*Notes of Cases*

*Jurisprudence*

REGISTRATION STATUTES AND THE DOCTRINE OF CONSTRUCTIVE NOTICE. — For more than a century now Anglo-Canadian courts have been confronted with the question whether registration of a security interest pursuant to a statutory requirement confers notice of its existence upon subsequent persons claiming a competing interest in the same collateral. When the question first arose before the English Court of Appeal in *Joseph* v. *Lyons*,[1] the court had no hesitation in answering it negatively. Two of the lord justices reasoned in that case[2] that it was undesirable to extend the doctrine of constructive notice to commercial transactions. Expressly or inferentially, *Joseph* v. *Lyons* was followed quite consistently in Canada until 1971.[3] In that year, in *Kozak* v. *Ford Motor Credit Co. of Canada Ltd.*,[4] the Saskatchewan Court of Appeal distinguished the English deci-

[1] (1884-85), 15 Q.B.D. 280 (C.A.), followed in *Hallas* v. *Robinson* (1884-85), 15 Q.B.D. 288 (C.A.).

[2] See Cotton L.J. *ibid.*, at p. 286, and Lindley L.J. *ibid.*, at p. 287. As is explained in a later footnote (*infra*, footnote 40), the doctrine of constructive notice never really arose in *Joseph* v. *Lyons*, although this point was overlooked by the court as it has also been overlooked by subsequent courts.

[3] See e.g. *McAllister* v. *Forsyth* (1884), 12 S.C.R. 1; *Snyder's Ltd.* v. *Furniture Finance Corp. Ltd.*, [1931] 1 D.L.R. 398, (1930), 66 O.L.R. 79 (Ont. C.A.); *Nourse* v. *Canadian Canners Ltd.*, [1935] 3 D.L.R. 168, [1935] O.R. 361 (Ont. C.A.); *Vowles* v. *Island Finances Ltd.*, [1940] 4 D.L.R. 357, at p. 360, [1940] 3 W.W.R. 177, at p. 181, (1940), 55 B.C.R. 362, at p. 367, per Sloan J.A. (B.C.C.A.); *Traders Finance Corp.* v. *Dawson Implements Ltd.* (1958), 15 D.L.R. (2d) 515, 26 W.W.R. 561 (B.C.S.C.); *Century Credit Corp.* v. *Richards* (1962), 34 D.L.R. (2d) 291, [1962] O.R. 815 (Ont. C.A.). One of the few exceptions is Cormack D.C.J.'s judgment in *Green Belt Holdings Ltd.* v. *Holowaychuk* (1967), 60 W.W.R. 332 (Alta. D.C.) in which, surprisingly, he held that registration of a bill of sale under the Alberta Bills of Sale Act, R.S.A. 1955, c.23, constituted not merely constructive notice of the security interest but actual notice.

[4] (1971), 18 D.L.R. (3d) 735, [1971] 3 W.W.R. 1 (Sask. C.A.).

sion on somewhat tenuous grounds.[5] It held that registration of a conditional sale agreement under the Saskatchewan Conditional Sales Act[6] *did* constitute notice of its existence sufficient to deprive a subsequent purchaser from the buyer of the protection otherwise available to him under section 26(2) of the Saskatchewan Sale of Goods Act.[7]

In turn, in *General Motors Acceptance Corp. of Canada Ltd.* v. *Hubbard*,[8] the New Brunswick Court of Appeal strongly disagreed with the Saskatchewan Court of Appeal and reaffirmed the earlier doctrine that registration does not constitute notice unless the act imposing the requirement itself so provides. Thus matters stood until last year when the Ontario Court of Appeal rendered its decision in *Acmetrack Ltd.* v. *Bank Canadian National*.[9] In that case, in a surprising reversal of the well established Ontario position, the court threw its support wholeheartedly behind *Kozak* v. *Ford Motors* and held that a subsequent mortgagee is deemed to have notice of a prior registered floating charge.

*Acmetrack Ltd.* v. *Bank Canadian National*

The Ontario decision involved competing claims between two secured parties. On July 14, 1974, Chateauvert, the debtor, executed a floating charge and assignment of book debts in favour of Acmetrack. This instrument was registered pursuant to the Corporation Securities Registration Act[10] on July 30, 1974. As is usual, the floating charge applied to all of the present and future assets of Chateauvert and forbade the creation of additional security ranking prior to or *pari passu* with the floating charge.

The Bank Canadian National was the principal banker of Chateauvert. On August 18, 1978, Chateauvert executed a chattel mortgage in favour of the bank encumbering all of Chateauvert's present and after acquired goods. The chattel mortgage was registered[11] pursuant to the Ontario

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[5] Hall J.A. with whose judgment Maguire J.A. concurred, distinguished *Joseph* v. *Lyons* on the ground that it only held that registration under the statute is not constructive notice of an equitable estate; *ibid.*, at pp. 747 (D.L.R.), 14 (W.W.R.).

[6] R.S.S. 1965, c.393, now R.S.S. 1978, c.S-1.

[7] S.26(2) corresponds to s.25(2) in the English Sale of Goods Act, 1893. The 1893 Act has been adopted, with minor variations, by all the common law provinces in Canada.

[8] (1978), 87 D.L.R. (3d) 39, (1978), 21 N.B.R. (2d) 49 (N.B.C.A.). See also J. Ziegel, *G.M.A.C.* v. *Hubbard*: Statutory Conflict, Conditional Sales and Public Policy (1978-79), 3 C.B.L.J. 329.

[9] (1984), 12 D.L. R. (4th) 428, 48 O.R. (2d) 49 (Ont. C.A.). Leave to appeal to the Supreme Court of Canada was refused on December 3, 1984; *ibid.*, at pp. 428 (D.L.R.), 49 (O.R.). The report offers no explanation for the incorrect rendering of the English version of the respondent's name. In the Toronto telephone book it appears as "National Bank of Canada" and this is the English name by which the bank is commonly referred to.

[10] R.S.O. 1970, c.88, now R.S.O. 1980, c.94, s.2(1).

[11] It is so described in the judgment (*supra*, footnote 9, at pp. 429 (D.L.R.), 51 (O.R.)), but technically this is not correct. The Ontario Personal Property Security Act,

Personal Property Security Act[12] on August 18, 1978. Neither at that time nor until the debtor defaulted did the bank actually know of the prior floating charge.

Three principal questions were argued before the Court of Appeal. The first was whether the floating charge should have been registered under the Bills of Sale and Chattel Mortgages Act[13] rather than the Corporation Securities Registration Act. The court, reversing Osler J. on this point,[14] held that the agreement creating the floating charge amounted to a debenture and was therefore governed by the latter Act. The second question was the order of priority between the floating charge and the chattel mortgage, granting that each had been properly perfected under its governing statute. This will be further considered below. The third question was whether the mortgage to the bank was entitled to priority in any event by virtue of the subordination provision in the floating charge agreement in favour of security given by the debtor to other persons in the debtor's ordinary course of business. The court found that the bank's chattel mortgage did not qualify under this provision.[15]

The disposition of the first and third questions leaves for consideration the court's answer to the second question. Zuber J.A., delivering the court's judgment, proceeded from the premise (correctly so, it is submitted) that neither the Corporation Securities Registration Act nor the Personal Property Security Act applied to determine the order of priority between the floating charge and the chattel mortgage, and that this issue had to be resolved on common law principles.[16] The floating charge of course only created an equitable interest. The chattel mortgage, he held, created a legal interest.[17] Consequently, in accordance with the normal rule, "the legal charge will take precedence over the equitable charge unless the Bank had notice of the earlier equitable charge".[18] Since it was

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R.S.O. 1980, c.375, as am., s.47 and regulations pursuant thereto, only provide for the registration of a financing statement.

[12] R.S.O. 1970, c.88, now R.S.O. 1980, c.375.

[13] R.S.O. 1970, c.45, now repealed and replaced by the Personal Property Security Act, *ibid.*

[14] (1983), 146 D.L.R. (3d) 305, 41 O.R. (2d) 390 (Ont. H.C.).

[15] *Supra*, footnote 9, at pp. 435 (D.L.R.), 56 (O.R.).

[16] *Ibid.*, at pp. 433 (D.L.R.), 54-55 (O.R.).

[17] *Ibid.*, *sed quaere*. Zuber J.A. rested this conclusion on the ground that the instrument created a fixed charge on the assets of Chateauvert. If he meant to imply that every fixed charge is a legal charge, this is erroneous. The true distinction is between a mortgage on present assets, which may be either equitable or legal (depending on the circumstances), and a mortgage of future assets. The latter type of security interest was only recognized by Equity and therefore could only be equitable in character. See *Holroyd* v. *Marshall* (1862), 10 H.L.C. 191, 11 E.R. 999 (H.L.) and *Joseph* v. *Lyons*, *supra*, footnote 1.

[18] *Ibid.*, at pp. 433 (D.L.R.), 55 (O.R.).

conceded that the bank did not have actual notice of the floating charge, the question for the court's consideration was whether notice was to be imputed to the bank by virtue of the registration of the instrument under the Corporation Securities Registration Act. In Zuber J.A.'s opinion, the answer was yes.

He recognized that there was a body of case law, "expressed largely in older cases", to the effect that mere registration pursuant to a statute does not constitute notice to the world. However, in his opinion, this view of the effect of registration "no longer reflects the purpose of modern registration statutes".[19] He preferred instead[20] the following interpretation of the legislative purpose expressed by Hall J.A. in *Kozak* v. *Ford Motors*:[21]

> In my opinion, what is here involved is something distinct from the equitable concept of constructive notice. In my opinion, when the Legislature enacted the registration provisions of the *Conditional Sales Act*, it intended that registration would constitute notice to all persons. The Legislature did not intend that registration would be necessary to preserve rights against subsequent creditors and purchasers if the said rights could be defeated by the creditor or subsequent purchaser omitting or refusing to search. It did not intend to provide a method by which third persons could readily discover the existence of a conditional sale agreement and ascertain the amount thereunder owing unless it also intended that they would proceed at their own peril if they did not search.
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> This was the view of the legislation adopted by the trial Judge and is the interpretation of it which has been universally accepted and followed in this Province by the Courts, the practitioners and the commercial community since the legislation was first enacted. I cannot find that this interpretation is wrong. It is certainly the most convenient and logical one to adopt.

Zuber J.A. also referred to the contemporaneous judgment of the Ontario Court of Appeal in *MacKay & Hughes (1973) Ltd.* v. *Martin Potatoes Inc.*,[22] which he interpreted as approving a doctrine of constructive notice although the actual issue before the court was very different.[23] Zuber J.A. concluded:[24]

> I agree with the foregoing statements which reflect a change in the case-law to make it consistent with contemporary business practice and current understanding of the effect of registration. I conclude, therefore, that registration of the Acmetrack security constituted notice to the Bank.

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[19] *Ibid.*, at pp. 433-434 (D.L.R.), 55 (O.R.).

[20] *Ibid.*, at pp. 434 (D.L.R.), 55 (O.R.).

[21] *Supra*, footnote 4, at pp. 748-749 (D.L.R.), 16 (W.W.R.), foll'd in *Harvey Dodds Ltd.* v. *Royal Bank of Canada* (1979), 105 D.L.R. (3d) 650, [1979] 6 W.W.R. 722 (Sask. C.A.).

[22] (1984), 9 D.L.R. (4th) 439, 46 O.R. (2d) 304 (Ont. C.A.).

[23] It was whether the holder of a floating charge, which included an assignment of book debts, had to give notice to the account debtors before the charge could be effectively crystallized.

[24] *Supra*, footnote 7, at pp. 434 (D.L.R.), 56 (O.R.).

*The Merits Of The Decision*

It must seem surprising that Zuber J.A. was able to dispose of a century of precedents so summarily, some might even say casually. It is also strange that his judgment makes no reference to Bugold J.A.'s comprehensive but contrary judgment in *General Motors Acceptance Corp. of Canada Ltd.* v. *Hubbard*[25] or to the Ontario Court of Appeal's own earlier judgments in *Century Credit Corp.* v. *Richard*[26] and *Snyder's Ltd.* v. *Furniture Finance Corp. Ltd.*,[27] both of which may fairly be regarded as inimical to a statutory doctrine of constructive notice. One may equally question the learned judge's assertion that business practices and the climate of legal opinion have changed since the earlier decisions. To be sure, the volume of all forms of secured credit has greatly increased in the postwar era but the essential role of secured financing has not changed nor have the principal types of security devices.[28] Likewise, the commercial lawyers with whom I have discussed the court's decision in *Acmetrack* do not concede any change in the climate of legal opinion. On the contrary, they have expressed serious misgivings about the implications of the court's belated discovery of a statutory doctrine of constructive notice.

Finally, Zuber J.A. was surely mistaken in asserting that the court's decision would only be of transient importance.[29] He based this view on the fact that the recently published report of the Minister's Advisory Committee[30] recommended repeal of the Corporation Securities Registration Act and the absorption of secured bonds and debentures into the regulatory framework of the proposed revised Ontario Personal Property Security Act.[31] However, Zuber J.A. overlooked two important points. The first is that the new Act will not be retroactive and that corporate securities registered under the Corporation Securities Registration Act before the new Act comes into effect will continue to be governed by the earlier legislation and the relevant common law and equitable principles applicable to them.[32] Secondly, to the extent that Zuber J.A. was propounding a rule of statutory construction its effect cannot rationally be confined to registration under the Corporation Securities Registration Act. It must at least apply to all other chattel security registration statutes

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[25] *Supra*, footnote 8.

[26] *Supra*, footnote 3.

[27] *Ibid.*

[28] Cf. J.S. Ziegel, The Legal Problems of Wholesale Financing of Durable Goods in Canada (1963), 41 Can. Bar Rev. 54.

[29] *Supra*, footnote 9, at pp. 430 (D.L.R.), 52 (O.R.).

[30] Report of the Minister's Advisory Committee on the Personal Property Security Act (Ministry of Consumer and Commercial Relations, Toronto, June 1984).

[31] *Ibid.*, Introduction, p.3, and Draft Act, ss.2,84.

[32] *Ibid.*, Draft Act, s.78(1).

where the purpose of registration is to make the information readily accessible to third parties. This seems sufficiently clear from the judgment itself. It is put beyond doubt by the court's approval of *Kozak* v. *Ford Motors Credit of Canada*, which applied the same principle of statutory construction to the effect of a conditional sale agreement registered pursuant to a conditional sales act.

Another puzzling feature of the judgment in *Acmetrack* is uncertainty about whether the Court of Appeal was rejecting its previously self-imposed rule that it was bound by its own decisions. That rule had been reiterated in 1966 in *Delta Acceptance Corp.* v. *Redman*.[33] It may be that Zuber J.A. did not perceive himself overruling any previous decision of his court on the effects of a statutory registration requirement, although it is difficult to see how it could be otherwise. In any event, the judgment leaves the distinct impression that it did not matter and that Zuber J.A. deemed it more important to abandon a mistaken commercial law doctrine than to adhere to a rigid rule of *stare decisis*. The tenor of the extract from his judgment quoted earlier supports this interpretation of his position. There is much to be said for provincial appellate courts no longer being bound by their own decisions in an era when the Supreme Court of Canada is playing an increasingly diminishing role in private law questions.[34] If this means that the future development of provincial law rests with the provincial courts, the highest provincial tribunals must have the flexibility to discharge their mandate adequately. One can only lament that all these important issues are overlooked in Zuber J.A.'s judgment.

There are therefore ample grounds for questioning the adequacy of the court's craftsmanship in *Acmetrack*. Nevertheless, it would be unfortunate if these weaknesses deflected attention from the court's actual conclusion, for here the court was on much sounder ground. To appreci-

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[33] (1966), 55 D.L.R. (2d) 481, [1966] 2 O.R. 37 (Ont. C.A.), esp. per Schroeder J.A. at pp. 483 (D.L.R.), 39 (O.R.), and McGillivray J.A. at pp. 486 (D.L.R.), 42 (O.R.), citing the Supreme Court of Canada's decision in *Stuart* v. *Bank of Montreal* (1909), 41 S.C.R. 516 as authority for the proposition that a provincial appellate court is bound by its own decisions "provided that they enunciate a substantive rule of law". Laskin J.A., the third member of the court and one not generally perceived to be an enthusiastic supporter of *stare decisis*, admitted in *Redman* that "[e]ven if *stare decisis* does not apply this Court should not lightly depart from a previous decision", citing *Stuart* v. *Bank of Montreal*, *ibid*, at pp. 495 (D.L.R.), 51 (O.R.). For further discussions of the role of *stare decisis* in Canada, see B. Laskin, The British Tradition in Canadian Law (1969), p. 64, and W. Friedmann, *Stare Decisis* at Common Law and Under the Civil Code of Quebec (1953), 31 Can. Bar Rev. 722.

Another, and equally recent, example of the Ontario Court of Appeal apparently disapproving an earlier decision of its own is *Re Zurich Ins. Co. and Troy Woodworking Ltd.* (1984), 6 D.L.R. (4th) 552, 45 O.R. (2d) 343, the earlier decision being *Bank of Montreal* v. *Union Gas Co.* (1969), 7 D.L.R. (3d) 25, [1969] 2 O.R. 776.

[34] See Panel Discussion, The Future of the Supreme Court of Canada as the Final Appellate Tribunal in Private Law Litigation (1982-83), 7 C.B.L.J. 389.

ate the nature of the debate, it is necessary to explain briefly the three principal situations in which the courts have so far had to consider the effect of compliance with a statutory requirement of registration on the normal position that a doctrine of constructive notice is not appropriate in commercial transactions.

The first type is illustrated by *Acmetrack* itself. Here the question is whether the purchaser or mortgagee of a legal interest in chattels subject to a prior equitable charge or mortgage will be denied protection of the doctrine of purchaser for value because he is deemed to have had notice of the equitable interest. The second type is illustrated by *Kozak* v. *Ford Motor Credit*[35] and involves the effect of registration of a conditional sale agreement on the rights of a subsequent purchaser who acquires the goods from the conditional buyer and claims the protection of the provincial equivalents of sub-sections 25(2) and (3) of the English Sale of Goods Act, 1893.[36] If he is deemed to have had notice of the conditional sale agreement then, like the purchaser in *Acmetrack*, his defence will not prevail. The difference between the two types of situation is that in the first situation the purchaser relies on an equitable defence (the doctrine of purchaser for value) while in the second his defence is of statutory origin. Both, however, raise the same question of the effect of the earlier registration.

The third type of situation is illustrated by *Synder's Ltd.* v. *Furniture Finance Corp. Ltd.*[37] The plaintiff company extended credit to a retail dealer and received a general assignment of book debts from the dealer, a furniture merchant, as security for his indebtedness to the plaintiff. The assignment was registered under the Ontario Assignment of Book Debts Act.[38] The dealer sold some of the furniture on a conditional basis to various customers and assigned the conditional sale agreements to the defendant company. The defendant did not know of the assignment of book debts in favour of the plaintiff. Nevertheless, the plaintiff sought an

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[35] *Supra*, footnote 4.

[36] 56 & 57 Vict. c.71. Sub-sections 25(2) & (3) read as follows:

(2) Where a person having bought or agreed to buy goods obtains, with the consent of the seller, possession of the goods or the documents of title to the goods, the delivery or transfer by that person, or by a mercantile agent acting for him, of the goods or documents of title, under any sale, pledge, or other disposition thereof, to any person receiving the same in good faith and without notice of any lien or other right of the original seller in respect of the goods, shall have the same effect as if the person making the delivery or transfer were a mercantile agent in possession of the goods or documents of title with the consent of the owner.

(3) In this section the term "mercantile agent" has the same meaning as in the Factors Acts.

[37] *Supra*, footnote 3.

[38] R.S.O. 1927, c.166. The Act has now been superseded by the Ontario Personal Property Security Act.

accounting of the monies received by the defendant from the conditional buyers. Apart from any other defences available to it, at common law the defendant would have been entitled to priority to the debts assigned to it under the rule in *Dearle* v. *Hall*.[39] The plaintiff apparently argued that the rule did not apply since the defendant was deemed to know of the prior assignment to the plaintiff by virtue of the plaintiff's registration under the Assignment of Book Debts Act. The Ontario Court of Appeal rejected the plaintiff's claim but on different grounds. Latchford C.J. held that the assignment of book debts was not intended to apply to the conditional sale agreements.[40] Orde J.A., in a well known judgment, held *inter alia* that registration of the general assignment of book debts did not change the equitable rule of priority and that registration of the assignment did not confer constructive notice of its existence on the defendant.[41]

In the light of this description of the situations in which the problem has arisen, it is now appropriate to consider the grounds on which earlier courts have refused to deem third parties to have constructive notice of a registered security interest. Three principal reasons have been advanced in the cases. The first is that it would unjustifiably complicate commercial transactions. This was the basis of the decision in *Joseph* v. *Lyons*.[42] The underlying concern appears to be that while it is reasonable in real estate transactions to expect a purchaser to search the vendor's title, a similar requirement would lead to intolerable delays in commercial transactions involving chattels where speed and informality are often the rule. This explanation is fine so far as it goes but it suffers from one fatal flaw. It completely overlooks the rationale for imposing a registration requirement for the perfection of security interests.

There is no mystery about the reasons. Already in Coke's day,[43] there were complaints about secret bills of sale in which the ostensible

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[39] (1823), 3 Russ. 1, 38 E.R. 475 (Ch.). However, the rule in *Dearle* v. *Hall* is not referred to in the judgments.

[40] *Snyder's Ltd.* v. *Furniture Finance Corp. Ltd.*, *supra*, footnote 3, at pp. 404 (D.L.R.), 86 (O.R.).

[41] *Ibid*, at pp. 407 (D.L.R.), 88 (O.R.).

[42] *Supra*, footnote 1. See also *Manchester Trust* v. *Furness*, [1895] 2 Q.B. 539 (C.A.). It should be noted, however, that the decision in *Joseph* v. *Lyons* can be justified on a narrower ground, which does not involve denial of the doctrine of constructive notice. Section 1 of the English Bills of Sale Act 1854, the Act with which the court was concerned, only avoided an unregistered bill of sale with respect to trustees, assignees and creditors of the grantor. (The same was true of the Bills of Sale Act 1878, which superseded the 1854 Act). The defendant did not fall within one of the protected classes of person and there was no reason why he should have been expected to search the register. And if the 1854 Act was not designed for the protection of persons in his position, it would be odd to impute notice to him of the registration of the bill of sale. See also Ziegel, *loc. cit.*, footnote 8, at pp. 338-339.

[43] See *Twyne's Case* (1601), 3 Co. Rep. 80b, at p. 81a, 76 E.R. 809, at pp. 812-813 (Star Chamb.).

seller (or more likely mortgagor) was allowed to retain possession of the chattels without public notice of the transfer of ownership, and the complaints grew much louder in the 19th century in many common law jurisdictions. In England the first registration requirement for bills of sale was adopted in 1854.[44] In Canada, the pre-confederation province of Canada was apparently the first jurisdiction to enact legislation, and its Chattel Mortgages Act actually antedated the English Act by five years.[45] Registration requirements in Canada for conditional sale agreements appeared from 1882 onwards and were followed in the 1920s and 1930s respectively by similar requirements for assignment of book debts[46] and corporate secured bonds and debentures.[47] These registration requirements still obtain in the common law provinces and Territories, although in four of them they have now been merged into a single unifying Personal Property Security Act.[48]

Over more than a century, however, the reason for imposing the registration requirements has not changed. It is designed to give notice of the security interest where the debtor is allowed to remain in possession or control of the collateral, and where it is not practical or desirable for the secured party to obtain or retain possession of the collateral himself. It is thus seen as an accommodation between the interests of a secured party who relies on the collateral as security for the debtor's performance of his obligations, and the interests of the debtor's creditors and subsequent purchasers and mortgagees who might be misled by the debtor's continued possession of the collateral, or who cannot readily ascertain the title position in the absence of a registration requirement. The legislation makes it possible for these persons to proceed on an informed basis. If they choose not to search (and leaving aside some important exceptions) they act at their own risk. In the light of this history, it must be obvious that to impute constructive notice of the existence of the security interest to those parties for whose benefit the registration requirement is imposed is totally consistent with the purposes of the legislation and does not introduce gratuitous complications into commercial transactions.

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[44] Bills of Sale Act, 17 & 18 Vict., c.36.

[45] Stat. Prov. Can., 12 Vict. c.74 (1849). The Act was confined to mortgages of personal property in Upper Canada.

[46] A Uniform Assignment of Book Debts Act was adopted in 1928 by the Conference of Commissioners for Uniformity of Legislation in Canada (hereafter the Uniformity Conference), and was revised in 1955. The Act has now been superseded by the Uniform Personal Property Security Act adopted by the Conference in 1971.

[47] A Uniform Corporation Securities Act was adopted by the Uniformity Conference in 1931. It too has been superseded by the Uniform Personal Property Security Act.

[48] Ontario, Manitoba, Saskatchewan, and the Yukon Territory have now adopted such legislation. Alberta, British Columbia and Newfoundland also have it under active consideration at the present time.

The second reason that is advanced against the implication of a statutory doctrine of constructive notice is that the legislature did not intend to improve the secured party's common law rights; all that the legislation was designed to do, it is argued, was to impose a registration requirement as a condition for the *retention* of those common law rights. This thesis was vigorously espoused by Professor La Forest (as he then was) in an article written by him in 1958,[49] and was warmly endorsed by Bugold J.A. in *General Motors Acceptance Corp. of Canada Ltd.* v. *Hubbard*.[50] According to this line of reasoning, in allowing a conditional seller to defeat the claim of a purchaser who relies on section 25(2) of the Sale of Goods Act,[51] the doctrine of constructive notice would do more than retain the seller's common law rights; it would enhance them and upset the purchaser's statutory right. Even more strikingly (it may be argued), in a case like *Acmetrack* adoption of the doctrine would result in abolition of the distinction between legal and equitable mortgages. Likewise, in the context of competing assignments of book debts, it would override the rule in *Dearle* v. *Hall*.[52]

I am willing to concede that it is unlikely that the draftsmen of the registration statutes anticipated these consequences but in my view it should not matter. Legislation of this character should be approached teleologically in the light of its general purpose and consequential issues, even if not anticipated by the legislators, should be interpreted harmoniously with the legislative intent. Judged by this test, the results in *Acmetrack* and *Kozak* make eminently good sense and should be applauded rather than decried. In *Acmetrack*, denial of the plaintiff's priority would have led to the following anomaly so well described by Tritschler J. in *Reporter Publishing Co. Ltd.* v. *Manton Bros. Ltd.*:[53]

> An " equity" in chattels is mortgagable and an equitable mortgage is required to be registered, but registration is not notice. Should the effectiveness of an equitable mortgage depend on actual notice while the effectiveness of a legal mortgage does not?

A third argument is invoked in the case of conflicts between a conditional seller and a third party relying on section 25(2) of the Sale of Goods Act.[54] This is that the provincial legislatures must have been aware of the conflict when they adopted the English Sale of Goods Act. Since they chose not to exclude registered conditional sale agreements from the

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[49] G.V. LaForest, Filing under the Conditional Sales Act: Is it Notice to Subseqent Purchasers? (1958), 36 Can. Bar Rev. 387.

[50] *Supra*, footnote 8, at pp. 48-49 (D.L.R.), 63-65 (N.B.R.).

[51] *Supra*, footnote 36.

[52] Supra, footnote 39.

[53] (1961), 29 D.L.R. (2d) 54, at p. 62, 35 W.W.R. 498, at p. 508 (Man. C.A.).

[54] See Bugold J.A.'s judgment in *General Motors Acceptance Corp. of Canada Ltd.* v. *Hubbard*, *supra*, footnote 8, at pp. 44 (D.L.R.), 58 (N.B.R.).

ambit of section 25(2), it is argued that this shows that they intended the third party's claim to prevail in the absence of actual knowledge of the security agreement. Another version of the same argument runs thus. Following the earlier decisions refusing to impute constructive notice of the registered security interest, several provinces amended section 25(2)[55] to exclude its application to registered security agreements. From this, it is suggested, we may infer that those provinces that did not amend the section were satisfied with the judicial construction according priority to the section 25(2) claimant.

In my opinion, both limbs of the argument are untenable. As I have shown elsewhere,[56] there is no evidence to support the proposition that the provincial draftsmen were aware of the conflict between the conditional sales acts and the English Sale of Goods Act they were about to copy. Rather they adopted the Sale of Goods Act in the same spirit as other codifying English statutes that were adopted in Canada in the last quarter of the nineteenth century and the first two decades of this century: as legislation, essentially declaratory of the common law, that would make life easier for courts, lawyers, and their clients. The fact that it had been approved by the Imperial Parliament must have seemed to them sufficient guarantee of its quality and appropriateness. No doubt, with the benefit of hindsight, we may protest that they *should* have recognized the conflict and averted it. This virtuous approach ignores, however, the realities of the time. Departments of the attorney-general were very small and had little if any research capabilities; there were no full-time law schools and no law reform commissions; and there were very few quality texts on Canadian commercial law. It was customary for the legislatures to pass "lawyer's" legislation, as it often still is, with minimal scrutiny and maximum celerity.[57]

Given these conditions, it is surely fictitious to ascribe any particular intention with respect to the relationship between the provincial conditional sales acts and the newly adopted section 25(2). If notwithstanding all the available evidence we still feel under a compulsion to look for the mystical intent, then the fact that so many of the provinces qualified section 25(2) once their attention was drawn to the conflict is a better guide to contemporary expectations than the contrary conclusion drawn by Bugold J.A. in *General Motors Acceptance Corp. of Canada Ltd.* v. *Hubbard*.[58] It is true that not all the common law provinces have amended

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[55] E.g., Alberta, British Columbia, Ontario and Manitoba. Following the decision in *Hubbard's* case, New Brunswick also adopted a more limited amendment; see S.N.B. 1978, c.49, discussed in Ziegel, *loc. cit.*, footnote 8, at pp. 356-357.

[56] Ziegel, *ibid.*, at p. 336 and n. 28.

[57] Unfortunately this is sometimes as true of federal legislation as it often is of provincial legislation. See J.S Ziegel, Comment (1981), 59 Can. Bar Rev. 188.

[58] *Supra*, footnote 8, at pp. 45 (D.L.R.), 59 (N.B.R.).

section 25(2), but I would argue that there is a perfectly innocuous explanation to account for the laggards. The Crown officers may not yet be aware of the conflict, and even if they know of it they may not appreciate its significance or see any urgency about correcting the oversight in the absence of pressure from an influential lobby. In short, no reliable conclusions of any consequence can be drawn from the fact that some provinces have amended section 25(2) and others have not, and that those who have amended the subsection have done so at widely spaced intervals.

*The Parameters of the Doctrine of Constructive Notice*

Neither *Acmetrack* nor *Kozak* traces out the parameters of the statutory doctrine of constructive notice which they adopt. Space does not permit a detailed examination of the problem. It seems to me however that each situation should be judged on its own merits and consistently with the legislative purpose in imposing the registration requirement. In my view, the decisions in *Acmetrack* and *Kozak* correctly interpreted the legislative design for the purposes of the dispute before the courts without imposing unreasonable burdens on the third party. On the other hand, the legislative purpose is adequately protected without deeming the third party to be familiar with all the contents of the registered security agreement. For example, the third party should not be deemed to know that the agreement contains a restrictive covenant unless he has actual knowledge of its existence.[59] Likewise, I would argue, a prior secured party should not be affixed with notice of a subsequently registered security interest so as to trigger the doctrine in *Hopkinson* v. *Rolt*.[60]

The reason in both examples is that the registration requirement was only designed to protect subsequent parties dealing with the debtor who might otherwise be prejudiced by the absence of a registration. A difficulty arises where, as in *Hubbard*, the security interest is perfected in one province and the goods are removed to and sold to a good faith purchaser in another province. The first province cannot compel the second province to recognize the validly created and perfected security interest.[61] Likewise the second jurisdiction, even if it applies a doctrine of constructive notice to domestically registered security interests, may be reluctant to extend the doctrine to foreign registered interests. At bottom, however, the question for consideration involves a broader issue of policy — the

[59] Cf. *Manchester Trust* v. *Furness*, [1895] 2 Q.B. 539 (C.A.).

[60] (1861), 9 H.L.C. 514, 11 E.R. 829 (H.L.).

[61] Under the *lex situs* rule adopted in common law jurisdictions, a security interest validly created and perfected under the law of the jurisdiction where the goods were located at the time will normally be recognized in another jurisdiction. See R.M. Goode, J.S. Ziegel, Hire-Purchase and Conditional Sale: A Comparative Survey of Commonwealth and American Law (1965), ch. 19.

status of the foreign security interest in the second jurisdiction — and should be resolved against this wider backdrop. In the case of foreign conditional sales the courts should also derive guidance from the provisions of many of the conditional sales acts.[62] Typically they provide that the conditional seller must register a copy of the conditional sale agreement after he has learned of the removal of the collateral to the second jurisdiction. This strongly suggests that the draftsman intended the foreign security interest to be respected until the conditional seller learns of the removal of the collateral. This analysis of the legislative design will usually be sufficient to enable the court to resolve the conflict between the foreign conditional seller and the local third party.

Yet another set of difficulties arises where the registration act gives the secured party a period of grace within which to perfect his security interest following execution of the agreement and/or delivery of the collateral to the debtor.[63] Assume the debtor wrongfully resells the collateral to a good faith purchaser before the security agreement is registered. Will he be protected by the doctrine of purchaser for value (where the secured party only has an equitable interest) or by section 25(2) of the Sale of Goods Act where he is dealing with a buyer in possession? Obviously he cannot be deemed to have notice of a registration that has not yet taken place. Nevertheless, a persuasive case can be made that it was part of the legislative design to protect the secured party during the grace period, and that conflicting common law doctrine in the first case and the statutory provisions in the second should respect the design. What these examples show is that there are limits to a statutory doctrine of constructive notice, and that in those cases where it does not apply the same result can still be arrived at by examining the total structure of the act governing the security interests.

Finally, some reference should also be made to the treatment of the doctrine of constructive notice in the personal property security acts. It is not uniform. Section 53(1)(a)(i) of the Ontario Act[64] expressly adopts the concept and provides that registration of a financing statement constitutes notice of the security interest to which it relates "to all persons claiming

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[62] See e.g., the Revised Uniform Conditional Sales Act (1955), s.6. The RUCSA has now been superseded by the Uniform Personal Property Security Act of the Uniform Law Conference (1971) and by the Uniform Personal Property Security Act, 1982, jointly sponsored by the Conference and the Canadian Bar Association. Both these Acts have adopted the *lex situs* principle for most types of goods. See UPPSA 1982, ss. 4,5.

[63] A grace period was generally given under the old registration acts, although there was much case law conflict about the extent to which these provisions conferred a perfected status on the security interest even though no registration took place during the grace period. See e.g. *Hulbert* v. *Peterson* (1906), 36 S.C.R. 324, and Goode, Ziegel, *op. cit.*, footnote 61, pp. 164-166.

[64] R.S.O. 1980, c.375.

any interest in such collateral". The Model Uniform Personal Property Security Act, on the other hand, adopted by the Canadian Bar Association in 1970, equally emphatically rejects the doctrine[65] and this position is reaffirmed in the Uniform Personal Property Security Act, 1982.[66]

As the authors of the work, Personal Property Security Law in Ontario[67] note, it is not clear why Ontario felt it desirable to adopt section 53(1)(a)(i), and it gives rise to at least two difficulties. The first is that it may suggest that the priority rules in the Act proceed from a basis of constructive notice when a financing statement has been registered. Such an inference would clearly be incorrect. While the priority rules are complex, it may confidently be asserted that none of them are related to the doctrine of constructive notice. Rather, the common denominator is whether the security interest was "perfected" at the relevant time, not whether a competing party is deemed to have had notice of it. The other difficulty created by the Ontario provision is that it may cast doubt on the interpretation of various sections where priority does turn on whether one of the parties knew, or had knowledge or actual notice, of the security interest. Although it is clear that in each of those cases the draftsman meant actual notice and not constructive notice, a court not too familiar with Personal Property Security Act concepts and anxious to find an office for section 53(1)(a)(i) may be misled into finding that actual *or* constructive notice will suffice.

It was these dangers that prompted the Model Uniform Act Committee expressly to repudiate the relevance of a doctrine of constructive notice in the interpretation and application of the Act. But the Committee overlooked the fact that the Act does not purport to deal with every possible type of priority conflict. As *Acmetrack* illustrates, there may be a conflict between a secured party with a perfected security interest under a Personal Property Security Act and a third party claiming protection under a non-Personal Property Security Act. To the extent that the latter Act requires the third party to be "without notice" of the earlier interest, a doctrine of constructive notice may still serve a useful purpose. It might have been better therefore for the Model Act to have remained silent and to have said nothing about the doctrine.

*Resolving the Interprovincial Conflict*

As has been noted, at both the trial and appellate levels, the provincial courts are now in sharp conflict with respect to the applicability of the

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[65] S. 54AA. See F.M. Catzman *et al.*, Personal Property Security Law in Ontario (1976), p. 206.

[66] S. 49 provides:

49. Registration of a writing in the registry does not constitute constructive notice or knowledge of its contents to third parties.

[67] *Op. cit.*, footnote 65, p. 206.

doctrine of constructive notice to chattel security registration statutes. Some of the conflicts may be resolved by statutory amendments but this is only a partial solution. The problem is too pervasive, and it is unlikely that the draftsman will sift through the statute book to ensure that every possible provision has been caught where the state of knowledge of an affected party is a relevant consideration.

This is precisely the type of doctrinal conflict on a basic issue of commercial law that the Supreme Court of Canada might have been expected to resolve. Regrettably, in *Acmetrack* the Supreme Court refused leave to appeal.[68] Since it is widely assumed that in the new Charter era the Court will play an ever diminishing rôle in the private law sphere, we appear to face the prospect, long familiar to our American friends, of eventually acquiring as many common law systems as there are provinces. We should not view this transition with equanimity. Canada has long prided itself on having an integrated court structure in which the Supreme Court, sitting at the apex of the judicial system, brings to bear its unifying influence on the development of provincial law principles no less than on the interpretation of federal law, and on the fundamental principles of private law as well as public law. Important as is the Canadian Charter of Rights and Freedoms, it would be unfortunate if the price for the acquisition of this new set of values is the loss of a private law appellate structure which, on the whole, has served us well in the past.

*Addendum*

Since the completion of the above comment, the Ontario Court of Appeal has rendered another decision (as yet unreported) on the doctrine of constructive notice. Unfortunately it only adds to the confusion generated by *Acmetrack Ltd.* v. *Bank Canadian National.*

In *The National Bank of Canada* v. *Harding Carpet Limited*[69] the priority contest was between the bank, which held a general assignment of book debts from the debtor, and Harding Carpets which held a specific assignment. The banks' assignment was first and was properly registered under the then applicable Assignment of Book Debts Act.[70] The assignment to Harding was not registered nor was it required to be since the Act does not apply to an assignment of debts growing due under specific contracts.[71] However, Harding gave first notice to the account debtor of its assignment, and this would have entitled it to priority at common law

[68] See, *supra*, footnote 9.

[69] Ontario Court of Appeal, No. 912/84; judgment rendered June 24, 1985.

[70] R.S.O. 1970, c.33. The Act was repealed on the proclamation of the PPSA. The dates of the two assignments in this case are not given in the trial or appellate judgments.

[71] *Ibid.*, s.2(c).

under the rule in *Dearle* v. *Hall*[72] unless Harding was deemed to have had prior notice of the assignment given to the bank. The Act contains no rules governing the priority between a general perfected assignment and a subsequent specific assignment.

At trial Trainor J. held[73] that *Acmetrack* applied and that Harding was deemed to have had such notice. He therefore found in favour of the bank.

The Court of Appeal reversed his decision in an oral judgment rendered at the conclusion of the argument. The court's reasoning was that "because of s.2(c) of the *Assignment of Book Debts Act*, the Act has no application to this specific assignment held by the appellant of which it had given notice".[74] What this seems to mean is that because Harding was not required to register its assignment under the Assignment of Book Debts Act it was not subject to the doctrine of constructive notice.

This basis of distinguishing *Acmetrack* is, with respect, unpersuasive. The decision in *Acmetrack* was not based on the two competing security interests being governed by the same perfection requirements since obviously they were not. Rather counsel for the bank in that case invoked the equitable doctrine of purchaser for value without notice, just as in the present case Harding relied on another equitable rule (the rule in *Dearle* v. *Hall*) premised on the non-applicability of the doctrine of constructive notice. Since the defence failed in *Acmetrack* why should it have prevailed here?

Perhaps what the Court of Appeal meant to say ws that, having regard to the general purpose of the Assignment of Book Debts Act and its overall structure, the legislature did not mean to deprive a specific assignee of the benefit of the rule in *Dearle* v. *Hall* where he did not have actual knowledge of the prior assignment. If that was the basis of the court's decision it is unfortunate that we are not given the benefit of the court's analysis of the Act. For it seems to me that the available indicia in the Act, coupled with the historical reasons for its introduction, point in the opposite direction.

Section 3(1) of the Act avoids every unregistered assignment of book debts as against creditors of the assignor and subsequent purchasers. "Subsequent purchasers" is defined in section 2(k) as including a person who "in good faith for valuable consideration and without notice obtains by assignment an interest in book debts that has already been assigned". This is the familiar formula long used in Canadian pre-Personal Property Security Act registration statutes dealing with the consequence of non-

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72 (1828), 3 Russ. 1, 38 E.R. 475 (Ch.)

73 In an unreported judgment rendered on 24 September 1984.

74 Typed endorsement on Notice of Appeal signed by Brooke J.A.

registration. An assignee of specific book debts clearly come within the definition of the "subsequent purchaser", and presumably would have the protection of section 3(1) even if he fails altogether to give notice of his assignment to the account debtor or does so only after the prior general assignee has given notice.

It seems safe to conclude, therefore, that whatever views the drafters of the Assignment of Book Debts Act may have entertained about the doctrine of constructive notice they did not mean to draw a distinction between different classes of subsequent purchasers. The doctrine applies to all or it applies to none.

It may be that the Court of Appeal in *Harding* felt uncomfortable with the decision in *Acmetrack* and was glad to accept an argument that distinguished it from the facts of the present case. One can only lament that Ontario lawyers now have the worst of all possible worlds — the reversal of a well established line of jurisprudence in 1984 followed less than a year later by another decision distinguishing the earlier one on unpersuasive grounds. It would be interesting to know what advice counsel are now giving their clients!

JACOB S. ZIEGEL*

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PASSING OFF, TRADE MARK PROTECTION AND PARALLEL IMPORTS AFTER *Consumers Distributing* v. *Seiko*.—It is common commercial practice for a foreign manufacturer to grant a Canadian company the exclusive right to distribute its products within Canada. In return, the Canadian distributor is responsible for, among other things, arranging nation-wide advertising, creating an authorized dealership network and, depending on the product, establishing service centres which can honour the product warranty given by the manufacturer or distributor. Having expended considerable resources on these activities, the distributor naturally becomes perturbed when another Canadian company engages in parallel importation, the practice of marketing the manufacturer's products—genuine goods that the parallel importer obtains from abroad—in what the authorized Canadian distributor regards as his exclusive territory. These, essentially, were the facts which gave rise to a series of judicial decisions culminating in the Supreme Court of Canada's judgment in *Consumers Distributing Co. Ltd.* v. *Seiko Time Canada Ltd.*[1]

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[1] [1984] 1 S.C.R. 583, (1984), 10 D.L.R. (4th) 161.

*Lower Court Decisions*

In 1975 Seiko Time Canada (Seiko Canada), a company controlled by the wholly owned American subsidiary of K. Hattori and Co. Ltd. (Hattori), was appointed Hattori's exclusive distributor of Seiko watches in Canada. A year later Hattori renewed the registration of its ownership in Canada of the trade mark "Seiko"; Hattori did not, however, appoint Seiko Canada a registered user of the mark. In 1978 Consumers Distributing Co. Ltd. (Consumers), which was not an authorized dealer of Seiko Canada, began to import into Canada Seiko watches manufactured by Hattori. These watches, which were identical to those distributed by Seiko Canada, came to Consumers, and were passed along to its customers, in their original packaging, together with an instruction book and a warranty issued under the name of Hattori which stated that it was valid at any Hattori affiliated service centre. Seiko Canada commenced proceedings against Consumers in 1979, seeking an injunction restraining Consumers from acquiring, advertising and selling Seiko watches, or, in the alternative, enjoining Consumers from representing itself as an authorized dealer of Seiko Canada and from selling Seiko watches as being internationally guaranteed. An interlocutory injunction was granted, but was limited to prohibiting Consumers from advertising itself as being an authorized Seiko dealer and its Seiko watches as being internationally guaranteed, and Consumers was able to continue selling Seiko watches so long as it communicated to customers that its watches were neither purchased from nor warranted by Seiko Canada.

At trial,[2] Seiko Canada based its claim against Consumers on the common law doctrine of passing off, arguing that, while Consumers was selling only the Seiko watch, the product marketed by Seiko Canada consisted of the watch itself *and* point of sale and after sale service. The trial judge, without making reference to the interlocutory injunction (which is discussed only in the Supreme Court of Canada judgment), accepted this characterization of the relevant product. He then went on to find that Consumers' selling of Seiko watches was causing confusion in the market place and damage to the goodwill which Seiko Canada had established by the sale and service of the "complete product" through its authorized dealership and repair network. In allowing the claim for passing off, the trial judge granted an extensive permanent injunction which, in contrast to the interlocutory one, restrained Consumers from holding itself out as an authorized dealer of Seiko Canada by advertising and selling Seiko watches as being internationally warranted *and* from advertising or selling Seiko watches in Canada. The Ontario Court of Appeal,[3] in a brief endorsement of the trial decision, stated that an injunction which merely prohibited Consumers from representing itself as

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[2] (1980), 112 D.L.R. (3d) 500, 29 O.R. (2d) 211, 50 C.P.R. (2d) 147 (Ont. H.C.).

[3] (1981), 128 D.L.R. (3d) 767, 34 O.R. (2d) 481, 60 C.P.R. (2d) 222 (Ont. C.A.).

an authorized dealer, and which did not also enjoin completely the advertising and selling of Seiko watches, would allow Consumers to continue trading on the goodwill of Seiko Canada and would permit a deception of the public.

In coming to the conclusion that Consumers' behaviour constituted passing off, the trial judge relied heavily on the decision of the House of Lords in *Erven Warnink BV* v. *J. Townend & Sons (Hull) Ltd.*[4] In this case, the defendant marketed in England a drink made of eggs and sherry under the name "Advocaat". Genuine Advocaat, however, was made from eggs and spirits; that is real Advocaat contained a grain or molasses based liquor and not, as was the case with the defendant's drink, a wine based product. Accordingly, the plaintiff's passing off action was successful in restraining the defendant from using the name Advocaat in association with a beverage which was not made from the same ingredients as the product long marketed in the United Kingdom under that name. *Warnink* is illustrative of the so called "extended version" of the common law doctrine of passing off. In the standard passing off action, a defendant is prevented from holding out his goods as being those of the plaintiff, thereby protecting the goodwill of the plaintiff, which usually is represented to the public by a distinctive mark affixed to the plaintiff's goods (and which mark the defendant is restrained from putting on his "counterfeit" wares). In *Warnink*, however, it was not the source of the defendant's product that was at issue but rather the product's constituent ingredients, given that the name Advocaat represented a particular drink made with spirits and not with sherry. In the usual passing off situation a defendant can never become "non-infringing" of the plaintiff's trade mark because the defendant's goods simply are not genuine, that is that they are his own and not those of the plaintiff. By contrast, the defendant in *Warnink* could have used the name Advocaat had he made a drink containing the appropriate ingredients.[5]

The trial judge in the *Seiko* case cited extensively from the *Warnink* decision, concluded from the House of Lords' judgment that the areas of application of the common law doctrine of passing off are continually expanding, and stated that the requisite test is whether the defendant made some form of misrepresentation in the course of trade to prospective customers which is likely to injure the business or goodwill of the plaintiff. The trial judge held that this test was satisfied on the facts before him, given the "misrepresentation" whereby Consumers sold only the Seiko watch, whereas the "real" Seiko product included authorized point

[4] [1979] A.C. 731, [1979] 2 All E.R. 927, [1979] 3 W.L.R. 68 (H.L.).

[5] It is interesting to speculate whether the plaintiff in *Warnink* would have been successful had the defendant, instead of using a "false" ingredient, sherry, made his drink with the "real thing", spirits, but used a brand of spirits of exceedingly low quality, if "genuine" Advocaat was made from the finest spirits available?

of sale and after sale service, both of which Consumers could not provide its customers. In light of this finding, it is interesting that the trial judge did not make reference to the interlocutory injunction which, in effect, required Consumers to notify its customers that its Seiko watches did not come with a warranty, thus arguably negating the contention that Consumers was perpetrating a misrepresentation.

In *Sony of Canada Ltd.* v. *Hi-Fi Express Inc.*,[6] a case decided after the trial judgment in *Seiko*, the defendant parallel importer took just that position—that his customers would be aware that they were buying genuine goods unaccompanied by the manufacturer's guarantee. The plaintiff, the exclusive distributor of Sony products in Canada, brought a passing off action against the parallel importer who offered for sale in Canada authentic Sony products. The court in this case, following the reasoning of the trial judge in *Seiko*, found that the relevant product consisted of point of sale and after sale service as well as the tangible goods. Although the defendant provided its own product warranty, it did not do so as an authorized dealer of the plaintiff, and hence the court held that the defendant's sale of Sony products constituted a misrepresentation and caused confusion in the market place which negatively affected the plaintiff. The court came to this conclusion notwithstanding that the defendant was willing to post large signs on its business premises notifying customers that it was not a Sony of Canada affiliated dealer. The court decided that such notification would not dispel confusion in the mind of the average person who, rather than the sophisticated consumer, the court stated should be considered when determining whether the defendant's marketing practices would affect adversely the plaintiff's reputation and goodwill.

*The Supreme Court of Canada: Passing Off and Parallel Imports*

The effect of the lower court decisions in the *Seiko* and *Sony* cases was to prohibit, on the basis of the doctrine of passing off, parallel importers from selling goods in Canada if an authorized distributor sold identical goods in conjunction with point of sale or after sale service. The Supreme Court of Canada, however, in its judgment in the *Seiko* case, took a very different view of the scope of the common law rule of passing off and its applicability to parallel imports. At the outset it may be worth noting that Estey J., who delivered the judgment of the court, prefaced his analysis of the relevant law by reaffirming the importance of competition in a market economy, stating that "common law principles relating to commerce and trade generally proceed on the basis of a recognition of perceived benefits to the community from free trade and fair competition".[7]

[6] (1982), 138 D.L.R. (3d) 662, (1982), 38 O.R. (2d) 505, 67 C.P.R. (2d) 70 (Ont. H.C.).

[7] *Supra*, footnote 1, at pp. 595 (S.C.R.), 171 (D.L.R.).

The learned judge does list several exceptions to this rule. Not surprisingly, in light of the unanimous Supreme Court of Canada decision in the *Jabour* case[8] (which confirmed the power of a provincial law society to regulate the advertising of legal services), regulated professions constitute one such exception. Nonetheless, Estey J., starting from a presumption in favour of free competition, stressed the point that "[a]ny expansion of the common law principles to curtail the freedom to compete in the open market should be cautiously approached".[9]

Estey J. disagreed with the trial judge's finding that Consumers was misrepresenting a product by selling only the Seiko watch when authorized dealers were providing a warranty with the watch. In this regard the Supreme Court of Canada placed considerable weight on the interlocutory injunction, which required Consumers to notify its customers that it was not an authorized dealer of, and that its watches were not guaranteed by, Seiko Canada; as mentioned above, the trial judge made no reference in his decision to this interlocutory injunction. Estey J. concluded that once Consumers complied with the measures in the interlocutory injunction its customers would know that they were getting solely the watch and no after sale service, and thus there was neither misrepresentation by Consumers nor confusion in the market place. After refusing to recognize Hattori's warranty as part of the relevant product, Estey J. also dismissed Seiko Canada's "composite product" argument with respect to point of sale service:[10]

> If one were to elevate the point of sale service to the level of being an element of a product, then a quasi-monopolistic protection under the doctrine of passing off would arise in one who adopts any merchandising style, or in the modern vernacular "gimmick", which had theretofore not been adopted in his neighbourhood by a competitor when selling a "name-brand" product. No case drawn to our attention extends the passing off umbrella to those limits.

Having found the relevant product to be the watch alone, and given that Consumers was selling genuine Seiko watches, the Supreme Court of Canada concluded that neither the standard nor extended version of the passing off rule could be employed by Seiko Canada to restrain Consumers.[11] Indeed, Estey J. believed that the *Warnink* decision was of assistance to Consumers inasmuch as in that case the House of Lords found that ". . . anyone truly producing the drink . . . could market his product

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[8] *Attorney-General of Canada* v. *Law Society of British Columbia; Jabour* v. *Law Society of British Columbia*, [1982] 2 S.C.R. 307, (1982), 137 D.L.R. (3d) 1, [1982] 5 W.W.R. 289.

[9] *Supra*, footnote 1, at pp. 596 (S.C.R.), 171 (D.L.R.).

[10] *Ibid.*, at pp. 602 (S.C.R.), 176 (D.L.R.).

[11] Estey J. did suggest, however, a means by which Hattori could combat parallel imports; namely by pursuing contractual remedies against those authorized distributors that were willing, likely contrary to their agreements with Hattori, to sell Seiko watches to Consumers; *ibid.*, at pp. 611 (S.C.R.), 182-183 (D.L.R.).

under the name Advocaat''.[12] Estey J. went on to argue, by analogy with the *Advocaat* case, that Consumers could market under the Seiko name watches made by Seiko and that other marketers of Seiko watches could not stop Consumers on the basis of the *Warnink* case. The learned judge believed this to be an appropriate result, for if the opposite were true, two unfortunate results would follow. First, the Canadian public would be deprived of the option of purchasing Seiko watches unsupported by a manufacturer's warranty.[13] Second, a monopoly akin to that granted under the Patent Act[14] would be created in the vendor of name brand products with the effect that the vendor could control the sale and resale of personal property where another person in the position of the vendor was marketing the identical item of personal property.[15]

The Supreme Court of Canada's treatment of the doctrine of passing off, in the context of an exclusive distributor's attempt to block parallel imports, is preferable to that of the lower court decisions in the *Seiko* and *Sony* cases. Estey J. recognized the extended version of the passing off rule as articulated in the *Warnink* case, but limited its scope when it threatened to produce serious anti-competitive results. By considering the relevant product to be only the Seiko watch—that is, by unbundling Seiko Canada's ''composite product''—the Supreme Court of Canada was respectful of the public's intelligence to be able to choose for itself between a less expensive Seiko watch unaccompanied by a manufacturer's or authorized dealer's warranty, or a more expensive Seiko watch which includes such a warranty, or, as in the *Sony* case, a product which included the unauthorized dealer's warranty. In effect, Estey J.'s judgment recognized the utility of intra-brand price competition among different dealers in the same goods, a phenomenon which is by far the most significant beneficial result of the practice of parallel importation.

There may be situations where authorized dealer service could be considered to be an essential component of a particular product such that a defendant's unauthorized sale of only the tangible portion of the product should cause a plaintiff to be successful in a passing off action along the lines of the lower court decisions in *Seiko* and *Sony*. This might be the case, for example, with a new, highly sophisticated technological product for which regular service is necessary and where non-authorized service capability is, at least initially, inadequate to look after the product properly. Such a product was the subject of an American ''tied selling'' anti-trust case, *U.S.* v. *Jerrold Electronics Corporation*.[16] There the

[12] *Ibid.*, at pp. 607 (S.C.R.), 180 (D.L.R.).

[13] *Ibid.*, at pp. 595 (S.C.R.), 171 (D.L.R.).

[14] R.S.C. 1970, c.P-4.

[15] *Supra*, footnote 1, at pp. 599-600 (S.C.R.), 174 (D.L.R.).

[16] 187 F. Supp. 545 (U.S. Dist. Ct., 1960).

manufacturer of specialized cable television receiving equipment argued that it was necessary to force buyers of the product also to purchase the manufacturer's service contract because, given the unusual nature of the product's technology, independent repair facilities had been providing such poor service as to affect adversely the company's reputation in the market place. The court upheld the manufacturer's tied selling policy—whereby the company sold the product only in conjunction with a service contract—but only for a limited period, namely until such time as the need for the compulsory service contracts disappeared due to the appearance of qualified alternative sources of repair. Estey J. arguably was referring to a product such as that under consideration in the *Jerrold* case when he stated that although Seiko watches were a distinct product and therefore should not be linked to after sale service, the "peripherals of presentation of the product to the public, in some circumstances, might support some exclusive rights in the market as against others seeking to supply the same product to the market . . .".[17] Thus, after the Supreme Court of Canada's decision in the *Seiko* case, it would seem that the doctrine of passing off may be used to restrain parallel imports only in those rare situations where this is functionally required by virtue of the peculiar technical characteristics of the product, and conceivably after Estey J.'s judgment the passing off rule will no longer be invoked to prohibit parallel imports where the only or primary reason for doing so is to lessen competition in the marketing of a product.

*Trade Mark Protection and Parallel Imports*

While dealing quite definitively with the passing off issue, Estey J. left unanswered the question whether and under what circumstances an authorized distributor may invoke trade mark protection in order to restrain a parallel importer. Indeed, although Estey J. stated that ". . . the distribution of a trade marked product lawfully acquired is not, by itself, prohibited under the *Trade Marks Act* of Canada . . .",[18] he mentioned several times that the trade mark issue was not raised before the court in argument and hence was not addressed by the court in its decision. Accordingly, Estey J. concluded[19] that the Supreme Court of Canada was not called upon to deal with the situation which was before the Exchequer Court in *Remington Rand Ltd.* v. *Transworld Metal Co. Ltd.*[20] Given that the Supreme Court of Canada left unresolved the trade mark issue, it is worth considering whether Seiko Canada, had it been the registered owner or user of the Seiko mark, could have succeeded in restraining

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[17] *Supra*, footnote 1, at pp. 602 (S.C.R.), 176 (D.L.R.).

[18] *Ibid.*, at pp. 593 (S.C.R.), 169 (D.L.R.).

[19] *Ibid.*, at pp. 613 (S.C.R.), 184 (D.L.R.).

[20] [1960] Ex. C.R. 463, (1960), 32 C.P.R. 99.

[21] R.S.C. 1970, c.T-10.

Consumers by relying on the Trade Marks Act.[21] A useful starting point for this inquiry is the *Remington* case, inasmuch as Estey J. viewed it as an important point of reference with respect to the trade mark question.

In the *Remington* decision, the plaintiff Canadian company ("Remington Canada") was the owner in Canada of several trade marks, including the name "Remington", in respect of shavers manufactured in the United States by its American parent ("Remington US"). The defendant parallel importer sold in Canada shavers bearing these marks which were made by Remington US and an affiliated German company. The court, in a short judgment, held that the defendant's sale of the Remington shavers infringed the plaintiff's trade marks and ordered that the defendant be prohibited from importing these trade marked products into Canada. In reaching this conclusion, the court relied on an English decision, *Dunlop Rubber Company* v. *A.A. Booth & Co. Ltd.*,[22] and cited from this case a passage which contained the following facts and reasoning; a Dunlop tire company in England ("Dunlop UK") made tires in England marketed under the "Dunlop" trade mark; a Dunlop tire company in France ("Dunlop France") made tires in France also marketed under the "Dunlop" trade mark; tires produced by Dunlop France could not be imported into and sold in England as they infringed the trade mark of Dunlop UK. This passage would seem to indicate that trade mark protection is available in order to block parallel imports on the basis that the defendant's products infringe the plaintiff's trade mark.

It should be noted, however, that in a second passage in its judgment, not referred to in *Remington*, the court in *Dunlop* also stated that it was "perfectly proper dealing" to bring into England tires manufactured by Dunlop UK which the parallel importer had bought in France.[23] Thus, in the *Remington* case, given that the plaintiff, Remington Canada, did not manufacture shavers in Canada but sourced its product from Remington US, the defendant parallel importer should have been allowed to bring into Canada at least those shavers made by Remington US as these were in fact genuine goods, and hence should not have been considered to be infringing of Remington Canada's trade marks.

The two lines of reasoning in *Dunlop* are not contradictory. Tires made by Dunlop France and sold in England arguably infringed the trade mark on tires made by Dunlop UK because the French tires came from a different, albeit affiliated, source—in essence, Dunlop France tires were not authentic Dunlop UK tires. However, Dunlop UK tires bought in France were able to be brought back to England by the parallel importer because they were genuine Dunlop UK tires and hence were not infringing of Dunlop UK's trade mark. Applying the *Dunlop* reasoning to the facts of the *Seiko* case, and assuming that all Seiko watches were made by

[22] (1926), 43 R.P.C. 139 (Ch. D.).

[23] *Ibid.*, at p. 146.

Hattori in Japan so that Seiko Canada and Consumers sold identical watches insofar as their source was concerned, Seiko Canada, even if it had been the registered owner or user of the Seiko trade mark in Canada, arguably should not have been able to claim that Consumers' watches infringed Seiko Canada's trade mark.

In addition to strictly trade mark related matters, the court in *Remington*, in a manner strikingly reminiscent of the lower court decisions in *Seiko* and *Sony*, was also concerned that purchasers of the defendant's product would believe they were getting a Remington warranty with their shavers, which was only the case with the plaintiff's product, and that the plaintiff's goodwill would be injured when the defendant's customers realized that they received no warranty and had been deceived. The court, therefore, enjoined the parallel importation of Remington shavers by the defendant in order to prohibit a deception of the public and cited as authority for doing so another English case, *Gillette Safety Razor Co.* v. *Diamond Edge*.[24] However, as with the *Remington* court's questionable analysis of the *Dunlop* case, it is problematic whether *Remington*, as it appears to have done, ought to have relied on *Gillette* as authority for prohibiting parallel imports of products unaccompanied by a manufacturer's warranty. In *Gillette*, the defendant acquired second hand Gillette razor blades, resharpened and generally remade them, and then sold the used blades as being genuine, new Gillette blades. These facts easily warranted a finding of deception and fraud, and the defendant in *Gillette* was enjoined from continuing this practice. It would seem unreasonable, however, to draw an analogy between the defendant's behaviour in *Gillette* and the selling of authentic goods without a manufacturer's warranty, especially in light of Estey J.'s finding in the *Seiko* case that after sale service and the actual physical goods do not constitute a single product.

The *Remington* case, then, should be considered weak authority for the proposition that an authorized distributor who is the owner in Canada of a trade mark can rely on trade mark protection in order to block parallel imports. Nevertheless, if *Remington* were to be considered good law, a parallel importer might be able to finesse the rule in *Remington* by arguing that the authorized distributor's trade mark itself is invalid for not being distinctive of the distributor's goods. This argument, which was not raised or addressed in *Remington*, was accepted in the leading Supreme Court of Canada decision, *Breck's Sporting Goods Co. Ltd.* v. *Magder*.[25] In this case, the plaintiff Canadian corporation, the exclusive distributor in Canada of a type of fishing tackle manufactured in France and carrying the trade mark "Meps", was the owner of the Meps trade mark in

[24] (1926), 43 R.P.C. 310 (Ch. D.).

[25] [1976] 1 S.C.R. 527, (1975), 63 D.L.R. (3d) 645, (1975), 17 C.P.R. (2d) 201.

Canada. The defendant parallel importer sold in Canada genuine French made Meps products and the plaintiff brought a claim for trade mark infringement. The plaintiff was successful at trial, but the defendant prevailed in the Federal Court of Appeal and the Supreme Court of Canada on the basis that the plaintiff's trade mark was defective for failing to satisfy the distinctiveness test found in section 2 and section 18(1)(b) of the Trade Marks Act.[26] Both appeal courts found a lack of distinctiveness because evidence at trial suggested that the Meps mark had become associated with the French manufacturer and not with the plaintiff distributor; that is, Meps was first established in Canada as a manufacturer's trade mark, and the plaintiff had not been able to transform it into a seller's mark. Laskin C.J.C., who delivered the judgment of the Supreme Court of Canada, contrasted this to the situation in the leading American case, *A. Bourjois & Co., Inc.* v. *Katzel*.[27]

In *Bourjois*, the plaintiff initially was the American distributor of a French manufacturer's face powder, but subsequently bought the French company's business in the United States along with its goodwill and several trade marks registered in the United States. The plaintiff kept importing its face powder from the French manufacturer, but changed the label on the box containing the powder in such a way that Holmes J., who delivered the judgment of the United States Supreme Court, concluded that the trade mark in question was not that of the French manufacturer and did not indicate the origin of the goods. Rather, the mark had become that of the plaintiff because the public had come to understand that, although not made by him, the goods came from the plaintiff. Thus, when a parallel importer began selling in the United States the French made powder packaged in the original French boxes (which resembled, except for several significant differences, those of the plaintiff), the plaintiff was successful in its trade mark infringement action (and hence able to restrain the defendant from selling in the United States) because he had, to use Laskin C.J.C.'s phrase, ". . . changed the message so that the trade mark was distinctive of his product".[28] In passing, it is interesting to note, in light of Estey J.'s refusal in the *Seiko* case to grant Seiko Canada protection akin to that found in patent law on the basis of the doctrine of passing off, that Holmes J. in *Bourjois* concluded that trade

[26] *Supra*, footnote 21, ss. 2,18.

s.2 "distinctive" in relation to a trade mark means a trade mark that actually distinguishes the wares or services in association with which it is used by its owner from the wares or services of others or is adapted so to distinguish them; s.18(1) The registration of a trade mark is invalid if . . .

(b) the trade mark is not distinctive at the time proceedings bringing the validity of the registration into question are commenced.

[27] (1923), 260 U.S. 689.

[28] *Supra*, footnote 25, at pp. 537 (S.C.R.), 652 (D.L.R.), 208 (C.P.R.).

mark rights afforded monopoly protection no less complete than patent rights. Indeed, it has been argued that *Bourjois* established a "territoriality" principle with respect to United States trade mark law, such that the owner of a trade mark in the United States is able to prohibit totally the sale of all goods carrying the same mark, regardless of the genuineness of the goods.[29]

Based on the decisions in *Bourjois* and *Breck's Sporting Goods*, an authorized distributor could defeat a parallel importer's claim of non-distinctiveness, and hence arguably rely on the trade mark protection afforded by the *Remington* case, if it were able to make, through labelling, advertising and other marketing mechanisms, the trade mark distinctive of himself, the authorized distributor, rather than the manufacturer. In view of the conclusion of Estey J. in the *Seiko* decision that point of sale and after sale service are not part of a product for purposes of a passing off action, it is interesting to contemplate whether an authorized distributor could establish distinctiveness in a trade mark solely on the basis of offering the public a warranty with the trade mark product. In this regard, one final case, a recent American decision, is of some relevance.

In *Bell & Howell: Mamiya* v. *Masel Supply Co.*,[30] Mamiya Camera Co. (Mamiya), the Japanese maker of the Mamiya camera (a rather sophisticated and specialized piece of photographic equipment), had granted Osawa Japan the world wide distribution rights for the camera. The plaintiff, Osawa USA, was owned ninety-three per cent and seven per cent by Osawa Japan and Mamiya respectively, was the authorized exclusive distributor in the United States of the camera and was the registered owner of the United States trade mark "Mamiya". The plaintiff was responsible for establishing the warranty policy for Mamiya cameras sold in the United States, but the warranty cards were printed in Japan and Mamiya reimbursed the plaintiff directly for repairs carried out by the plaintiff's service centres. The defendant, a parallel importer of Mamiya cameras, did not provide a product warranty, but merely notified customers of the location of the plaintiff's repair centres.

The defendant argued that the plaintiff should be refused trade mark protection because the plaintiff, due to its affiliation with Mamiya, in effect was part of a unified international enterprise engaged in the world wide distribution of the trade marked product and hence there was no likelihood of confusion arising from the parallel importation by the defendant of genuine Mamiya cameras. The defendant, in essence, attempted to confine the *Bourjois* decision to those situations where the distributor was unrelated to the manufacturer of the trade marked goods. The court

[29] See discussion in *Bell and Howell: Mamiya* v. *Masel Supply Co.*, 548 F. Supp. 1063, at pp. 1066, 1070 (U.S. Dist. Ct., 1982).

[30] *Ibid.*

disagreed. It found that because the plaintiff defined the warranty in the United States and provided repair services for the cameras it sold, the plaintiff was not a mere shell but the actual owner of the business of selling the trade marked product in the United States. Thus, the plaintiff's business differed from that of Mamiya and Osawa Japan. Significantly, especially from the point of view of the Supreme Court of Canada's decision in *Seiko*, the court in the *Mamiya* case concluded that "[i]t is plaintiff's warranty and assurances of quality that are signified by the Mamiya marks in this country".[31] The defendant's use of these marks carried with it none of these assurances, and thus the court ordered an injunction restraining the defendant from selling the trade marked goods because of the confusion the court perceived would result in the absence of such a prohibition.

If the reasoning in the *Mamiya* decision were followed by Canadian courts when addressing the trade mark issue left unresolved by Estey J. in the *Seiko* case, the anomalous situation would arise whereby an exclusive distributor could not, on the basis of the doctrine of passing off, make use of a product warranty in order to block parallel imports, but could do so by means of trade mark protection so long as the provision of the warranty had the effect of distinguishing the distributor from the manufacturer as the source of the trade marked product. Such a dichotomous development should be avoided, given that passing off and trade mark rules should not diverge significantly as both have as their essential purpose the reasonable protection of a business entity's goodwill. Accordingly, a parallel importer ought to be able to argue in defence of a trade mark infringement claim, as Consumers did in the *Seiko* case with respect to passing off, that the confusion found to be likely by the *Mamiya* court would be adequately dispelled by the parallel importer giving sufficient notice to his customers that his trade marked products did not include a warranty given by the owner of the trade mark. In the event, however, that a Canadian court afforded an authorized distributor trade mark protection under circumstances similar to those found in the *Mamiya* case, the parallel importer might be able to find some relief in section 29 of the Combines Investigation Act,[32] which gives the Federal Court of Appeal limited scope to remedy certain anti-competitive effects of the exclusive rights conferred by a patent or trade mark.

### *Conclusion*

The Supreme Court of Canada's decision in *Seiko* dealt quite thoroughly, and commendably, with the common law doctrine of passing off as it relates to the commercial practice of parallel importation. Estey J.'s judgment, however, left unresolved the question whether trade mark

[31] *Ibid.*, at p. 1079.

[32] R.S.C. 1970, c.C-23.

protection can be invoked by an exclusive distributor in order to block parallel imports. As such, the *Seiko* case should be viewed merely as another step in what likely will prove to be a rather lengthy and complex process of working out, with respect to parallel imports, the appropriate relationship between passing off, trade mark protection, and possibly competition law.

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