there is any confusion, it is not between their no-name products and the Defendants' Marlboro brand, but rather between the Defendants' Marlboro brand and the international PM Marlboro brand. As a result, they argue that the MARLBORO registration of the plaintiffs should be expunged from the Trade-mark registry, since it is not distinctive and therefore contrary to section 18(1)(b) of the Act.

[295] As already mentioned, a trade-mark registration is invalid if the trade-mark is not distinctive at the time of the commencement of the proceedings bringing the validity of the trade-mark into question (i.e. March 1, 2010). The trade-mark must continue to distinguish the wares in association with which it is used from the wares of others. The trade-mark must effectively serve as an indicator of quality and provenance of the wares on which it is used.

[296] Counsel for the Plaintiffs submitted that a significant portion of Canadian smokers continue to associate ITL's Marlboro products with the international Philip Morris products sold outside of Canada under the name "Marlboro". As such, they are corroborating, in many fundamental respects, the findings of a similar survey conducted for the purposes of the previous dispute between the parties, in the early 1980s. According to that survey, 72% of the respondents who believed that they recognized the ITL Marlboro Canadian product (either the beige 2001 or silver 2007 packages) attributed their recognition to a product from outside of Canada. Since Philip Morris is the only company that markets Marlboro cigarettes outside of Canada, and since those cigarettes are the best-selling cigarettes in the world, Mr. Klein concluded that these respondents appeared to have been referring to the Philip Morris Marlboro products sold outside of Canada.

[297] Counsel for the Plaintiffs also submitted that these findings are consistent with the testimonies of the consumers at trial. Mr. Lloyd and Ms. Horrigan testified that they purchased the Defendants' Canadian Marlboro cigarettes because they made an erroneous connection between the trade-mark MARLBORO on the package and the international Philip Morris Marlboro products. Immediately realizing the different nature and taste characteristics of the ITL Canadian Marlboro cigarette, neither one ever purchased the Canadian Marlboro product again. As already mentioned, however, these consumers are not necessarily representative, and little weight can be given to their testimony.

[298] According to the Defendants, however, the results of Mr. Klein's survey are not significantly different from those of the 1980s survey mentioned above. The number of smokers who associate the Defendants' Marlboro brand with the international PM Marlboro products would indeed have slightly decreased over the years.

[299] Counsel for the Plaintiffs nevertheless argues that the policy arguments that prompted the Court to find the MARLBORO registration valid in the 1980s are no longer compelling today for two reasons. First, the spill-over advertising that existed in the 1980s is no longer a factor today, since print and television advertising of the Plaintiffs' international Marlboro products has not occurred since the late 1990s. Second, the non-distinctiveness of the Defendants' MARLBORO trade-mark in Canada is nowadays a direct result of the Defendants' own actions. Let us look at these two claims.

[300] As for the absence of spill-over advertising, it must first be observed that the 1985 decision of Justice Rouleau took place at least a decade after American television advertising had ceased to appear in Canada. On the other hand, it is true that the circulation of U.S. publications wherein Marlboro advertisements appeared was massive at the time. However, what knowledge of the international Marlboro products that Canadian smokers and consumers in general may have does not derive exclusively from printed media. In an age of electronic media, mass tourism, and even of a black market in some areas of the country, to say nothing of international events that continue to be sponsored by the Philip Morris Marlboro, it is more than likely that the number of Canadians who have been exposed to the world's top-selling cigarette continues to be significant. I am therefore unable to agree with the Plaintiffs that the legal policy and rationale behind Mr. Justice Rouleau's decision are no longer relevant today. The words of the Federal Court of Appeal apply with equal force now as they did at the time:

In other words, although the spillover effect in Canada of advertising in American periodicals may be of relevance with respect to initial registration of a mark in Canada or where there is no legal assignment, it cannot be deemed to create a user in Canada which can subsequently invalidate a legitimate registration based on a valid transfer of title to the Canadian registrant. To hold otherwise would be to subject Canadian registrants to a *force majeure* over which they had no effective control.

Philip Morris Inc. v. Imperial Tobacco Ltd. (No. 1), above, at p. 297.

[301] Counsel for the Plaintiffs tried to rely on the decisions of the Supreme Court in *Crothers Co. Ltd. v. Williamson Canada Co.* (1925), 2 D.L.R. 844 and of the Federal Court of Appeal in *Moore Dry Kiln Co. of Canada Ltd. v. U.S. Natural Resources Inc.* (1976), 30 C.P.R. (2d) 40, to support his argument that the broader policy objectives and purpose of Canadian trade-mark law militate against the continued validity of the Defendants' MARLBORO registration. In the first of these

cases, the Defendant had attempted to register a name first used and registered in the United States. In the second, two lumber companies – one Canadian and one American – had been part of the same corporate family. After splitting into three entities (Moore Florida, Moore Oregon, and Moore Canada), the Canadian company obtained registration of the mark MOORE in Canada. The Court expunged the MOORE mark after finding that the company in Canada had continued to rely on the heritage and reputation of the historic US companies despite having been separated from them for years. A common feature of both these cases was a finding of deception of the public by use of the foreign mark in Canada.

[302] In the case at bar, the situation is entirely different. Far from having illegitimately registered a name that was first used in the U.S., the Defendants acquired the rights to the trade-mark MARLBORO from the predecessor in title of the Plaintiffs prior to its registration. Unless it can be shown that the Defendants have used their mark to deceive the consumers and to mislead the public into thinking that their Marlboro cigarettes are the same brand as the international Marlboro cigarettes, their registration cannot be expunged for lack of distinctiveness.

[303] This is precisely the subsidiary argument of the Plaintiffs. Counsel suggested that the Defendants' MARLBORO trade-mark is no longer distinctive, but not because of a *force majeure* over which the Defendants have had no effective control over the last 25 years. Rather, the Plaintiffs submitted that the Defendants have deceptively taken advantage of the lack of distinctiveness of their MARLBORO trade-mark in Canada by deliberately allowing Canadian smokers to associate their brand with the international PM Marlboro products, rather than creating their own goodwill and brand identity.

[304] To illustrate their thesis that the Defendants have deliberately fostered and attempted to benefit from the low degree of distinctiveness of the MARLBORO trade-mark, counsel for the Plaintiffs referred to the following examples:

- A. the cowboy and country advertising theme of Project Ranch in 1970, allegedly intended to play off and benefit from the Philip Morris international Marlboro's goodwill;
- B. the 2001 and 2007 package design changes by the Defendants;
- C. the Defendants' "Project Marlboro" (1995) and "Project Alaska" (2007) initiatives, to the extent that they targeted and attacked the brand equity in the Plaintiffs' products; and
- D. the Defendants' 2009 "Alternative Product Guide", wherein the Defendants are presumably attempting to equate their Virginia blend Canadian Marlboro cigarette with American blend products like the Plaintiffs' Rooftop cigarettes.

[305] I am far from convinced, however, that this behaviour is sufficient to establish deceptive behaviour on the part of the Defendants. Quite to the contrary, it seems to me the Defendants have consistently striven to differentiate their product from that of the Plaintiffs. For example, the "Real Marlboro" campaign that the Defendants ran in Canada in late 2006 was clearly designed as a direct response to the launch of the Rooftop brand. Similarly, "Project Ranch" was intended to counter the launch of the Plaintiffs' Maverick product. It is true that the outdoor and mountain themes of Project Ranch could be perceived as dangerously similar to the PM Marlboro theme. But as was noted by the project's authors, this concept was successful in almost every country of the world, and

it related as much to the Canadian psyche as to the American west. Contrary to the situations described in *Crothers* and *Moore Dry Kiln*, above, the Defendants were not using registered trademarks in the United States over which they had no rights, but were rather trying to make the best of a name that they had legitimately acquired many years ago. The fact that the Defendants, by using that name to sell cigarettes, may have piggybacked on positive attitudes towards that same name internationally cannot, therefore, be held against them. Moreover, I fail to see how the Defendants can be faulted for targeting the Plaintiffs' products with their "Project Marlboro" and "Project Alaska" initiatives; in a free market economy, the positioning of products vis-à-vis the competition is common and is not to be interfered with unless it is deceptive.

[306] As for the "Alternative Product Guide", the evidence at trial was mixed. First of all, the extent to which this guide is used by the Defendants' trade representatives is unclear. Second, the Defendants claim (and this is borne out by the language used on the "Guide" itself) that the brands presented as alternative to the Plaintiffs' products are not selected on the basis of their blends, but rather by taking into account the size of the cigarettes and the format of the packages. This argument is not entirely convincing, although I accept that the two other listed alternative products for Camel Filters and Winston cigarettes are Virginia blend and closer in taste to the Defendants' Marlboro than to an American blend cigarette. In short, the evidence is far from conclusive with respect to the "Alternative Product Guide". Moreover, before the advent of the dark market, the Defendants' controlled the position of their own products in the stores, through contractual agreements with retailers. The evidence suggests that at that time, the Defendants' Marlboro cigarettes were found on a shelf reserved for the Defendants' products and separate from those of

the Plaintiffs. In light of this overall context, a finding that the “Alternative Product Guide” exemplifies the deceptive behaviour of the Defendants would be unwarranted.

[307] Finally, it has not been shown that the changes in package design for the Defendants’ Marlboro product were blatantly made to imitate the Plaintiffs’ Red Rood Label design and international Marlboro package design. While the 2001 and 2007 packages of the Defendants’ Marlboro may, in some respects, come closer to the PM international Marlboro brand and, for that reason, infringe the copyright of the Plaintiffs (an issue that will be discussed in the second part of these reasons), they certainly do not come close enough to be considered deceptive. In fact, the use of a red maple leaf on the 2007 package and of the word “Canadian” or “Canadien” immediately underneath the word “Marlboro” would tend to differentiate the Defendants’ product from the American product of the Plaintiffs. Were it not for the use of the same word as the brand name of the two products, there would clearly be no possible confusion between them.

[308] In short, I am not convinced by the arguments made by the Plaintiffs to support their claim that the Defendants’ MARLBORO trade-mark registration of lacks distinctiveness and that its use is deceptive. Either taken separately or together, these arguments are not sufficient to reverse the decisions of this Court and of the Court of Appeal made some twenty five years ago.

For all of the foregoing reasons, I therefore conclude that both the Plaintiffs’ ROOFTOP Design Trade-marks and the Defendants’ MARLBORO word mark are valid, and that there has been no infringement by the Plaintiffs of any of sections 19, 20 and 22 of the *Trade-marks Act*. The Plaintiffs’ request for a declaration of non-infringement is therefore granted, and the Defendants’ counterclaim of trade-mark infringement is dismissed.

VI. Analysis: the Copyright Issue

F. Do the Defendants' 1996, 2001, and 2007 ITL Canadian Marlboro packages infringe PMPSA's copyright in the MARLBORO Red Roof Label, contrary to sections 2, 3, and 27 of the Copyright Act, and/or do these packages breach the parties' Agreement memorialized in 1952?

[309] The Plaintiffs allege that the 1996, 2001, and 2007 versions of the Defendants' Marlboro package design infringe Philip Morris' copyright in its Marlboro Red Roof package design, in contravention of sections 27 and 3 of the *Copyright Act*. For greater convenience, the works in question are reproduced below:



[310] The parties are in agreement that the Marlboro Red Roof Label is an original artistic work created by Francesco Gianninoto in 1955. As already mentioned, in an affidavit sworn in 1987, Mr. Gianninoto confirmed his independent creation of that work and that all copyright in it was assigned to Philip Morris. The parties also agree that PMPSA is the owner, through assignment, of that copyright in Canada. Because Mr. Gianninoto passed away in 1988, Canadian copyright in the Marlboro Red Roof Label will prevail until 2038.

- *Copyright Act*, R.S., 1985, c. C-42, sections 2 (definition of "artistic work"), 5 and 6.

[311] Copyright in relation to a work gives its owner a monopoly on producing or reproducing the work or any substantial part thereof (*Copyright Act*, s. 3). In other words, copyright protection confers the right to prevent copying of the work. The act of copying is an essential ingredient of copyright infringement. If an independent author arrives at the same results through independent means rather than copying, therefore, there is no copyright infringement: see *Hutton v. Canadian Broadcasting Corp.* (1992), 41 C.P.R. (3d) 45, at p. 48. Moreover, copyright protects a particular fixed *expression* of an idea; it does not protect the idea *per se*. An owner of copyright therefore has no monopoly on the use of the idea that his work expresses.

[312] It is clear that PMPSA has never consented to the Defendants' reproduction of the Marlboro Red Roof Label in Canada. In fact, by the Agreement memorialized in 1952, ITL agreed and acknowledged that it had no right to copy or imitate any of the Plaintiffs' labels, designs, or advertising, and would refrain from doing so:

On August 27th we came to a definite understanding that we had no rights to the use of advertising copy created by you [Philip Morris] or to imitate it nor did we [ITL] have any rights to slogans that you [Philip Morris] might create now or in the future or any new designs or changes in old designs of the label. (...) The whole idea was to come to some understanding and to give you definite assurance that Tuckett had no right to follow changes that you might make in label and packaging designs or to crib on the various advertising campaigns or copy that you were then running or might institute in the future.

Agreed Statement of Facts, para. 18 and Sched. 5.

[313] Section 27 of the *Copyright Act* provides that it is an infringement of copyright for anyone to make a "substantial copy" of a copyrighted work. It states:

Infringement generally

Règle générale

27. (1) It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.

Secondary infringement

(2) It is an infringement of copyright for any person to

- (a) sell or rent out,
- (b) distribute to such an extent as to affect prejudicially the owner of the copyright,
- (c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
- (d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
- (e) import into Canada for the purpose of doing anything

27. (1) Constitue une violation du droit d'auteur l'accomplissement, sans le consentement du titulaire de ce droit, d'un acte qu'en vertu de la présente loi seul ce titulaire a la faculté d'accomplir.

Violation à une étape ultérieure

(2) Constitue une violation du droit d'auteur l'accomplissement de tout acte ci-après en ce qui a trait à l'exemplaire d'une oeuvre, d'une fixation d'une prestation, d'un enregistrement sonore ou d'une fixation d'un signal de communication alors que la personne qui accomplit l'acte sait ou devrait savoir que la production de l'exemplaire constitue une violation de ce droit, ou en constituerait une si l'exemplaire avait été produit au Canada par la personne qui l'a produit :

- a) la vente ou la location;
- b) la mise en circulation de façon à porter préjudice au titulaire du droit d'auteur;
- c) la mise en circulation, la mise ou l'offre en vente ou en location, ou l'exposition en public, dans un but commercial;
- d) la possession en vue de l'un ou l'autre des actes visés aux alinéas a) à c);
- e) l'importation au Canada en vue de l'un ou l'autre des actes

referred to in paragraphs (a) to (c),

visés aux alinéas a) à c).

a copy of a work, sound recording or fixation of a performer's performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

Knowledge of importer

(3) In determining whether there is an infringement under subsection (2) in the case of an activity referred to in any of paragraphs (2)(a) to (d) in relation to a copy that was imported in the circumstances referred to in paragraph (2)(e), it is irrelevant whether the importer knew or should have known that the importation of the copy infringed copyright.

Plates

(4) It is an infringement of copyright for any person to make or possess a plate that has been specifically designed or adapted for the purpose of making infringing copies of a work or other subject-matter.

Public performance for profit

(5) It is an infringement of copyright for any person, for profit, to permit a theatre or other place of entertainment to

Précision

(3) Lorsqu'il s'agit de décider si les actes visés aux alinéas (2)a) à d), dans les cas où ils se rapportent à un exemplaire importé dans les conditions visées à l'alinéa (2)e), constituent des violations du droit d'auteur, le fait que l'importateur savait ou aurait dû savoir que l'importation de l'exemplaire constituait une violation n'est pas pertinent.

Planches

(4) Constitue une violation du droit d'auteur la confection d'une planche conçue ou adaptée précisément pour la contrefaçon d'une oeuvre ou de tout autre objet du droit d'auteur, ou le fait de l'avoir en sa possession.

Représentation dans un but de profit

(5) Constitue une violation du droit d'auteur le fait, dans un but de profit, de permettre l'utilisation d'un théâtre ou

be used for the performance in public of a work or other subject-matter without the consent of the owner of the copyright unless that person was not aware, and had no reasonable ground for suspecting, that the performance would be an infringement of copyright.

d'un autre lieu de divertissement pour l'exécution en public d'une oeuvre ou de tout autre objet du droit d'auteur sans le consentement du titulaire du droit d'auteur, à moins que la personne qui permet cette utilisation n'ait ignoré et n'ait eu aucun motif raisonnable de soupçonner que l'exécution constituerait une violation du droit d'auteur.

[314] Section 2 of the same Act, in its definition of “infringing”, also prohibits any “colourable imitation” of a work in which copyright subsists.

[315] In order for a Court to find infringement, the Plaintiffs must establish two essential elements. First, there must be a sufficient similarity between the works in question such that the allegedly infringing work could be considered a copy or reproduction of the protected work. In other words, there must be proof of substantial similarity between the original work and the allegedly infringing work. Whether the Defendants have infringed copyright by taking a substantial part of a copyrighted work is essentially a question of fact. Second, the Plaintiffs must prove that the Defendants had access to the work protected by copyright; that is to say, that the copyrighted work was the source from which the allegedly infringing work was derived. This is sometimes referred to as a “causal connection”.

- A. McKeown, J.S., *Fox on Canadian law of copyright and industrial designs*, 4th ed., loose leaf (Toronto: Carswell, 2009) at pp. 21-10 to 21-12;
- B. Hughes, R.T. and S. J. Peacock, *Copyright and Industrial Design*, 2nd ed., loose leaf, (Markham: LexisNexis Canada, 2005) at para. 63.
- C. *Atomic Energy of Canada Ltd. v. AREVA NP Canada Ltd.*, 2009 FC 980;
- D. *Boutin v. Bilodeau* (1992), 33 A.C.W.S.(3d) 781 (Qué. C.A.).

[316] Mere similarity between two works is insufficient to establish copying. What is required is a substantial similarity between the original work and the allegedly infringing work that is observable when the works are viewed as a whole. Unless a substantial part of a work is copied, there can be no cause of action for copyright infringement. The question to be asked is whether the reproduction contains within it, in qualitative rather than quantitative terms, a substantial part of the skill and judgment exercised by the creator of the original, protected mark: *Robertson v. Thompson Corp.*, 2006 SCC 43, at para. 81. “Substantial similarity” is made out where the impugned work “...comes so near to the original as to give every person seeing it the idea created by the original; such similarity creates *prima facie* evidence of copying”: Hughes, R.T. and S.J. Peacock, *Hughes on Copyright & Industrial Design*, above, at para. 63. See also: *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, [1964] 1 All E.R. 465, at 477.

[317] Justice Richard (as he then was) set out some factors that can be taken into account to determine whether the copied part of a work is “substantial”:

In order to find copyright infringement, a plaintiff must prove copying of the work or a substantial part thereof and access to the copyright protected work. In this instance, the defendant has admitted to copying a portion of U&R’s form and the enquiry is therefore directed to whether the copying was “substantial” within the meaning given to that term by the courts: “[w]hat constitutes a ‘substantial’ part is a question of fact and, in this respect, the courts have given more emphasis on the quality of what was taken from the original work rather than the quantity”.(...) Some of the matters that have been considered by courts in the past include:

- (a) the quality and quantity of the material taken;
- (b) the extent to which the defendant’s use adversely affects the plaintiff’s activities and diminishes the value of the plaintiff’s copyright;
- (c) whether the material taken is the proper subject-matter of a copyright;

- (d) whether the defendant intentionally appropriated the plaintiff's work to save time and effort; and
- (e) whether the material taken is used in the same or a similar fashion as the plaintiff's.

U&R Tax Services Ltd. v. H&R Block Canada Inc. (1995), 62 C.P.R. (3d) 257, at p. 268.

[318] In considering the issue of copyright infringement, the Court must exclude from its review any part of the work that is not the subject of copyright protection. In this case, it is significant that the Plaintiffs do not own any copyright in the word "Marlboro" itself. As such, the word "Marlboro" must be ignored when considering the issue of copyright infringement, although any graphic design elements that the defendants have applied to the word may nevertheless fall under examination.

[319] As noted above, in addition to the requirement of substantial similarity, there must also be a casual connection between the works. In other words, the copyrighted work must be the source from which the allegedly infringing work is derived: *Grignon v. rousell* (1991), 38 C.P.R. (3d) 4, at p. 20; *Shewan v. Canada (Attorney General)* (1999), 87 C.P.R. (3d) 475, at pp. 496-500; *U&R Tax Services Ltd. v. H&R Block Canada Inc.*, above, at p. 269.

[320] A court may infer that copying took place where substantial similarity exists and where it is established that the author of the allegedly infringing copy had access to the plaintiffs' work. However, an inference of copying is displaced by evidence of independent creation. It is an absolute defence to a copyright infringement allegation if it is proven that the second work was created independently of the first. An inference of copying is also rebutted where the similarity between the works is the result of the use of conventional ideas or of common source material:

Kilvington Brothers Limited v. Goldberg (1957), 28 C.P.R. 13, at p. 16; *Collins et al. v. Rosenthal et al.* (1974), 14 C.P.R. (2d) 143, at pp. 148-149.

[321] Having set out the basic principles underlying the *Copyright Act* and the requirements to find a copyright infringement, I must now consider the evidence before me in order to determine whether a copyright infringement has taken place. To do so, I must discern whether the Defendants' packages are substantially similar to be considered a copy or reproduction of the Plaintiffs' packages, and if so, whether there is a causal connection between those packages such that the Plaintiffs' package can be said to be the source from which the Defendants' packaging was derived.

[322] The evidence at trial was that the Marlboro Red Roof Label is a very well-known work amongst graphic designers, and that it is one of the most widely-known, recognizable cigarette packages in the world. The late Mr. Don Watt, whose affidavit was adopted on this point by Mr. Candib, called it "one of the great success stories of package design in history". Mr. Telmet testified through his report that this design is "one of the most well-known cigarette packages in the world", whose strength lies in its "simplicity, power of scale and composition, and dramatic use of colour".

[323] Mr. Watt identified four particular graphic elements as being the "most distinctive and memorable elements" of the package, namely the following:

- A. The "Red Roof Device", consisting of the roof shape, its "deep red" colour, and its placement at the top of the package. Mr. Watt was of the view that the Red Roof

Device was “eye-catching” and imparted a masculine, aggressive look to the package;

- B. The word MARLBORO as presented on the package. In particular, Mr. Watt focused on the “unique modifications” made to the Corvinus Skyline typeface, and in particular on the vertical stretching of the letters “M”, “P” and “b”, with the “P” and “b” being extended beyond the height of the capital “M”. This technique draws the viewer’s eye upward to the peak and to the name of the manufacturer of the product – PM USA – as indicated by the crest. He referred to this as an “unusual manipulation”, and characterized the overall impact as “striking and memorable”;
- C. The “PM USA” crest, having a red centre with a surrounding gold design and placed under the peak of the Red Roof Device but above the “Marlboro” word. The intensity of the red centre combined with its placement near the centre of the package with the “P” and “b” lining up with and pointing to it creates a “bulls-eye” target effect;
- D. The white oblong bubble embedded in the Red Roof Device containing the words “Filter Cigarettes”.

Mr. Watt also described two additional elements of the Philip Morris Marlboro package design, though he considered them less important than the four elements identified above: i) the use of the phrase “Class A Cigarettes” at the bottom of the package, and ii) the red stripe at the bottom of the package. He was of the view that these latter two features “serve to provide a grounding and body to the package”.

[324] Overall, Mr. Watt characterized the 6 features noted above as the “major graphic elements” of the Philip Morris package design, that combine to result in a “striking and distinctive visual design”.

[325] The other expert called by the Plaintiffs, Mr. Gilles Robert, also commented in his affidavit on three graphic design elements found on the Philip Morris package. In his view, the “red roof”, the crest, and the word “Marlboro” wherein the “r” and the “b” had been “significantly elongated” and were longer than the capital “M” combined in the composition of the package. He commented specifically on the modifications of the Corvinus Skyline font used by Mr. Giannonoto.

[326] On cross-examination, Mr. Robert also provided the following additional evidence in respect of the Philip Morris Marlboro package. First, he said that the Red Roof Device is one of the key visual elements of the Philip Morris package. He agreed with Mr. Watt that the Device was “memorable and striking” and one of the “key graphic elements on the package”, the other two being the crest and the word “Marlboro”. He also said that the manipulation of that word on Philip Morris typeface as described above was “extremely unique”. Finally, he agreed that the white oblong bubble on the Philip Morris package was another important element, although not an essential one.

[327] Mr. Tiit Telmet was the graphic design expert called by the defendants. He was in general agreement with Mr. Watt and the other experts called by the plaintiffs as to which were the most important design elements of the Philip Morris package, though he put greater importance on the red band or line at the bottom of the package, and less importance on the crest. He was also of the

view that the “wrap around” feature of the Philip Morris design was significant. As to the typeface in which the word “Marlboro” is rendered on the Philip Morris Marlboro package, he characterized it as a “dramatically modified” version of the Corvinus Skyline font, because of the significant elongation of the “M”, “T” and “b”.

[328] In summary, all of the graphic design experts were in general agreement as to the most important graphic design elements of the Philip Morris package, though there was some variation as to the level of importance that they each assigned to various elements. Those elements are the following:

- A. the Red Roof Device, consisting of the strong red colour, the shape of the device itself, and its placement at the top of the package;
- B. the Corvinus Skyline typeface and the manipulation of the word “Marlboro” to significantly extend the “T” and the “b” in relation to the remaining letters, including the capital “M”;
- C. the crest and its design;
- D. the white oblong bubble embedded in the Red Roof Device containing the words “Filter Cigarettes”;
- E. the red stripe or line at the bottom of the package; and
- F. the phrase “Class A Cigarettes” at the bottom of the package.

[329] The Plaintiffs admit that the 1970, 1981, and 1988 ITL packages are quite different in appearance from their copyrighted Marlboro Red Roof Label. The colour scheme on the 1970 package was brown and beige, while the word “Marlboro” was presented in a white, italicized, sans

serif font, identified as Avant Garde Gothic Demi by Mr. Robert, using a lower case “m”. In addition, the word was placed flush with the right-hand side of the package face. Similarly, the next two designs for ITL Marlboro Canadian in 1981 and 1988 employed designs which were very different from the Marlboro Red Roof Label. The packages were beige with black and red elements. A crest outlined in gold was employed in a red square box with rounded corners. There was a central black bar centered on the package. The word “Marlboro” continued to exhibit a lower case “m” and was presented in black ink, in another sans serif font called Ronda Bold. Both of these packages were very different in design, colour, and layout from the Marlboro Red Roof Label.

[330] According to the Plaintiffs, in 1996, and then again in 2001 and 2007, the Defendants made systematic changes to their package designs for ITL Canadian Marlboro, in terms of design, colouring, layout, and font.

[331] Plaintiffs argued that the 1996 ITL Canadian Marlboro design marked a striking change from past iterations of the package. Not only did the Defendants abandon their use of non-serif font, and a non-capitalized “m”, but they also switched to a serif font called “Garamond” and began to employ a capital “M”. The word “Marlboro” and a crest were placed on the face of the package in a centre axis composition, and the package was simplified in that the central black bars were removed so that the remaining word and crest stood out more noticeably against the light background.

[332] Further changes appeared on the 2001 ITL Canadian Marlboro. The crest placement was altered so that the crest was now centered directly above the “t” and the “b” of the word Marlboro. A different serif font, Utopia Semibold, was used for the word “Marlboro”, resulting in an “t” and

“b” that were slightly taller than the capital “M”, and that pointed upwards towards the crest.

Finally, the effect of changing the font for the word “Marlboro” elongated that word by approximately 51% as compared to the 1996 package, according to Mr. Robert. Counsel for the Plaintiffs submitted that all of these changes brought the brand name closer in appearance to the word “Marlboro” as it appears on the Marlboro Red Roof Label.

[333] I am unable to agree with Plaintiffs’ submissions, whether looking at the particular elements referred to in the paragraph above or at the overall arrangement and display. Not only am I unable to find substantial similarity when viewing the works as a whole, but there are very few similarities between the two ITL Canadian Marlboro packages and the six most important graphic elements of the Marlboro Red Roof Label.

[334] First of all, neither of the 1996 and 2001 packages contains the red roof element or any similarly shaped or coloured element. However, both Mr. Watt in his affidavit and Mr. Candib in his testimony suggested that consumers might possibly imagine the red roof element being covered by the health warning at the top of the Defendants’ packaging. Mr. Telmet disagreed with this suggestion and pointed out that if this were true, one would expect the red roof to be visible on the sides of the box due to the “wrap around” feature of the Plaintiffs’ packaging. Moreover, as the various cigarette packages produced as evidence at trial clearly demonstrate, manufacturers have responded to health warning requirements by reducing the size of their labels, not by covering up portions of them, and consumers are accustomed to seeing this. In any event, this speculative view expressed by Mr. Watt and Mr. Candib is irrelevant to an allegation of copyright infringement. The essential ingredient of copyright infringement is copying. While substantial similarity and a causal

connection may be used to infer copying, there is no case law to suggest that it is appropriate to infer substantial similarity on the basis of design elements not actually present on the allegedly infringing work. Overall, a mistaken impression by consumers (and no evidence was presented in that respect) is not an element of the test for copyright infringement. Having carefully considered the expert evidence of both parties, I agree with Mr. Telmet that the red roof element is neither present nor somehow hidden behind the health warning.

[335] As noted above, the Court must exclude any part of the work that is not subject to copyright. It is not contested that the word “Marlboro” *per se* is not part of the Plaintiffs’ copyrighted work. Therefore, only the design elements applied to the word “Marlboro” by the Defendants are relevant in considering the issue of infringement with respect to the word. This would in essence be the typeface used by the Defendants.

[336] The Philip Morris package depicts the word “Marlboro” in a bold, serif-style typeface named Corvinus Skyline. Most importantly, and as acknowledged by all of the experts, the typeface has been highly modified. The modifications include the elongation of the “M” and the greatly elongated “l” and “b”. The significant elongation of the “l” and the “b” serve, in part, to accentuate the peak of the Red Roof device. Further, the Plaintiffs’ typeface has been condensed, giving it a vertical appearance. Overall, the experts were of the view that the modifications were of such a significant nature that the typeface was unique to Philip Morris.

[337] The parties agree that the Defendants use different typefaces from the Plaintiffs for all three of the impugned packages (including the 2007 version). The Defendants’ 1996 package uses the

Adobe Garmond font, while the 2001 and 2007 packages use the Utopia Semi-bold font (also from Adobe) serif typeface. As described by Mr. Telmet, the highly-modified typeface used for the Philip Morris Marlboro package and the Defendants' packages are very different, with the only similarity being that they are both serif fonts.

- Exhibit D-40 (Affidavit of Tiit Telmet), at para. 51.

[338] Unlike the highly modified typeface used by the Plaintiffs, the Defendants' typefaces are "off the shelf", commercially available typefaces from Adobe that were not modified by the Defendants in terms of the letter sizing and/or shape. In particular, the evidence was clear that the Defendants did not elongate the "r" and the "b" appearing on the 1996, 2001, and 2007 packages. The only step taken by the Defendants' designers was to compress or condense the word "Marlboro" to some degree, but this would not alter the relative height of the letters. Mr. Telmet demonstrated this through his own analysis of the Utopia Semi Bold typeface used by the Defendants.

[339] In his affidavit, Mr. Watt agreed that there are differences between the fonts used in the 1996 ITL Canadian Marlboro package and the PM US Marlboro package. He noted that the word "Marlboro" is less condensed on ITL's package than it is on the PM US Marlboro package. In addition, the serif shapes for the two fonts differ: the font used on the PM US Marlboro package exhibits very thin, sharply defined serifs whereas the font used on the ITL' package shows more rounded serifs. Overall, he does not say that the two typefaces are similar, but only that the shift to a serif style with a capital "M" on the ITL 1996 Marlboro marked a significant departure from the earlier look.

[340] As for Mr. Robert, his view that the Defendants had vertically stretched the “M”, “T”, and “b” in the word “Marlboro” on their 1996 package was based on the incorrect assumption that the Defendants had used the Utopia Semi Bold typeface. Mr. Robert admitted on cross-examination that he was in error and that in fact the Defendants had not used the Utopia Semi Bold typeface but rather the Adobe Garamond, and that his conclusion on the supposed manipulation of the letters by the Defendants was ill-founded.

[341] As for the 2001 ITL Canadian Marlboro package, both Mr. Robert and Mr. Watt (with whom Mr. Candib concurred) were of the view that the font was stretched vertically in comparison to the former appearance of the word in the 1996 version, bringing it closer to that used on the PM US Marlboro package.

[342] In his affidavit and at trial, however, Mr. Telmet demonstrated that what appears to be an elongation in the relative height of the word “Marlboro” could as easily be the result of a mere compression of the word. Indeed, with the use of a computer, Mr. Chevillot provided an in-court dynamic graphic demonstration on that issue. In fact, Mr. Telmet showed that the overall characteristics of the Utopia Semibold typeface are essentially maintained by superimposing the unmodified Utopia Semibold typeface (compressed at 70%) onto the typeface used on the 2007 ITL Marlboro package. Despite the fact that the font used on the 2007 package is even more compressed than the font used in 2001, there is no noticeable difference between the straight compressed version of the word “Marlboro” and the actual font as it appears on the 2007 package. These very minor changes on the part of the Defendants are to be contrasted with the dramatic

change made to the Corvinus Skyline typeface by Mr. Gianninoto in his design for the Plaintiffs' US Marlboro.

[343] It may well be that the adoption of a serif font in 1996, and the change to the Utopia Semibold font in 2001, had the effect of bringing the ITL Marlboro packages closer in appearance to the PM US Marlboro. But both Mr. Telmet and Mr. Candib (on cross-examination) agreed that the use of serif fonts is common in marketing nowadays, and there are indeed a number of other cigarette packages using this family of fonts. Moreover, it is worth noting that the Defendants' packaging between 1924 and 1970 used a serif font.

[344] As for the Defendants' choice of the Utopia Semibold font, a characteristic of which is that the lower case "t" and "b" letters are taller than the upper case "M", I need only say that this difference in height is barely noticeable and is a far cry from the striking elongation of the "t" and "b" on the PM US Marlboro package. Looking at the two typefaces side by side and in isolation, I am unable to conclude that they are substantially similar. This is made even clearer by taking the word "Marlboro" out of the equation, and replacing it with the word "Carlbone" on the ITL package, as was illustrated by the Defendants' witness Mr. Telmet. Except for the fact that both typefaces feature serifs, there is very little similarity between them. To be sure, there are a number of other typefaces that more closely resemble the Corvinus Skyline typeface than the Utopia Semibold used by the Defendants, as was shown by Mr. Telmet in his affidavit.

[345] This brings me to the crest, which is the only element out of the six most important design elements of the Plaintiffs' package that is common to the Defendants' packaging. The crest was

placed below the word “Marlboro” on the 1996 ITL Marlboro package, but in 2001, its placement was changed so that it became directly centered above the “l” and the “o” of the word Marlboro.

[346] Once again, I note that the Defendants used a crest on their Marlboro packages continuously for nearly 50 years, between 1924 and 1970. The crest was part of the rights assigned to the Defendants’ predecessors by the Plaintiffs’ predecessors in 1924. The Defendants reintroduced a modified version of the original crest on their Marlboro package in 1981; this modified crest has been used continuously by the Defendants between 1981 and 2007. If the Plaintiffs were objecting to the use of this crest, in and of itself, it would be a little bit late. However, the introduction of the crest along with all the other elements and characteristics of the ITL Marlboro packages is what they object to, and for that reason it must be looked at carefully.

[347] The Defendants are correct in stating that, as assignees of the original crest in Canada, they had and still have a right to use it. However, they do not have the right to modify it in such a way as to bring it too close to the Philip Morris Marlboro crest. On cross-examination, Mr. Garguilo agreed that the newer version of the crest used by the Defendants on their Marlboro package is a simpler, modernized version of the traditional one. He also concurred with counsel for the Defendants that the old and new crests share the common elements of two animals, a circular symbol in the centre, a crown at the top, and a banner on the bottom.

[348] When looking at the crests on the 1996 and 2001 ITL Marlboro packages and on the PM US Marlboro, one must conclude that they do bear some similarities in terms of the colours used and of the animals depicted. On the other hand, they also differ in some respects. On the ITL package, the

crest is encased in a red square; the “veni, vidi, vici” is replaced by a banner with no text; there is no crown; and there is no red circle between the two animals with the letters PM. In light of these differences, I am not convinced that the Defendants’ crest can be considered substantially similar to that of the Plaintiffs. It can as easily be described as a modernized version of the old crest. In any event, even if I were to conclude that the two crests are “too close for comfort” in terms of similarity, one would have to find that the crest constitutes a sufficiently significant part of the Plaintiffs’ overall package design so as to constitute an infringement of that design based on the similarity of crest alone. None of the experts has testified to that effect. The crest is, at best, one of the six main characteristics of the PM US Marlboro package.

[349] The last three characteristics of the PM US Marlboro package can be dealt with quickly. First, the parties agree that the white oblong bubble, or lozenge, superimposed over the red roof element on the PM Marlboro package is not used on the Defendants’ packaging. Second, they also agree that the red stripe at the bottom of the PM Marlboro package, considered by all three experts as an important design element providing the package with grounding and body, does not appear on the Defendants’ packaging. Third, they agree that the “Class A Cigarettes” on the PM Marlboro package is not found on the Defendants’ packages.

[350] In light of the foregoing, I am unable to find that the Defendants’ 1996 and 2001 packages are sufficiently similar to that of the Plaintiffs’ to conclude that they constitute an infringement of the Plaintiffs’ copyrights. Indeed, the Plaintiffs’ own expert, Mr. Candib, was of the view that the Defendants’ 1996 package was not sufficiently similar to the Philip Morris’ Marlboro package to be considered a copy.

[351] It is also telling that the Plaintiffs, in their own promotional literature to retailers promoting the introduction of their no-name brand product, described the Defendants' 2001 package design as being "dramatically different" from RBH's new Rooftop brand (see above, at para. 64). This document was apparently approved by both the marketing department and the legal department of RBH (see cross-examination of Mr. Guile, at pp. 483-484). When asked to comment on this characterization of the 2001 ITL package on cross-examination, Mr. Robert agreed that it was indeed dramatically different from the Rooftop package.

[352] Finally, section 41(1) of the *Copyright Act* sets out a three-year limitation period for civil remedies, which the Court shall apply when a party pleads it (s. 41(2)). In the case at bar, the limitation period was pleaded in the Defendants' second fresh amended Statement of Defence and Counterclaim dated March 10, 2010.

Limitation period for civil remedies

41. (1) Subject to subsection (2), a court may not award a remedy in relation to an infringement unless

(a) in the case where the plaintiff knew, or could reasonably have been expected to know, of the infringement at the time it occurred, the proceedings for infringement are commenced within three years after the infringement occurred; or

(b) in the case where the plaintiff did not know, and

Prescription

41. (1) Sous réserve du paragraphe (2), le tribunal saisi d'un recours en violation ne peut accorder de réparations que si :

a) le demandeur engage des procédures dans les trois ans qui suivent le moment où la violation a eu lieu, s'il avait connaissance de la violation au moment où elle a eu lieu ou s'il est raisonnable de s'attendre à ce qu'il en ait eu connaissance à ce moment;

b) le demandeur engage des procédures dans les trois ans

could not reasonably have been expected to know, of the infringement at the time it occurred, the proceedings for infringement are commenced within three years after the time when the plaintiff first knew, or could reasonably have been expected to know, of the infringement.

Restriction

(2) The court shall apply the limitation period set out in paragraph (1)(a) or (b) only in respect of a party who pleads a limitation period.

qui suivent le moment où il a pris connaissance de la violation ou le moment où il est raisonnable de s'attendre à ce qu'il en ait pris connaissance, s'il n'en avait pas connaissance au moment où elle a eu lieu ou s'il n'est pas raisonnable de s'attendre à ce qu'il en ait eu connaissance à ce moment.

Restriction

(2) Le tribunal ne fait jouer la prescription visée aux alinéas (1)a) ou b) qu'à l'égard de la partie qui l'a invoquée.

[353] The Plaintiffs amended their Statement of Claim to include copyright infringement on January 8, 2008. The limitation period would therefore preclude the awarding of any remedies for infringements occurring prior to January 8 2005. It is a fair assumption that the Plaintiffs knew, or could reasonably have been expected to know, of the 1996 and 2001 ITL Marlboro package before 2005. In any event, the cross-examination of Thomas Garguilo revealed that the Plaintiffs had been aware of the Defendants' Marlboro packaging released in 1996 and 2001 for more than three years by January 8, 2008, when they amended their Statement of Claim. It may well be that, viewed in isolation, without the context of the 1996 or 2007 packages, Mr. Garguilo may not have noticed that the 2001 package was part of a series of progressive changes, as he mentioned. However, each package is to be assessed individually for the purposes of determining a copyright infringement, and there was no need for a continuum to make that determination. For that reason, the Plaintiffs are time-barred from raising a copyright infringement, at least with respect to the 1996 package.

[354] Counsel for the Plaintiffs argued that each act of reproduction of the impugned package designs constitutes an infringement. Since the 2001 impugned package design continued to be reproduced through 2007, all infringing reproductions since January 8, 2005 would therefore not be barred by the expiration of the limitation period. Although appealing, this argument is not totally convincing. It rests on the assumption that each and every new package printed constituted a continuing or new act of infringement. However, it could be argued with equal force that it is the actual design of the package that constitutes the infringement, and that each reproduction of that design on the packages does not represent a separate or even a continuing “act” of infringement. This issue has not been thoroughly canvassed by the parties, and in the absence of clear authorities on the subject, it is preferable to refrain from any definitive finding on this point, as it is not strictly speaking necessary for the resolution of this case.

[355] If the Defendants’ 1996 and 2001 packages cannot be called substantially similar to the PM US Marlboro package, what of the ITL Marlboro 2007 package? Does it come too close to the Plaintiffs’ Marlboro package? Since counsel for the Plaintiffs have focused much of their arguments on this latest package, it is worth considering it separately.

[356] Counsel for the Plaintiffs submitted that the 2007 ITL Marlboro package incorporated further significant changes as compared to the 1996 and 2001 packages. First, ITL moved from the beige background to a silver background. The word “Marlboro” was rendered in black instead of brown, and was further condensed. A silver drop shadow was also added to the word “Marlboro” in order to provide more emphasis on the word and make it appear more prominent. These changes to

the word “Marlboro”, according to counsel, caused it to significantly resemble the word “Marlboro” as it appears in the Marlboro Red Roof Label.

[357] The crest was also modified to include a red central element in the form of a red maple leaf. The overall colouring of the crest was also changed; while it had been presented as a red square seal with rounded corners, with the figures outlined in gold since 1981, it was now rendered in silver with a superimposed central maple leaf. It was also deliberately centered over the word “Marlboro”, something that required some re-spacing of the letters to ensure that the central axis effect was achieved.

[358] Finally it was argued that the choice of colour was not insignificant. First, the silver colour of the background is one of only three colours used in the Rooftop product line as of 2006. Second, the red and black colour scheme of the Marlboro Red Roof Label (red crest, black word, red grounding line) was also reproduced in the 2007 ITL Canadian Marlboro package (red crest, black word, red “Canadian”).

[359] First of all, I am not convinced that a comparison between a silver-coloured RBH Rooftop package/design of the Plaintiffs and the Defendants’ 2007 package design is relevant. The only work alleged to be infringed is the Philip Morris Marlboro Red Roof Label. Indeed, none of the Plaintiffs’ expert makes any reference in their respective reports to use of the colour silver by the Plaintiffs.

[360] Second, I would venture to say that the 2007 crest is even more different from the Plaintiffs' crest than the crest of the Defendants' 1996 and 2001 packaging. The Defendants' 2007 crest essentially consists of a red maple leaf in a silver square, which is very different from the Plaintiffs' crest of a red oval bearing the letters "PM" surrounded by gold animals without a border. The Defendants can certainly not be faulted for using a red maple leaf to send the message that theirs is a Canadian product. Except for the fact that both the Plaintiffs' and the Defendants' crests have a red center, they are entirely different.

[361] There was a suggestion by Mr. Watt that the word "Canadian" on the Defendants' 2007 package is similar to the red stripe on the Plaintiffs' package. However, other than the red colour, there is no similarity. Further, the word "Canadian" does not exhibit the wrap around feature of the red line, nor does it serve the purpose of being the floor to a non-existent Red Roof.

[362] Considering that the 2007 package, just like its previous incarnations of 1996 and 2001, does not share most of the PM US Marlboro package characteristics, I similarly conclude that the 2007 ITL Marlboro package is not substantially similar nor a colourable imitation of the Plaintiffs' packaging. Not only do they not share their most significant elements, but the overall impression left by the two packages does not lead to the inference that one is a copy of the other. Were it not for the use of the same word "Marlboro", a simple comparison of the two packages would lead to the inevitable result that they bear very little resemblance to one another and have very little in common.

[363] The Plaintiffs' survey evidence also supports the conclusion that the Defendants' packaging is not an infringement of the Plaintiffs' copyright in its package. The Defendants' 2001 and 2007 packages were the subject of a survey conducted by the Plaintiffs' survey expert, Mr. Klein. On cross-examination, Mr. Klein agreed that it appeared from the results that in every case where a smoker made a connection between the Defendants' package and the Plaintiffs' brand, it was based solely on the name "Marlboro". It is also interesting to note that more respondents made a connection between the Defendants' 2001 package and the PM US Marlboro than between the Defendants' 2007 package and the PM US Marlboro package.

[364] Further, the results also indicated that in each and every case where a smoker made a connection between the Defendants' package and another brand based on design elements of the Defendants' package, the connection was always to a brand other than Philip Morris' Marlboro brand. In other words, 387 smokers shown either the Defendants' 2001 or 2007 packages, not a single respondent appears to have drawn a connection between the Defendants' product and that of the Plaintiffs' based on design elements of their respective packages.

[365] Additionally, Mr. Klein conducted a survey of smokers regarding the Plaintiffs' Rooftop product. Of the 389 smokers surveyed, approximately 25% made a connection between the Rooftop product and the Philip Morris Marlboro product. Mr. Klein noted that to the extent the smokers were making that connection based on design elements present on the Philip Morris package, those same design elements were not present on the Defendants' 2001 and 2007 packaging. In fact, none of the respondents made a connection between the Rooftop product and the Defendants' products.

[366] For all of the above reasons, I therefore agree with the Defendants that their Marlboro packages (1996, 2001, and 2007) are not substantially similar to the Plaintiffs' packaging and do not infringe their copyrights. As a result, it would be unnecessary for the Court to consider the second element which must be shown for a finding of copyright infringement, namely whether there is a causal connection between the copyrighted work and the alleged infringing work. I shall nevertheless say a few words about that, since both parties have argued that point.

[367] Even if I were to find that there is substantial similarity between the Defendants' 2001 and 2007 packages and the Philip Morris Marlboro package, there is no evidence to establish a causal connection such that the Philip Morris package could be considered the source of the Defendants' 2001 and 2007 package redesigns. As previously mentioned, an allegation of copyright infringement may be rebutted by establishing independent creation, which is an absolute defence to copyright infringement. In the present case, extensive testimony was presented at trial showing that the Defendants' 2001 and 2007 package redesigns were the product of independent skill, judgment, and labour and were not copied from the Philip Morris Marlboro package. Indeed, the evidence was that the in-house brand managers and outside design firms took concrete steps to distance those package designs from the Plaintiffs' Marlboro package.

[368] With respect to the Defendants' 2001 package, both Mr. Richard Frasier, the ITL Marlboro

brand manager at the time, and Ms. Jennifer De Vito, President of the outside design agency responsible for the 2001 package, testified that:

- A. the redesign was motivated by the change in Canadian legislation requiring cigarette manufacturers to increase the amount of space on a package dedicated to health warnings;
- B. Axion Design was instructed to refresh and update the look of the 1996 package, while keeping the package recognizable by ITL's customers;
- C. ITL did not give Axion Design any specific instructions with respect to the colours, typefaces, or placement of the crest for the new package.

[369] While Mr. Frasier and Ms. De Vito were aware of the Philip Morris Marlboro package design, there is no evidence to suggest that they attempted to copy it. Quite to the contrary, they testified that they took specific steps to distance the 2001 package from that of the Philip Morris Marlboro package.

[370] As for the Defendants' 2007 package design, both Mr. Louis-Philippe Pelletier (the in-house ITL Marlboro brand manager at the time) and Mr. Olivier Chevillot (a member of the outside design agency that was responsible for the design of the 2007 package) testified that the objectives of the redesign were to emphasize the Canadian aspect of the brand, to enhance its premium nature, and to update the packaging and make it look more modern. Mr. Chevillot also testified that his firm was not provided with any specific instructions from ITL as to the appearance of the new package, neither with respect to colour nor typeface nor placement of the design elements, such as the crest, on the new package.

[371] While Mr. Pelletier and Mr. Chevillot were aware of the Philip Morris Marlboro package design, there was no evidence to suggest that they had attempted to copy it, or any element of it. In fact, their evidence was that they too took steps to distance the 2007 package from that of the Philip Morris Marlboro package. Their cross-examination did not reveal any reason to doubt the truthfulness of their statements.

[372] Since the Plaintiffs have not been able to establish a causal connection between the Defendants' packaging and their own, it is a further reason to conclude that their allegation of copyright infringement must be dismissed.

VII. Conclusion

[373] Therefore, for all of the above reasons, I am of the view that the Plaintiffs are entitled to a declaration that their use of the Rooftop Design Trade-marks in association with cigarettes does not infringe any rights the Defendants may have under the *Trade-marks Act* to Canadian trade-mark registration No. TMDA55,988. As a result, the Defendants' counterclaim – seeking a declaration that the sale, distribution, and advertising in Canada of the Plaintiffs' no-name ("Rooftop") cigarettes (in their red, gold and silver versions) constitutes an infringement of the Defendants' rights in the registered trade-mark MARLBORO (TMDA55,988) – is dismissed, as is their counterclaim requesting that the Plaintiffs' trade-mark registrations TMA252,082, TMA252,083, TMA254,670, TMA274,442, TMA465,532 and TMA670,898 be declared invalid. Finally, I also find that the Defendants have not infringed the Plaintiff PMPSA's copyright in its Marlboro Red Roof Label, nor have they breached the Agreement memorialized in 1952.

[374] Both parties shall make written submissions as to costs, within 30 days of the release of these reasons and order.

JUDGMENT


THIS COURT ORDERS AND ADJUGES that:

1. The Plaintiffs are entitled to a declaration that their use of the ROOFTOP Design Trade-mark in association with cigarettes does not infringe any rights the Defendants may have under the *Trade-marks Act* to Canadian trade-mark registration No. TMDA55,988.
2. The Defendants' counterclaim that the sale, distribution, and advertising in Canada of the no-name ("Rooftop") cigarettes of the Plaintiffs (in their red, gold and silver version) constitutes an infringement of the Defendant Marlboro Canada's rights in registered trade-mark Marlboro (TMDA55,988) is dismissed, as is their counterclaim requesting that the Plaintiffs' trade-mark registrations TMA252,082, TMA252,083, TMA254,670, TMA274,442, TMA465,532 and TMA670,898 be declared invalid.
3. The Defendants' 1996, 2001, and 2007 Marlboro packages have not infringed the Plaintiff PMPSA's copyright in its Marlboro Red Roof Label, nor have they breached the Agreement memorialized in 1952.
4. Counsel shall make written submissions as to costs, within 30 days of the release of these reasons and judgment.

"Yves de Montigny"

Judge

ANNEX "A" – Rooftop Red, Gold, and Silver Product Packages



WARNING
CIGARETTES HURT BABIES

Tobacco use during pregnancy reduces the growth of babies during pregnancy. These smaller babies may not catch up in growth after birth and the risks of infant illness, disability and death are increased.

Health Canada

FILTER CIGARETTES



COME TO WHERE THE FLAVOR IS

20



DON'T POISON US

WARNING: Second-hand smoke contains carbon monoxide, ammonia, formaldehyde, benzo[a]pyrene and nitrosamines. These chemicals can harm your children.

Health Canada

FILTER CIGARETTES



COME TO WHERE THE FLAVOR IS


20

WARNING
EACH YEAR, THE EQUIVALENT OF A SMALL CITY DIES FROM TOBACCO USE

Murders - 510	Estimated Deaths in Canada, 1996
Alcohol - 1,900	
Car accidents - 2,900	
Suicides - 3,900	
	Tobacco - 45,000

Health Canada

FILTER CIGARETTES



COME TO WHERE THE FLAVOR IS

20

ANNEX "B" – ROOFTOP Design Trade-mark registrations



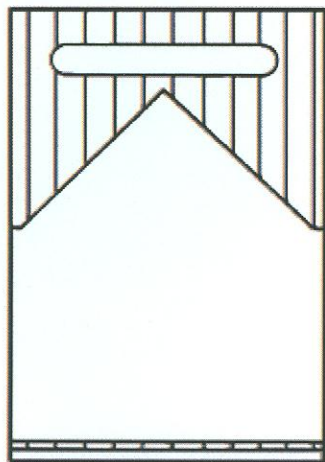
Registration No.: TMA252,082

Registration Date: November 4, 1980

Filing Date: December 21, 1975

Wares: (1) Cigarettes

Based on use in Canada since August 8, 1958.



Registration No.: TMA252,083

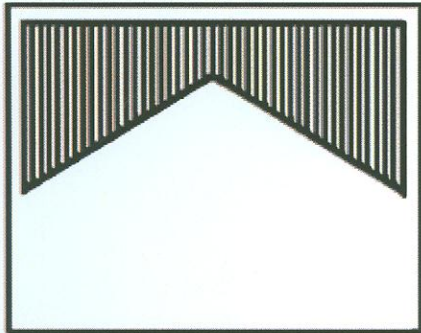
Registration Date: November 4, 1980

Filing Date: December 21, 1979

Wares: (1) Cigarettes

Based on use in Canada since August 8, 1958.

The drawing is lined for the colour red.



Registration No.: TMA254,670

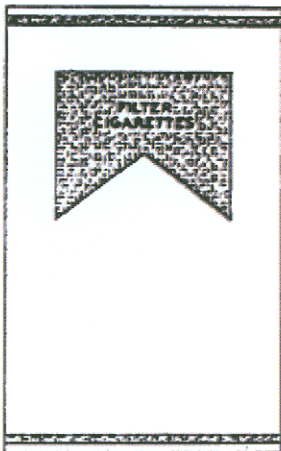
Registration Date: January 9, 1981

Filing Date: December 21, 1979

Wares: (1) Cigarettes

Based on use in Canada since August 8, 1958

The drawing is lined for the colour red.



Registration No.: TMA274,442

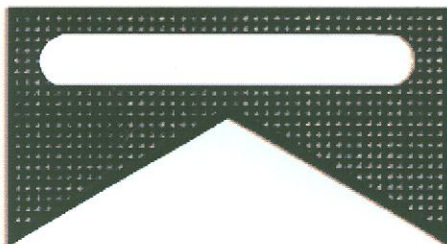
Registration Date: December 3, 1982

Filing Date: October 1, 1981

Wares: (1) Cigarettes

Based on use in Canada since at least as early as 1971.

The drawing is lined for the colour gold.



Registration No.: TMA465,532
Registration Date: November 1, 1996
Filing Date: September 13, 1995
Wares: (1) Cigarettes

Based on use in Canada since April 12, 1995

The background of the design is in gold with black triangular designs thereon, no colour is claimed for the blank oval portion.



Registration No.: TMA670,898
Registration Date: August 23, 2006
Filing Date: May 25, 2005
Wares: (1) Cigarettes.

Declaration of use filed on July 28, 2006

Colour is claimed as a feature of the trade-mark. The background of the design is in silver with black triangular designs thereon, no colour is claimed for the blank oval portion. The design of the crest is in gold, the letters PM are in white on a black background and VENI VIDI VICI are in white.

ANNEX “C” – Chronology of Package Changes

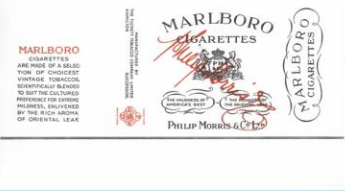
Chronology of Package Changes

Philip Morris

1955: Package Redesign

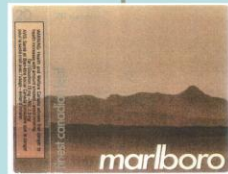
Original packaging used by both PM and ITL:

- PM up to 1955
- ITL up to 1970



1955 1970 1981 1988 1996 2001 2007

Package Redesigns



ITL

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-1784-06

STYLE OF CAUSE: Philip Morris Products S.A. et al. v. Malboro Canada Limited et al.

PLACE OF HEARING: Toronto, Ontario

DATE OF HEARING: January 18th to 21st
January 25th to 28th
February 1st to 3rd
February 9th and 10th
March 22nd
April 6th to 9th

REASONS FOR JUDGMENT AND JUDGMENT BY: de MONTIGNY J.

DATED: November 8, 2010

APPEARANCES:

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Mr. James Buchan
Mr. James Blonde
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